

Registered number: 267550

ROKE MANOR RESEARCH LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2016



ROKE MANOR RESEARCH LIMITED

COMPANY INFORMATION

Directors	D E A Cole I C Cooper S L Ellard M J Flowers A G Lewis
Company Secretary	S L Ellard
Registered number	267550
Registered office	Roke Manor Old Salisbury Lane Romsey Hampshire United Kingdom SO51 0ZN
Independent auditor	Deloitte LLP Chartered Accountants and Statutory Auditor Reading United Kingdom

ROKE MANOR RESEARCH LIMITED

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ROKE MANOR RESEARCH LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 OCTOBER 2016

Business review

As shown in the company's income statement on page 9, the company's sales increased by 13% from the prior year, principally as a result of increased demand from overseas customers.

The company's operating profit for the year was £11,620,000 (2015: £2,102,000). This increase was as a result of exceptional costs associated with the restructuring of the business in the year to 31 October 2015. The restructuring was required to reduce the cost base of the business and to better focus the company on new growth opportunities.

Operating profit excluding exceptional costs was £11,616,000 (2015: £6,550,000). This increase was as a result of the restructuring at the start of the year, allowing a focus on core business and ongoing performance improvement measures.

Principal risks and uncertainties

The company is a wholly owned subsidiary of Chemring Group PLC. The Group Board is responsible for the Group's systems of internal control and its risk management systems. The Group Board has constituted a Risk Management Committee, which meets quarterly, to review the key risks associated with the achievement of the annual budget and the five year plan for each business, the most significant health and safety risks identified at each site, and the risk control procedures implemented. Brief details of the principal risks and uncertainties currently facing the company are set out below. Further details can be found in the consolidated financial statements of Chemring Group PLC.

Future developments and possible defence budget cuts

Defence spending levels depend on a complex mix of political considerations, budgetary constraints and the requirement of the armed forces to address specific threats and perform certain missions. As such, defence spending may be subject to significant fluctuation from year to year. In recognition of the issues affecting the company's traditional NATO markets, business development activities are being focused more on non-NATO markets, where defence expenditure is forecast to grow. The future prospects for the company are therefore good. The company continues to closely monitor the position in all the key markets in which it operates.

Timing and value of orders

The majority of the company's contracts are of a relatively short duration and, with the exception of framework contracts with key customers, do not usually cover multi-year requirements. This means that an unmitigated delay in the receipt of key orders could affect earnings. Maximising order intake is therefore a key objective for the company.

Contract-related risks

The company's government contracts may be terminated at any time and may contain unfavourable provisions. This could result in financial loss for the company or have an adverse effect on the company's ability to re-compete for future contracts and orders. The most favourable contract terms are negotiated with customers and areas of significant judgement or enhanced risk require the review and approval of the executive directors.

ROKE MANOR RESEARCH LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 OCTOBER 2016

Management resource

The company requires competent management to lead it through the next stage of its development. In challenging markets and difficult times, there is a need to retain and incentivise senior managers and key employees in order to ensure that the operations of the company do not suffer from loss of management expertise and knowledge. Incentivisation arrangements have been streamlined and improved to ensure that employees are suitably incentivised to deliver key strategic objectives.

Technology risks

The company's approach to innovation, continued research and development activity and focused technology investment ensures that the company is continually adding new services and technologies to its range. Close relationships are maintained with all key customers, to ensure that capability development aligns with customer requirements.

Compliance and corruption risks

The company operates under the Group's Global Code of Business Principles, which stipulates the standard of acceptable business conduct required by employees and third parties acting on the company's behalf. The company has also adopted the Group's Bribery Act Compliance Manual, incorporating anti-bribery policies and procedures. A significant proportion of the company's management have received training in relation to ethics and anti-corruption.

Cyber-related risks

Cyber security and related risks are key emergent areas of critical importance. Threats emanate from a wide variety of sources and could target a range of systems, leading to critical systems failures or loss of the company's, or its customers', intellectual property. In addition the company could suffer reputational damage and its business of providing cyber security services to its customers may be irreparably damaged. The company has adopted a number of cyber security defence measures and, where appropriate, governmental or commercial accreditation of networks and systems is obtained.

Financial risks

The company uses financial instruments to manage financial risk wherever it is appropriate to do so. The main risk addressed by financial instruments is foreign exchange rate risk.

The company undertakes certain transactions denominated in foreign currencies, giving rise to exposures to exchange rate fluctuations.

The company's policy is to hedge transactional currency exposures through the use of forward foreign exchange contracts. The measurement and control of this risk is monitored on a Group-wide basis.

The company translates the results and net assets of overseas operations in accordance with the accounting policy set out in note 1. The translation risk on net assets is mitigated by the transfer of currencies between Group companies and the appropriate use of foreign currency borrowings.

Financial key performance indicators

The company uses a number of financial key performance indicators (KPIs) to measure its performance. The principal KPI used is operating profit as given in the income statement.

ROKE MANOR RESEARCH LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 OCTOBER 2016**

Research and development activities

Research and development is integral to the operations of the company. Total research and development costs charged to the income statement in the year were £334,000 (2015: £718,000). An additional £230,000 (2015: £2,776,000) of development costs were capitalised in the year. The directors regard investment in this area as a pre-requisite for success in the medium to long-term future.

Employees

The Group employs a policy of employee communication through meetings and in-house magazines by which employees are made aware of the progress of the Group and the companies in which they work.

The company makes no distinction between disabled and able bodied persons in recruitment, employment and training, career development and promotion.

This report was approved by the Board of Directors on 24 February 2017.

Signed on behalf of the Board.



**S L Ellard
Company Secretary**

ROKE MANOR RESEARCH LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 OCTOBER 2016

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

Principal activities

The principal activities of the company are cyber consultancy and research. Key technologies include wireless communications, networks, signal and vision processing, and sensing and positioning.

On 1 November 2015, the company disposed of certain business and assets to a fellow Group company, Chemring Technology Solutions Limited, including related intellectual property, equipment and staff.

Going concern

As part of a regular assessment of the company's financial performance and position, the directors have prepared a detailed bottom-up budget and cashflow forecast for the period through to October 2017 and five year forecast for the period to October 21, being at least 12 months after the date of approval of the financial statements. The directors, having considered these forecasts, the risks and the associated mitigating actions, believe the company is well placed to manage its risks and have assessed that there is a reasonable expectation that adequate financial resources will continue to be available for the foreseeable future. The company has also obtained a letter of support from the parent company, Chemring Group PLC, confirming their continued financial support. Details regarding the adoption of the going concern basis for Chemring Group PLC can be found in the consolidated financial statements, which are publicly available. Thus, the directors continue to support the going concern basis in preparing the financial statements.

Results and dividends

The profit for the year, after taxation, amounted to £10,551,000 (2015: £1,732,000).

An interim dividend was paid during the year of £9,700,000 (2015: £nil). The directors do not recommend the payment of a final dividend (2015: £nil).

Directors

The directors who served during the year, unless otherwise stated, were:

S J Bowers (resigned on 30 September 2016)
D E A Cole
I C Cooper
S L Ellard
M J Flowers

Mr A G Lewis was appointed as a director on 19 January 2017.

Future developments

The company continues to closely monitor the position in all the key markets in which it operates. Further details can be found in the strategic report on page 1.

ROKE MANOR RESEARCH LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 OCTOBER 2016**

Financial risks

The company uses financial instruments to manage financial risk wherever it is appropriate to do so. Further details can be found in the strategic report on page 2.

Research and development activities

The company continues to invest in research and development activities. Further details can be found in the strategic report on page 3.

Employees

The company pursues a policy of employee communication through meetings and in-house magazines by which employees are made aware of the progress of the company. Further details can be found in the strategic report on page 3.

Disclosure of information to auditor

Each of the persons who is a director at the time when this directors' report is approved has confirmed that:


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

Auditor

Under section 487(2) of the Companies Act 2006, Deloitte LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the Board of Directors on 24 February 2017.

Signed on behalf of the Board.



S L Ellard
Company Secretary

ROKE MANOR RESEARCH LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 OCTOBER 2016**

The directors are responsible for preparing the strategic report, the directors' report and the audited financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare audited financial statements for each financial year. Under that law the directors have elected to prepare the audited financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the audited 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 audited financial statements, the directors are required to:

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

ROKE MANOR RESEARCH LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROKE MANOR RESEARCH LIMITED

We have audited the financial statements of Roke Manor Research Limited for the year ended 31 October 2016, which comprise of the income statement, the balance sheet and the statement of changes in equity and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 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 auditors' 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, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 October 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the directors' report.

ROKE MANOR RESEARCH LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROKE MANOR RESEARCH LIMITED

Matters on which we are required to report by exception

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

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



James Hunter ACA (Senior Statutory Auditor)
for and on behalf of

Deloitte LLP

Chartered Accountants and Statutory Auditor

Reading

United Kingdom

Date: *24 February* 2017

ROKE MANOR RESEARCH LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 OCTOBER 2016

	Note	2016 £000	2015 £000
Revenue	2	49,365	43,839
Cost of sales		(29,796)	(25,922)
Gross profit		19,569	17,917
Administrative expenses		(7,953)	(11,367)
Exceptional administrative income/(expense)		4	(4,448)
Operating profit	3	11,620	2,102
Finance income	7	792	-
Finance costs	8	-	(53)
Profit before tax		12,412	2,049
Tax on profit on ordinary activities	9	(1,861)	(317)
Profit for the year		10,551	1,732

All results for the year derive from continuing operations.

There were no recognised gains and losses other than those included in the income statement, therefore no statement of comprehensive income has been presented.

ROKE MANOR RESEARCH LIMITED
REGISTERED NUMBER: 267550

BALANCE SHEET
AS AT 31 OCTOBER 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Non-current assets					
Intangible assets	10		823		9,209
Property, plant and equipment	11		10,174		10,271
			<u>10,997</u>		<u>19,480</u>
Current assets					
Inventory	12	469		3,868	
Trade and other receivables		12,018		14,874	
Cash and cash equivalents		16,645		3,373	
Derivative financial instruments		148		25	
		<u>29,280</u>		<u>22,140</u>	
Creditors: amounts falling due within one year		(8,406)		(11,666)	
Derivative financial instruments		-		(2)	
		<u>-</u>		<u>-</u>	
Net current assets			20,874		10,472
Provisions for liabilities					
Deferred taxation	15	(1,068)		-	
		<u>(1,068)</u>		<u>-</u>	
			(1,068)		-
Net assets			<u><u>30,803</u></u>		<u><u>29,952</u></u>

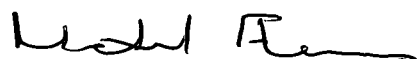
ROKE MANOR RESEARCH LIMITED
REGISTERED NUMBER: 267550

BALANCE SHEET (CONTINUED)
AS AT 31 OCTOBER 2016

	Note	2016 £000	2015 £000
Capital and reserves			
Share capital	17	1,036	1,036
Share premium account		19,103	19,103
Retained earnings		10,664	9,813
Total shareholders' funds		30,803	29,952

The financial statements were approved and authorised for issue by the Board of Directors on
24 February 2017.

Signed on behalf of the Board.



M J Flowers

Director

The notes on pages 14 to 32 form part of these financial statements.

ROKE MANOR RESEARCH LIMITED

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

	Share capital £000	Share premium account £000	Retained earnings £000	Total equity £000
At 1 November 2015	1,036	19,103	9,813	29,952
Comprehensive income for the year				
Profit for the year	-	-	10,551	10,551
Total comprehensive income for the year	-	-	10,551	10,551
Dividends: equity capital	-	-	(9,700)	(9,700)
At 31 October 2016	1,036	19,103	10,664	30,803

See note 17 for details on share capital.

ROKE MANOR RESEARCH LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 OCTOBER 2015**

	Share capital	Share premium account	Retained earnings	Total equity
	£000	£000	£000	£000
At 1 November 2014	1,036	19,103	8,081	28,220
Comprehensive income for the year				
Profit for the year	-	-	1,732	1,732
Total comprehensive income for the year	-	-	1,732	1,732
At 31 October 2015	1,036	19,103	9,813	29,952

See note 17 for details on share capital.

ROKE MANOR RESEARCH LIMITED

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

1. Accounting policies

1.1 Basis of preparation of financial statements

Roke Manor Research Limited is a private limited company incorporated in the United Kingdom. Its registered office address is included on the company information page.

The company meets the definition of a qualifying entity under FRS 100 issued by the Financial Reporting Council. The financial statements have therefore been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 101 is given in note 23.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies.

First time application of FRS 100 and FRS 101

In the current year the company has adopted FRS 100 and FRS 101. The company has also early adopted the amendments to FRS 101 which were issued in July 2015. In previous years the financial statements were prepared in accordance with previous UK GAAP. The date of transition to FRS 101 was 1 November 2014.

This change in the basis of preparation has not materially altered the recognition and measurement requirements previously applied in accordance with UK GAAP. Consequently the principal accounting policies are unchanged from the prior year. The change in basis of preparation has enabled the company to take advantage of all of the available disclosure exemptions permitted by FRS 101 in the financial statements, the most significant of which are summarised below. There have been no other material amendments to the disclosure requirements previously applied in accordance with UK GAAP.

The following principal accounting policies have been applied:

ROKE MANOR RESEARCH LIMITED

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

1. Accounting policies (continued)

1.2 Financial reporting standard 101 - reduced disclosure exemptions

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

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- 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
- the requirements of paragraph 18A of IAS 24 Related Party Disclosures

1.3 Going concern

The directors continue to support the going concern basis in preparing the financial statements.

For further information see the directors' report on page 4.

1.4 Revenue recognition

Revenue comprises the net value of deliveries made, work completed or services rendered during the period. Revenue is recognised when title passes, or when the right to consideration, in exchange for performance, has been obtained. For bill and hold arrangements revenue is recognised when the risks and rewards are transferred to the customer, typically on formal acceptance. Long-term contracts continue to be accounted for in accordance with IAS 18, whereby income is recognised based on the right to consideration over the course of the contract.

1.5 Research and development expenditure

Research expenditure is charged to the income statement as incurred. Development, patent and licence costs are also charged to the income statement, as incurred, except where a major project is undertaken and it is reasonably anticipated that costs will be recovered through future commercial activity.

ROKE MANOR RESEARCH LIMITED

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

1. Accounting policies (continued)

1.6 Intangible assets

Development, patent and licence costs are charged to the income statement, as incurred, except where a major project is undertaken and it is reasonably anticipated that costs will be recovered through future commercial activity. Such costs are written off over the life of the project subject to a maximum of five years.

1.7 Plant, property and equipment

Plant, property and equipment is stated at cost less depreciation and any recognised impairment loss. Depreciation is provided at rates calculated to write off the cost of plant, property and equipment, less their estimated residual value, over their expected useful lives on the following bases:

Freehold property	- Up to 50 years
Plant & machinery	- Up to 10 years

1.8 Inventory

Inventory consists of raw materials, work in progress and finished goods. Valuation is at the lower of cost and net realisable value. The cost of raw materials is their purchase price. Work in progress and finished goods comprise the cost of materials, labour and overheads applicable to the stage of completion. Provision is made for obsolete, slow moving or defective items where appropriate.

1.9 Current tax

Current tax, including UK corporation tax and foreign tax, is provided for at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

1.10 Deferred tax

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements.

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding obligation to sell the asset or unremitted earnings where there is no binding obligation to remit those earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

ROKE MANOR RESEARCH LIMITED

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

1. Accounting policies (continued)

1.11 Foreign currency

The financial statements are presented in the company's functional currency, pounds sterling, being the currency of the primary economic environment in which it operates.

Transactions denominated in foreign currencies are converted into sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Translation differences are dealt with in the income statement.

1.12 Financial instruments

Financial assets and liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

1.13 Financial assets

Trade and other receivables

Trade and other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

Loan receivables

Interest bearing intercompany loans are recorded at the nominal amount. Finance revenue is accounted for on an accruals basis in the income statement using the effective interest method and is added to the carrying amount of the instrument to the extent that it is not settled in the period in which it arises.

ROKE MANOR RESEARCH LIMITED

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

1. Accounting policies (continued)

1.14 Financial liabilities

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement entered into.

Trade and other payables

Trade and other payables are not interest bearing and are stated at their nominal value.

Borrowings

Interest bearing loans and overdrafts are recorded at the proceeds received. Finance charges are accounted for on an accruals basis in the income statement using the effective interest method, and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments

The company enters into a variety of derivative financial instruments with its parent company to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts and cross currency swaps. Further details of derivative financial instruments are disclosed in note 16.

Derivatives are recognised at fair value on the date the derivative contract is entered into and are revalued to fair value at each balance sheet date. The resulting gain or loss is recognised in the income statement immediately.

1.15 Long-term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording revenue and related costs as contract activity progresses. Revenue is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

1.16 Pensions

The company utilises the Group's UK defined contribution pension scheme. The amount charged to the income statement is the contributions payable in the year. Differences between amounts payable and actually paid are shown as accruals or prepayments in the balance sheet.

1.17 Leases

Operating leases and the rental charges are taken to the income statement on a straight-line basis over the life of the lease.

1.18 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

ROKE MANOR RESEARCH LIMITED

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

1. Accounting policies (continued)

1.19 Interest income

Interest income is recognised in the income statement using the effective interest method.

1.20 Share-based payment compensation

Certain employees participate in equity settled share-based compensation schemes operated by the parent company, Chemring Group PLC.

For grants made under the Group's share-based compensation schemes, the fair value is remeasured at each balance sheet date, with changes in the fair value recognised in the income statement on a straight-line basis over the vesting period, based on the estimate of the shares that will eventually vest.

For equity settled share-based grants, the total amount recognised is based on the fair value of the equity instrument measured at the date of the award is made, which is recharged from the parent company. At each balance sheet date the impact of any revision to vesting estimates is recognised in the profit and loss account over the vesting period.

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

When applying the company's accounting policies, management must make assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date and the amounts of revenue and expenses recognised during the period. Such assumptions and estimates are based upon factors including historical experience, the observance of trends in the industries in which the company operates, and information available from the company's customers and other external sources.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Capitalised development costs

IAS 38 Intangible Assets requires that development costs, arising from the application of research findings or other technical knowledge to a plan or design of a new substantially improved product, are capitalised, subject to certain criteria being met. Determining the technical feasibility and estimating the future cash flows generated by the products in development requires judgements which may differ from the actual outcome. In particular this can depend on the judgement applied to future milestone events to secure long term positions on production contracts. The total capitalised development costs intangible asset is set out in note 10, which shows a carrying value of £823,000 at 31 October 2016.

ROKE MANOR RESEARCH LIMITED

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

2. Revenue

An analysis of revenue by class of business is as follows:

	2016 £000	2015 £000
UK	44,274	34,437
Export	5,091	9,402
	<u>49,365</u>	<u>43,839</u>

An analysis of export revenue is not presented as in the opinion of the directors this information would be seriously prejudicial to the commercial interests of the company.

Revenue principally originates from cyber consultancy and research.

3. Operating profit

The operating profit is stated after charging/(crediting):

	2016 £000	2015 £000
Research & development charged as an expense	334	718
Depreciation of plant, property and equipment	718	994
Amortisation of intangible assets	48	1,721
Exchange differences	(187)	19
Defined contribution pension cost	1,946	2,282
Exceptional (credit)/expense	(4)	4,448
	<u></u>	<u></u>

In the year to 31 October 2015, the exceptional administrative expenses included £4,450,000 in relation to a management restructuring process and included various legal and professional fees. In the year to 31 October 2016 a £4,000 exceptional credit has been recognised following the finalisation of this process.

4. Auditors' remuneration

The company paid the following amounts to its auditors in respect of the audit of the financial statements:

	2016 £000	2015 £000
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	30	30
	<u></u>	<u></u>

ROKE MANOR RESEARCH LIMITED

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

5. Employees

Staff costs, including directors' remuneration, were as follows:

	2016	2015
	£000	£000
Wages and salaries	19,748	19,543
Social security costs	2,145	2,124
Defined contribution pension scheme	1,946	2,282
	23,839	23,949

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

	2016	2015
	No.	No.
Production	262	277
Sales and administration	92	102
	354	379

6. Directors' remuneration

	2016	2015
	£000	£000
Directors' emoluments	389	573
Company contributions to defined contribution pension schemes	46	-
	435	573

During the year retirement benefits were accruing to 1 director (2015: nil) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £216,000 (2015: £408,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £24,000 (2015: £nil).

The emoluments of S J Bowers, S L Ellard and M J Flowers were borne by Chemring Group PLC. Their services as directors of the company were considered insignificant in the context of their overall services to the Group and therefore no allocation of remuneration to this subsidiary was made. Details of their total remuneration are publicly available in the financial statements of Chemring Group PLC.

ROKE MANOR RESEARCH LIMITED

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

7. Finance income

	2016 £000	2015 £000
Interest receivable from Group undertakings	792	-
	<u>792</u>	<u>-</u>

8. Finance costs

	2016 £000	2015 £000
Interest payable to Group undertakings	-	53
	<u>-</u>	<u>53</u>

9. Taxation

	2016 £000	2015 £000
Corporation tax		
Current tax on profit for the year	1,333	344
Adjustments in respect of previous periods	(1,028)	(57)
	<u>305</u>	<u>287</u>
Total current tax	<u>305</u>	<u>287</u>
Deferred tax		
Origination and reversal of timing differences	613	91
Changes to tax rates	(25)	-
Adjustment in respect of prior periods	968	(61)
	<u>1,556</u>	<u>30</u>
Total deferred tax	<u>1,556</u>	<u>30</u>
Taxation on profit on ordinary activities	<u>1,861</u>	<u>317</u>

ROKE MANOR RESEARCH LIMITED

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

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2015 - lower than) the standard rate of corporation tax in the UK of 20% (2015 - 20.4%). The differences are explained below:

	2016 £000	2015 £000
Profit on ordinary activities before tax	12,412	2,049
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.4%)	2,482	418
Effects of:		
Non-deductible losses and expenses	44	(316)
Deferred tax rate change adjustment	(56)	(9)
Research and development tax credit	-	344
Adjustments in respect of prior periods	(60)	(120)
Group relief not paid for	(549)	-
Total tax charge for the year	1,861	317

Finance (No. 2) Act 2015 and the Finance Act 2016

The Finance (No.2) Act 2015 and the Finance Act 2016, which provided for reductions in the main rate of UK corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, were substantively enacted on 26 October 2015 and 19 September 2016 respectively.

The closing UK deferred tax asset as at 31 October 2016 has been calculated at the rates which will be in force when the assets and liabilities are expected to reverse.

ROKE MANOR RESEARCH LIMITED

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

10. Intangible assets .

	Development costs £000
Cost	
At 1 November 2015	13,722
Additions	230
Transfers to Chemring Technology Solutions Limited	(12,618)
	<hr/>
At 31 October 2016	1,334
	<hr/>
Amortisation	
At 1 November 2015	4,513
Charge for the year	48
Transfers to Chemring Technology Solutions Limited	(4,050)
	<hr/>
At 31 October 2016	511
	<hr/>
Net book value	
At 31 October 2016	823
	<hr/>
At 31 October 2015	9,209
	<hr/>

ROKE MANOR RESEARCH LIMITED

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

11. Property, plant and equipment

	Freehold property £000	Plant and machinery £000	Total £000
Cost or valuation			
At 1 November 2015	14,141	11,338	25,479
Additions	768	268	1,036
Transfers to Chemring Technology Solutions Limited	-	(1,026)	(1,026)
Disposals	-	(426)	(426)
At 31 October 2016	<u>14,909</u>	<u>10,154</u>	<u>25,063</u>
Depreciation			
At 1 November 2015	5,401	9,807	15,208
Charge for period on owned assets	358	360	718
Disposals	-	(426)	(426)
Transfers to Chemring Technology Solutions Limited	-	(611)	(611)
At 31 October 2016	<u>5,759</u>	<u>9,130</u>	<u>14,889</u>
Net book value			
At 31 October 2016	<u>9,150</u>	<u>1,024</u>	<u>10,174</u>
At 31 October 2015	<u>8,740</u>	<u>1,531</u>	<u>10,271</u>

12. Inventory

	2016 £000	2015 £000
Work in progress	469	3,868
	<u>469</u>	<u>3,868</u>

The difference between the purchase price or production cost of inventory and its replacement cost is not material.

ROKE MANOR RESEARCH LIMITED

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

13. Trade and other receivables

	2016	2015
	£000	£000
Trade receivables	4,754	5,505
Amounts owed by Group undertakings	397	20
Other receivables	1,474	1,340
Prepayments and accrued income	635	612
Amounts recoverable on long-term contracts	4,758	6,909
Deferred taxation (see note 15)	-	488
Derivative financial instruments	148	25
	<u>12,166</u>	<u>14,899</u>

Amounts owed by Group undertakings are unsecured and no interest is charged on these amounts. Amounts owed by Group undertakings of £nil (2015: £2,000) fall due after more than one year.

14. Creditors: amounts falling due within one year

	2016	2015
	£000	£000
Payments received on account	425	2,320
Trade payables	2,339	4,472
Amounts owed to Group undertakings	766	-
Corporation tax	1,334	1,334
Other creditors	3,542	3,540
Derivative financial instruments	-	2
	<u>8,406</u>	<u>11,668</u>

Amounts owed to Group undertakings are unsecured and no interest is charged on these amounts.

15. Deferred taxation

	2016	2015
	£000	£000
At beginning of year	488	518
Charged to the income statement	(1,556)	(30)
At end of year	<u>(1,068)</u>	<u>488</u>

ROKE MANOR RESEARCH LIMITED

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

15. Deferred taxation (continued)

The deferred taxation balance is made up as follows:

	2016 £000	2015 £000
Accelerated capital allowances	(1,119)	(1,173)
Short-term timing differences	51	1,030
Tax losses	-	631
	<u>(1,068)</u>	<u>488</u>

Deferred tax is included within trade and other receivables in the year to 31 October 2015.

16. Financial instruments

The profile of the company's financial instruments is as follows:

	2016 £000	2015 £000
Financial assets		
Cash at bank and in hand	16,645	3,373
Trade receivables	4,754	5,505
Other receivables	1,474	1,340
Derivative financial instruments	148	25
	<u>23,021</u>	<u>10,243</u>

ROKE MANOR RESEARCH LIMITED

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

16. Financial instruments (continued)

	2016	2015
	£000	£000
Financial liabilities		
Trade payables	2,339	4,472
Corporation tax	1,334	1,334
Other payables	3,542	3,540
Derivative financial instruments	-	2
	<u>7,215</u>	<u>9,348</u>

Forward foreign exchange contracts

The company has forward foreign exchange contracts with fair values of £nil liability (2015: £2,000 liability) and £148,000 asset (2015: £25,000 asset). The net value of these derivative financial instruments is an asset of £148,000 (2015: £23,000 asset).

The following table details the fair value of derivative financial instrument assets and liabilities recognised in the balance sheet:

	2016	2015
	£000	£000
Included in current assets	148	25
Included in current liabilities	-	(2)
Forward foreign exchange contracts	<u>148</u>	<u>23</u>

The gain on the movement in fair value of the derivative financial instruments recognised in the income statement is £154,000 (2015: £28,000 gain).

Fair value hierarchy

At 31 October 2016, all derivatives were held at level 3 (2015: level 3). There were no transfers between level 1 and 2 during the current or prior year, and no transfers to or from the fair value reserve during the financial year.

17. Share capital

	2016	2015
	£000	£000
Shares classified as equity		
Allotted, called up and fully paid		
10,361,725 ordinary shares of 10p each	<u>1,036</u>	<u>1,036</u>

ROKE MANOR RESEARCH LIMITED

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

18. Dividends

	2016 £000	2015 £000
Interim dividends paid	9,700	-
	<u>9,700</u>	<u>-</u>

19. Pension commitments

During the period under review the parent company, Chemring Group PLC, operated a defined contribution pension scheme, The Chemring Group UK Pension Plan, in the UK. The company contributed £1,946,000 (2015: £2,282,000) to this scheme during the year, with all balances settled in the period to which they related.

20. Commitments under operating leases

At 31 October 2016 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Not later than 1 year	5	8
Later than 1 year and not later than 5 years	2	-
	<u>7</u>	<u>8</u>

During the year the company incurred costs of £10,000 (2015: £21,000) in relation to operating lease rental payments.

ROKE MANOR RESEARCH LIMITED

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

21. Share-based payments

The company participates in share-based compensation arrangements in the form of the Chemring Group Performance Share Plan ("PSP"), which provides incentives to the Group's senior management and other eligible employees, the cost of which is recharged to the company. Under the PSP, conditional awards of ordinary shares are made at nil cost to employees. Awards ordinarily vest on the third anniversary of the award date, subject to satisfaction of a performance condition. The scheme commenced in March 2006.

The company has applied a discount to the share-based awards, to reflect the anticipated achievement of the stipulated targets for each PSP award, based on the predicted figures within the Group's strategic plan as well as the expected number of leavers over the life of the PSP awards.

The PSP awards made in the year ended 31 October 2016 contained performance conditions based partially on earnings per share (EPS) growth targets and partially on total shareholder return (TSR) ratios.

	2016 No.	2015 No.
Number of conditional awards:		
Outstanding at the beginning of the year	23,733	191,919
Awarded	117,919	23,733
Adjustment relating to rights issue	20,060	-
Lapsed	-	(191,919)
Outstanding at the year end	161,712	23,733

The company recognised a total expense of £35,000 (2015: £18,000 credit) relating to equity-settled share-based payment transactions in the year.

Details of the valuation of the PSP can be found in the accounts of Chemring Group PLC.

22. Ultimate parent undertaking and controlling party

In the opinion of the directors, the company's ultimate parent company and controlling party is Chemring Group PLC, a company incorporated in England and Wales. Copies of the Group financial statements of Chemring Group PLC are available at the Group website (www.chemring.co.uk) or by contacting the registered office, the address of which is set out on the company information page at the start of these financial statements. Chemring Group PLC is the largest and smallest group of which the company is a member and for which consolidated financial statements are prepared.

ROKE MANOR RESEARCH LIMITED

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

23. First time adoption of FRS 101

The company transitioned to FRS 101 from previously extant UK GAAP as at 1 November 2014. The impact of the transition to FRS 101 is as follows:

		As previously stated 1 November 2014 £000	Effect of transition 1 November 2014 £000	FRS 101 (as restated) 1 November 2014 £000	As previously stated 31 October 2015 £000	Effect of transition 31 October 2015 £000	FRS 101 (as restated) 31 October 2015 £000
	Note						
Fixed assets		18,943	-	18,943	19,480	-	19,480
Current assets	1	17,066	1	17,067	22,118	22	22,140
Creditors: amounts falling due within one year	1	(7,608)	(6)	(7,614)	(11,666)	(2)	(11,668)
Net current assets		9,458	(5)	9,453	10,452	20	10,472
Total assets less current liabilities		28,401	(5)	28,396	29,932	20	29,952
Creditors: amounts falling due after more than one year		(176)	-	(176)	-	-	-
Net assets		28,225	(5)	28,220	29,932	20	29,952
Capital and reserves	1	28,225	(5)	28,220	29,932	20	29,952

ROKE MANOR RESEARCH LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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23. First time adoption of FRS 101 (continued)

	Note	As previously stated 31 October 2015 £000	Effect of transition 31 October 2015 £000	FRS 101 (as restated) 31 October 2015 £000
Turnover		43,839	-	43,839
Cost of sales		(25,922)	-	(25,922)
<hr/>				
Administrative expenses	1	17,917 (15,843)	- 28	17,917 (15,815)
<hr/>				
Operating profit		2,074	28	2,102
Interest payable and similar charges		(53)	-	(53)
Taxation	1	(314)	(3)	(317)
<hr/>				
Profit on ordinary activities after taxation and for the financial year		1,707	25	1,732
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Explanation of changes to previously reported profit and equity:

- 1 The fair value of the company's derivative financial instruments (fair value assets at 31 October 2015: £23,000; 1 November 2014: £5,000 liabilities) is recognised under FRS 101, and was not recognised under old UK GAAP. Their recognition at fair value is determined from the present value of expected future cash flows, compared to prevailing market rates, discounted at a risk adjusted discount rate.