



J + S Limited

Annual report

for the year ended 30 September 2011

Registered number 03753462

J + S Limited

Annual report

for the year ended 30 September 2011

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J + S Limited

Directors and advisors for the year ended 30 September 2011

Directors

H W Warren - Chairman
D L Jeffries - Managing Director
E L Abretti
M Blair
K W Hanley
D A Sedge
A V Toms

Company secretary

K W Hanley

Registered office

Riverside Road
Pottington Business Park
Barnstaple
Devon
EX31 1LY

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Princess Court
23 Princess Street
Plymouth
PL1 2EX

Bankers

Clydesdale Bank
Envoy House
Parkway Court
Marsh Mills
Plymouth PL6 8LR

Solicitors

Michelmores
Woodwater House
Pynes Hill
Exeter
EX2 5WR

Registered number

03753462

J + S Limited

Directors' report for the year ended 30 September 2011

The directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 30 September 2011.

Principal activities

The principal activity of the company during the year was the design, manufacture and support of acoustic, electro-mechanical and data network systems for customers who service harsh physical environments and who require high integrity solutions. Our primary markets for these activities are Defence, Oil & Gas and Marine Renewable Energy.

Review of the business and future developments

Overall Performance

In total, the company booked orders in the year of £9.7m (2010 - £9.2m). At the year-end the company's order book stood at £18.9m (2010 - £22.2m). Of this order book, approximately £7.9m (2010 - £8.6m) is shippable in the course of the next financial year and this represents a healthy level of in-year shippable order book at the start of the new fiscal year.

The company recorded a record level of operating profit in the year at £1,495k (2010 – £1,060k) on turnover up 27.7% on the previous year to just under £13.3m (2010 - £10.4m). The operating profit increase of 41.0% on the previous year reflects, in the directors' opinion, an outstanding performance by the company particularly given the weak economies and difficult trading conditions in the markets in which the company operates.

The operating margin improved by 1.1% in the year to a record level of 11.3% from 10.2% in the prior year. The directors are particularly encouraged by the improvement in operating margins as they have actively sought to focus all three business units within the company on higher value added activities with consequent margin improvements.

The turnover for the year included export sales of £1,797k (2010 - £434k) of which just over £1.6m related to the Defence business. The directors have increasingly focussed the Defence marketing activities on export opportunities for a number of years now and are particularly encouraged by the progress made in this area.

Whilst the operating profits grew substantially in the year, the key indicator of EBITDA (earnings before interest, tax, depreciation and amortisation) also rose sharply to £1,849k (2010 - £1,299k) - an increase of 42.3%.

Capital investment was £155k compared to £200k in the prior year. There were no major capital investment programmes in the year.

In line with our strategy of increasing investment in product and capability development programmes, the company capitalised £277k of development expenditures in the year (2010 - £194k) and charged the profit and loss account with development amortisation charges of £139k (2010 - £58k).

At the year-end, the company employed 132 staff (September 2010 – 124).

Strategy

For the past few years the focus of the directors has been on the short-term performance management of the business, concentrating on restoring profitability and reducing the debt levels in the company. The trend of improving profitability and debt elimination reflects our success in this area.

J + S Limited

Directors' report for the year ended 30 September 2011 (continued)

Whilst the Defence sector represents by far the largest element of our business activities, the directors have also been focussed on growing the non-Defence sectors to provide a better overall balance of business activities for the company.

During the year the directors approved a new Strategic Plan for the company mapping out our key goals for the business for the period to 2015. The key elements of the Strategic Plan included:-

- Increasing the focus of our Defence business on the provision of engineering and equipment support services to the UK market and developing new and existing export markets. With regard to the former, the directors believe the company is well positioned to benefit from programmes such as the Marine Equipment Transformation programme and Future Surface Ship and Submarine Support Agreements, given our expertise in providing equipment support services particularly on a Contracting for Availability basis and our broad range of engineering capabilities coupled with our expertise in niche areas such as obsolescence management. With regard to the latter the directors have increased marketing activity in the Far East to complement activity in our traditional overseas markets.
- Expanding the range of our Oil & Gas activities into the design, manufacture and commissioning of major sub-system packages in support of both new field and field extension developments in the North Sea whilst expanding our customer base for the provision of equipment support services to existing North Sea operations. Although export activity has not traditionally been a key feature of our Oil & Gas operations the directors have begun marketing our capabilities in key Far East markets.
- Growing our Marine Renewables business by further developing our market leading position in subsea high voltage electrical and optical connection systems for the wave and tidal energy market. In addition, we have begun to market engineering solutions into the Marine Renewable Energy marketplace and the directors have initiated the development of a range of equipment for condition monitoring of wave and tidal energy devices.
- Across all our businesses, the directors have increased the focus on product development activities with appropriate safeguards introduced to capture and exploit the intellectual property acquired from these product development activities.

Defence

In the year, the company booked Defence orders of just under £6.5m (2010 - £6.4m). This was a disappointing performance particularly given the relatively high level of bidding activity into the UK market. For the first time for some years, we suffered some bid losses on programmes which we had a high expectation of winning. It is clear that the UK market for naval support services is extremely competitive and likely to remain so for some time to come. In the light of the bid losses suffered in the year the directors have reviewed and amended our bidding procedures to ensure we can continue to compete effectively in the UK marketplace.

During the year, the company received an order for a five-year extension for the Submarine Weapon Interface Sub-System (SWISS) equipment support contract to be provided under a Contracting for Availability (CFA) basis. The value of this contract was £0.9m. A further £0.9m of orders, for additional asset support services on other CFA contracts, were also booked in the year.

The MoD reinstated the support contract for the Magazine Torpedo Launch System (MTLS), fitted primarily to the Type 23 fleet, in the year with an initial order value of £0.5m.

The development phase of the Highway Controller Health Monitor Upgrade programme for the Combat Systems Highway (CSH) is now coming to a conclusion and during the year the MoD placed further orders on the company to cover the installation phase of the programme. This order together with other tasking activities amounted to a total order input value of £0.8m in support of the CSH.

J + S Limited

Directors' report for the year ended 30 September 2011 (continued)

In the export markets, activity in support of the Victoria class refit programme in Canada continued at a high level with orders booked to the value of just over £1.3m. Elsewhere, we won our first order for the supply of specialist sonar equipment into the Indian market with a initial value of £0.5m and received orders from Chile, the Netherlands, Singapore and the NATO Underwater Research Council in Italy with an aggregate value of approximately £0.4m.

Overall, the trading conditions in the UK naval support market were once again challenging with naval support budgets continuing to be subject to severe cost constraints and tough competition encountered in the marketplace. Notwithstanding the weak UK market situation, the company remains well placed to withstand this prolonged downturn in UK naval support activity given our strong position in the market and the nature of the long-term CFA contracts that form the backbone of our UK naval support business.

Against this difficult trading backdrop the directors are extremely pleased to be able to report that turnover in the Defence sector rose by 26.6% to just under £10.2m (2010 - £8.0m). In particular, Defence export sales increased to just over £1.6m (2010 - £0.4m). The directors continue to invest significantly in developing export opportunities for the Defence business, which arise both pursuant to the Royal Naval fleet disposal programme and in key selected markets such as Europe, India and the Far East.

The directors authorised further investment in the ongoing development of a range of miniaturised sensors and Low Profile Arrays. There has been significant market interest in these arrays, which have a number of potential applications including delivering a towed array capability to smaller naval vessels such as coastal patrol vessels and Corvettes. The arrays can also be deployed on applications such as cetation monitoring and harbour protection.

At the year-end the Defence sector order backlog, which runs until 2019, stood at just under £17.7m, a £3.5m decrease on the level at the beginning of the year. Whilst the Defence order book has reduced each year since 2009 this is in large part due to the long term nature of the major equipment support contracts with no major contract renewals due before 2013.

Oil & Gas

In the year to 30 September 2011, the company booked orders for the Oil & Gas business with a total value of just over £2.7m, an increase of 26.6% on the prior year order input of £2.1m. Included in the order input were orders from Nexen (£0.6m) and GE Oil & Gas (£0.2m). Both these orders were in support of customers' capital investment programmes, an area on which our business is increasingly focussed.

From Barnstaple, we continued with our programme of support for Pipecrawlers (previously SIG), booking orders of just under £0.4m for the provision of detailed engineering, manufacturing and support services for their innovative pipeline inspection tool.

In our traditional market providing asset support maintenance programmes, we continued to expand our customer base and now provide asset support services to approximately 20 customers. Additions to our customer base in the year included Maersk, CNR and Taqa Petroleum.

Turnover in Oil & Gas grew by 70.9% to just under £2.8m, from £1.6m in the prior year. The directors view this as an outstanding performance and with continuing high demand for our products and services anticipate that this strong performance should continue into 2012, provided the oil price remains above or close to the \$100 per barrel mark.

At the year-end the Oil & Gas business order book stood at just over £0.9m (2010 - £0.9m).

Directors' report for the year ended 30 September 2011 (continued)

Marine Renewables

After a strong trading performance in 2010, the Marine Renewables business had a disappointing year with order input of just £0.5m (2010 - £0.6m). Activity levels were also subdued, with net sales falling by 56.5% from £0.7m last year to just over £0.3m in 2011.

The directors attribute this disappointing performance to a general slowdown in the Wave and Tidal sectors of the Marine Renewable Energy marketplace. Site development programmes in Canada, Spain, Portugal and the Canary Islands were all delayed and device developers made progress at a slower rate than anticipated with, as a consequence, little demand for our subsea connection devices and services.

Towards the end of the year, demand picked up a little with orders received from Hammerfest Strom and Wello for engineering services, products and deployment support. The company also received an initial order from Andritz Hydro for the provision of engineering services on a rectification programme for their hydro power generation programme on the Mississippi river in Minneapolis. Having entered the Renewables marketplace with a product offering – our subsea electrical and optical connection system – we are increasingly unearthing requirements for bespoke engineering solutions which is, of course, our traditional offering into the Defence market.

Activity continued on the development of the second generation of our subsea connection system which features a dry mate connection offering, rather than a splice, an improved fibre optic connection system and increased power rating up to 36kV. We are currently the market leader in the provision of high voltage subsea connection systems for the Wave and Tidal Energy marketplace and the directors believe that with these developments of our product offering our position will be strengthened further.

We also launched a Position and Load Monitoring development programme as part of a Knowledge Transfer Partnership agreement with Exeter University. This programme will run for two years and the directors anticipate the launch of the Position and Load Monitoring product will take place during 2012 and is the start of a wider programme to develop a range of condition monitoring sub-systems for the Renewable Energy marketplace.

The directors are confident that activity levels in the Wave and Tidal sectors of the marketplace will increase significantly in the UK during 2012, particularly given the higher level of Renewable Obligation Certificates (ROC) now available to wave and tidal developers. However, on the prospects for site development programmes within European Community countries we continue to be cautious given the current economic climate.

The Marine Renewables order book at the end of September 2011 stood at £0.3m (2010 - £0.1m).

Funding

At the year-end the company had cash balances net of finance lease obligations of £46k (2010 - £17k). During the year the company have appointed Clydesdale Bank as the company's bankers having negotiated a significantly increased working capital and term loan facility over that offered by Royal Bank of Scotland - our previous bankers.

The company recorded a net cash inflow from operating activities of £1,874k during the year up from £1,176k in 2010. The net operating cash inflow expressed as a percentage of operating profit stood at 125.4% (2010 - 110.8%) and represents an extremely strong conversion of operating activities into cash. The directors believe that whilst this is an exceptionally strong cash performance, sound cash management procedures are essential to the long term success of the company. Internal cash generation is a vital source of finance for investment programmes in fixed assets and product developments. Whilst the company have significant unutilised banking resources available the directors remain cautious of taking on too much external debt to fund these programmes in the current economic environment.

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Directors' report for the year ended 30 September 2011 (continued)

Equity

In October 2010, the company completed the buyback and cancellation of 25,454 'A' Ordinary Shares held by two former directors of the company at a price of £15.00 per share and a total cost of £382k.

In May 2011 the directors approved a dividend of £5.00 per Ordinary Share at a total cost to the company of £744k. This is the first dividend that the company has paid since 2006 when a dividend of £0.50 per 'A' Ordinary Share was paid.

At the end of 2010 the EMI Share Option Scheme launched in 2008 was wound up having narrowly failed to meet its vesting targets. A replacement EMI Share Option Scheme has been put in place with performance requirements for vesting the options set against the Earnings Before Interest and Tax targets for the 2011 and 2012 years. The 2011 target was met and 35% of the available options will be exercisable at the end of January 2012 subject to the provisions of the options agreement.

Prospects

In summary, whilst conditions in the UK naval defence support market continue to be challenging the directors believe the company remains well positioned in this market with long-term support contracts in place and a strong order book. In Defence export markets the outlook is more optimistic and the directors are confident that the investments made in selected export markets will yield increasing order input in the coming year.

Activity in the Oil & Gas sector has outperformed the directors' expectations in the year to September 2011 and, given a continuing high oil price, the directors believe that activity levels will remain strong in this sector.

In the Wave and Tidal Energy sectors of the Marine Renewables marketplace the directors believe that the conditions in the UK marketplace should improve significantly in the coming year, particularly given the increased ROC incentives available to wave and tidal energy device developers. In the export markets in Europe we remain cautious.

Overall, the directors believe that the actions they have taken in the market sectors in which the company operates will provide a firm base on which to develop our business further in the coming year.

Risk Management objectives and policies

The directors review a formal Risk Management programme at their bi-monthly Board Meetings. At these meetings, the Managing Director reports on risk management issues in the key areas of bid or pricing risk, execution or delivery risk and reputational risk. The Finance Director updates the Board on liquidity risk issues.

The principal business risks encountered by the company in the ordinary course of its business continue to relate to contract delivery performance particularly on development contracts with a high engineering content and liquidity risk.

Each sales contract is allocated a dedicated project manager whose responsibility it is to ensure the programme is delivered to schedule and to cost. Risk registers are prepared and maintained for all contracts with any degree of technical complexity. Any variances to the programme are reported at least monthly when the forecast cost to complete for each sales contract is revised. Performance on the major sales contracts are reviewed at director and Managing Director level together with the relevant project manager, at intervals normally no less than bi-monthly.

J + S Limited

Directors' report for the year ended 30 September 2011 (continued)

The contract reviews, referred to above, include a review of the contract cash flows and project managers are tasked to minimise the working capital financing required for their projects wherever appropriate. This is achieved through the negotiation of progress payments from customers and managing the supplier delivery schedules.

As a Small and Medium Sized Enterprise (SME), J+S Limited bears the normal level of liquidity risk of any company of its size. To mitigate this risk the company have recently negotiated an increased working capital facility. To manage this risk the Financial Director prepares monthly a rolling six-month cash flow forecast for review by the Board. The company's bankers receive monthly Management Accounts including cash flow forecasts and a commentary on key performance issues.

Directors

The directors who served the company during the year, and up to the date these financial statements were signed, were as follows:

H W Warren – Chairman
D L Jeffries - Managing Director
E L Abretti
M Blair
K W Hanley
A V Toms
D A Sedge

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required to 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 those financial statements, the directors are required to:

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

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Directors' report for the year ended 30 September 2011 (continued)

Disclosure of information to auditors

In the case of each director who is in office at the date the directors' report is approved, under Section 418 of the Companies Act 2006 the following applies:

- a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board

K W Hanley
Company Secretary
22 November 2011

J + S Limited

Independent auditors' report to the members of J + S Limited

We have audited the financial statements of J + S Limited for the year ended 30 September 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. 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).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7 and 8 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 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Directors' Report to identify material inconsistencies with the audited financial statements. 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 30 September 2011 and of its profit and cash flows 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 matter prescribed by the Companies Act 2006

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

J + S Limited

Independent auditors' report to the members of J + S Limited (continued)

Matters on which we are required to report by exception

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

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

Eugene McCann (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Plymouth

22 November 2011

J + S Limited

Profit and loss account for the year ended 30 September 2011

	Note	2011 £'000	2010 £'000
Turnover	2	13,258	10,379
Cost of sales		(9,655)	(7,684)
Gross profit		3,603	2,695
Administrative expenses		(2,108)	(1,635)
Operating profit	3	1,495	1,060
Interest payable and similar charges	6	(33)	(96)
Profit on ordinary activities before taxation		1,462	964
Tax on profit on ordinary activities	7	(346)	(218)
Profit for the financial year	20	1,116	746

All of the above figures, including comparatives, relate to continuing activities.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year as stated above and their historical cost equivalents.

There are no recognised gains or losses other than those included in the results above, and therefore no separate statement of recognised gains and losses has been prepared.

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Balance sheet as at 30 September 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Intangible assets	9	356	218
Tangible assets	10	921	891
		1,277	1,109
Current assets			
Stock	11	1,795	1,621
Debtors	12	1,867	1,840
Cash at bank and in hand		182	85
		3,844	3,546
Creditors: amounts falling due within one year	13	(2,796)	(2,421)
Net current assets		1,048	1,125
Total assets less current liabilities		2,325	2,234
Creditors: amounts falling due after more than one year	14	(63)	(36)
Provisions for liabilities	16	(142)	(111)
Net assets		2,120	2,087
Capital and reserves			
Called up equity share capital	19	149	172
Share premium account	20	321	303
Capital redemption reserve	20	235	210
Profit and loss account	20	1,415	1,402
Total shareholders' funds	20	2,120	2,087

The financial statements on pages 11 to 26 were approved by the board of directors on 22 November 2011 and were signed on its behalf by:

D L Jeffries
Managing Director

Registered number: 03753462

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Cash flow statement for the year ended 30 September 2011

	Note	2011 £'000	2010 £'000
Net cash inflow from operating activities	21	1,874	1,176
Returns on investments and servicing of finance			
Interest paid		(19)	(93)
Interest paid on finance leases		(14)	(3)
Net cash outflow from returns on investment and servicing of finance		(33)	(96)
Taxation		(184)	(79)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(155)	(140)
Purchase of intangible assets		(277)	(194)
Net cash outflow from capital expenditure and financial investment		(432)	(334)
Net cash inflow before use of liquid resources		1,225	667
Financing			
Issue of equity share capital		20	-
Purchase of own equity shares		(382)	-
Dividends paid		(744)	-
Repayment of loan		-	(638)
Payment of principal under finance leases		(22)	(27)
Net cash outflow from financing		(1,128)	(665)
Increase in cash	22	97	2

Notes to the financial statements for the year ended 30 September 2011

1 Accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and in accordance with the historical cost convention. The directors have considered the accounting policies and estimation techniques detailed below and consider that, in accordance with Financial Reporting Standard 18 'Accounting Policies', they are the most appropriate for the Company.

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

Turnover recognition

Turnover is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Turnover is measured as the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before turnover is recognised:

Contract revenue

Revenue is recognised on contracts in line with milestones being achieved.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

Research and development

Development expenditure in clearly defined projects whose outcome can be assessed with reasonable certainty is capitalised. Amortisation is commenced in the year the related project is brought to the market by reference to the life of the project, currently estimated to be three years. All other research and development expenditure is written off in the year in which it is incurred.

Tangible fixed assets

Tangible fixed assets are stated at historic cost, net of accumulated depreciation and provision for impairment. The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold land and buildings	3 – 10 years
Plant and machinery	4 – 10 years
Motor vehicles	4 years
Fixtures and fittings	3 – 5 years

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Stock and work in progress

Stock is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out method. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads based on a normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation.

Provision is made for any foreseeable losses where appropriate and, if necessary, for slow moving, obsolete and defective stock. No element of profit is included in the valuation of work in progress.

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

Finance lease agreements

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is the shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

Operating lease agreements

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at that balance sheet date. All differences are taken to the profit and loss account.

Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using the Black-Scholes pricing model. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to reserves.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non market vesting conditions are included in assumptions about the number of options that are expected to vest. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

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Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19 "Deferred Tax".

Deferred tax is determined using tax rates (and laws) that have been enacted, or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is only recognised when it is more likely than not that the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying timing difference can be deducted.

2 Turnover

Analysis of the company's turnover is set out below:

	2011 £'000	2010 £'000
United Kingdom	11,461	9,945
Europe and rest of world	1,797	434
	13,258	10,379

Turnover, which is stated net of value added tax, represents the value of work undertaken on contracts and projects.

Turnover is attributable to one continuing activity being the design, manufacture and support of acoustic, electro-mechanical and data network systems.

3 Operating profit

Operating profit is stated after charging:	2011 £'000	2010 £'000
Amortisation of intangible fixed assets	139	58
Depreciation of owned tangible fixed assets	143	155
Depreciation of tangible fixed assets held under finance leases	72	26
Auditors' remuneration:		
- audit services	22	22
- taxation	6	3
Operating lease rentals:		
- other	416	409
Research and development	7	5

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4 Employee information

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

By activity	2011 Number	2010 Number
Production staff	83	81
Administrative staff	48	38
	131	119

The aggregate payroll costs of these persons was as follows:	2011 £'000	2010 £'000
Wages and salaries	4,316	3,650
Social security costs	411	381
Pension costs	224	201
Equity-settled share based payments	23	-
	4,974	4,232

No pension costs remained outstanding as at 30 September 2011 (2010: nil).

5 Directors' emoluments

	2011 £'000	2010 £'000
Aggregate emoluments	473	455
Company pension contributions to money purchase schemes	93	71
	566	526

Highest paid director

	2011 £'000	2010 £'000
Aggregated emoluments	88	92
Company pension contributions to money purchase schemes	71	52
	159	144

The number of directors who accrued benefits under money purchase company pension schemes was five (2010: five).

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6 Interest payable and similar charges

	2011 £'000	2010 £'000
Interest payable on bank and other borrowings	19	93
Finance charges payable under finance lease and hire purchase arrangements	14	3
	33	96

7 Taxation on profit on ordinary activities

	2011 £'000	2010 £'000
Current tax:		
UK corporation tax	311	182
Adjustments in respect of previous years	4	(8)
Total current tax charge	315	174
Deferred tax:		
Origination and reversal of timing differences	35	46
Change in tax laws or rates	(4)	(2)
Total deferred tax charge (note 16)	31	44
Tax on profit on ordinary activities	346	218

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7 Taxation on profit on ordinary activities (continued)

The tax assessed for the year is lower than the standard rate of corporation tax in the UK 27% (2010: 28%). The differences are explained below:

	2011 £'000	2010 £'000
Profit on ordinary activities before taxation	1,462	964
Profit on ordinary activities multiplied by standard rate in the UK of 27% (2010: 28%)	395	270
Effects of:		
Disallowed expenses and non taxable income	17	8
Capital allowances in excess of depreciation	(7)	(12)
Adjustments in respect of previous years	4	(8)
Additional deduction for research and development expenditure	(128)	(87)
Marginal relief	(5)	(14)
Other timing differences	39	17
Total current tax	315	174

A number of changes to the UK Corporation tax system were announced in the March 2011 Budget Statement. The Finance (No 3) Bill 2011, which was substantively enacted on 29 March 2011, includes legislation reducing the main rate of corporation tax from 27 per cent to 26 per cent from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1 per cent per annum to 23 per cent by 1 April 2014. These further reductions had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The proposed reductions of the main rate of corporation tax by 1 per cent per year to 24 per cent by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 26 per cent to 23 per cent, if these applied to the deferred tax balance at 30 September 2011, would be to reduce the deferred tax liability by approximately £16,500 (being £5,500 recognised in 2012, £5,500 recognised in 2013 and £5,500 recognised in 2014).

8 Dividends

	2011 £'000	2010 £'000
Equity ordinary dividends		
Interim paid: £5.00 per share	744	-
Final dividend proposed	-	-
	744	-

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9 Intangible fixed assets

	Development expenditure £'000
Cost	
At 1 October 2010	276
Additions	277
At 30 September 2011	553
Amortisation	
At 1 October 2010	58
Charge for the year	139
At 30 September 2011	197
Net book amount	
At 30 September 2011	356
At 30 September 2010	218

10 Tangible fixed assets

	Leasehold land and buildings £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 1 October 2010	768	847	94	877	2,586
Additions	59	31	(4)	159	245
At 30 September 2011	827	878	90	1,036	2,831
Depreciation					
At 1 October 2010	430	556	50	659	1,695
Charge for the year	53	38	18	106	215
At 30 September 2011	483	594	68	765	1,910
Net book amount					
At 30 September 2011	344	284	22	271	921
At 30 September 2010	338	291	44	218	891

The negative additions within motor vehicles above relates to an adjustment to the prior year closing cost.

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10 Tangible fixed assets (continued)

Finance lease and hire purchase agreements

Included within the net book value of £921,000 is £136,000 (2010: £105,000) relating to assets held under finance lease and hire purchase agreements.

Capital commitments

	2011 £'000	2010 £'000
Contracted but not provided for in the financial statements	57	21

11 Stocks

	2011 £'000	2010 £'000
Raw materials	646	589
Work in progress	1,149	1,032
	1,795	1,621

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

12 Debtors

Amounts falling due within one year:	2011 £'000	2010 £'000
Trade debtors	1,592	1,590
Prepayments and accrued income	275	250
	1,867	1,840

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13 Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	1,481	1,324
Corporation tax	311	180
Other taxation and social security	348	368
Finance lease and hire purchase agreements	73	32
Other creditors	120	264
Accruals and deferred income	463	253
	2,796	2,421

14 Creditors: amounts falling due after more than one year

	2011 £'000	2010 £'000
Finance lease and hire purchase agreements	63	36

15 Commitments under finance lease and hire purchase agreements

Future commitments under finance lease and hire purchase agreements are as follows:

	2011 £'000	2010 £'000
Amounts payable within one year	87	33
Amounts payable between two to five years	63	38
	150	71
Less interest and finance charges relating to future years	(14)	(3)
	136	68

Finance lease and hire purchase agreements are analysed as follows:

Current obligations	73	32
Non-current obligations	63	36
	136	68

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16 Provisions for liabilities

The movement in the deferred taxation provision during the year was:	2011 £'000	2010 £'000
At 1 October	111	67
Charged to profit and loss account (see note 7)	31	44
At 30 September	142	111

Deferred taxation in the financial statements is as follows:

	2011 £'000	2010 £'000
Excess of taxation allowances over depreciation of fixed assets	63	58
Other timing differences	79	53
	142	111

17 Equity share-based payments

EMI Share option scheme

The Executive Share Option Plan (ESOP) was introduced in May 2011. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years. Awards under the ESOP are generally reserved for employees at senior management level and above and five employees are currently eligible to participate in this group. There are no reload features. Options granted under the ESOP will become exercisable subject to the achievement of cumulative profit before interest and tax targets for the period up to 30 September 2012. Exercise of an option is subject to continued employment. Options were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

	2011 £'000	2010 £'000
Grant date	20 May	-
Share price at grant date	£13.80	-
Exercise price	£12.40	-
Number of employees	5	-
Shares under option	34,500	-
Vesting period	10 years	-
Expected volatility	25.00%	-
Options lapse date	22 May 2018	-
Expected life	1.73 years	-
Risk free rate	3.25%	-
Expected dividends expressed as a dividend yield	nil	-
Fair value per option	£2.90	-

The expected volatility is based on historical volatility over the last 7 years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

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18 Commitments under operating leases

At 30 September 2011 the company had annual commitments under non-cancellable operating leases for land and buildings as set out below.

Operating leases which expire:	2011 £'000	2010 £'000
Within 2 – 5 years	417	78
After more than 5 years	331	331
	748	409

19 Called up share capital

Authorised	2011 £'000	2010 £'000
232,000 'A' (2010: 232,000) ordinary shares of £1 each	232	232
60,000 'C' (2010: 60,000) ordinary shares of £1 each	60	60
	292	292

Allotted, called up and fully paid	2011 Number	2011 £'000	2010 Number	2010 £'000
Equity shares				
'A' ordinary shares of £1 each	128,748	129	154,202	154
'C' ordinary shares of £1 each	20,000	20	18,000	18
	148,748	149	172,202	172

The 'C' ordinary £1 shares do not carry voting rights but otherwise rank pari passu with the 'A' ordinary £1 shares.

In October 2010, the company completed the buyback and cancellation of 25,454 'A' Ordinary Shares held by two former directors of the company at a price of £15.00 per share and a total cost of £382k.

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20 Reconciliation of shareholders' funds and movement on reserves

	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 October 2010	172	303	210	1,402	2,087
Profit for the financial year	-	-	-	1,116	1,116
Dividends paid or approved	-	-	-	(744)	(744)
Share based payments credit	-	-	-	23	23
Issue of shares	2	18	-	-	20
Re-purchase of shares	(25)	-	25	(382)	(382)
At 30 September 2011	149	321	235	1,415	2,120

21 Reconciliation of operating profit to net cash inflow from operating activities

	2011 £'000	2010 £'000
Operating profit	1,495	1,060
Depreciation and amortisation	354	239
Loss on disposal of fixed assets	-	-
(Increase)/decrease in stocks	(174)	12
(Increase)/decrease in debtors	(27)	62
Increase/(decrease) in creditors	203	(197)
Equity-settled share-based payments	23	-
Net cash inflow from operating activities	1,874	1,176

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22 Reconciliation of net cash flow to movement in net funds

	2011 £'000	2010 £'000
Increase in cash in the year	97	2
Net cash outflow from loans	-	638
Cash outflow in respect of hire purchase agreements	22	27
Change in net debt resulting from cash flows	119	667
New finance leases	(90)	(60)
Movement in net funds in the year	29	607
Net funds at 1 October	17	(590)
Net funds at 30 September	46	17

23 Analysis of changes in net funds

	At 1 October 2010 £'000	Cash flows £'000	Other changes £'000	At 30 September 2011 £'000
Net funds:				
Cash in hand and at bank	85	97	-	182
Debt				
Finance lease and hire purchase agreements	(68)	22	(90)	(136)
Net funds	17	119	(90)	46

24 Related party transactions

No related party transaction have been identified that require further disclosure.

25 Controlling party

In the opinion of the directors there is no controlling party as no individual shareholder holds 50% or more of the share capital.