

Company Registration No. 04087377 (England and Wales)

**MECH-TOOL ENGINEERING LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2017**

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# MECH-TOOL ENGINEERING LIMITED

## COMPANY INFORMATION

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|--------------------------|--|
| <b>Directors</b>         | M Garner<br>V Garner<br>A Mather<br>A Jones                                      |
| <b>Company number</b>    | 04087377   |
| <b>Registered office</b> | Mech Tool House<br>Whessoe Road<br>Darlington<br>Durham<br>DL3 0QT               |
| <b>Auditor</b>           | Haines Watts<br>Sterling House<br>22 St Cuthberts Way<br>Darlington<br>Co Durham |

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# **MECH-TOOL ENGINEERING LIMITED**

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# **MECH-TOOL ENGINEERING LIMITED**

## **STRATEGIC REPORT**

### **FOR THE YEAR ENDED 31 MARCH 2017**

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The directors present the strategic report for the year ended 31 March 2017.

#### **Review of the business**

During the year to 31st March 2017 the trading of the company was impacted by the lower price of oil which resulted in the cancellation or postponement of many offshore projects. Despite the weakness of its main traditional market the company still recorded its second highest turnover of £27.1m. Within this figure however, there was a marked shift in work mix away from two dimensional wall cladding and heat shield product sales, with full turnkey modular building work representing a larger proportion of total sales. The company managed poorly this significant change in work mix. The modular work involved steel fabrication and the fit-out of electrical and HVAC packages of work. The company's functional management across these disciplines proved to be inadequate, as was its project management of the changes in client specifications and final requirements. Three projects, all destined for Kazakhstan, represented combined sales of £4.45m and contributed a loss at the operating level of £2.39m. A fourth Kazakh related project had sales in the year of £1.59m with a corresponding operating loss of £0.74m. These four projects contributed significantly to an overall operating loss of £3.36m. Three of the four projects were effectively completed during the financial year. The fourth was successfully terminated after the year end and its impact is included in the audited accounts for the six month period to 30th September 2017.

The company has undertaken a thorough lessons learnt review after its experiences on these four projects. This has resulted in changes to key policies, procedures and in personnel. These changes have contributed to a return to profitable trading as is shown in the audited accounts for the six month period to 30th September 2017.

At the 31st March 2017 year end, Cash at bank was £2.0m, a figure significantly lower than in prior years. The fall in Cash at bank results in part from a loss on derivative foreign exchange currency trades of £2.48m. The trades have subsequently been reviewed by an independent expert and the structures of the trades have been found to be ineffective. The company is currently considering the pursuit of appropriate courses of action.

The trades were closed out during the year which has resulted in the loss on derivative foreign exchange currency trading due to the ineffective structure of the trades. The loss has therefore been shown as a separate item in the Statement of Comprehensive Income as they are not expected to recur. The trades which commenced in March 2014 necessitated a prior year adjustment and a restatement of the results to 31st March 2016. Note 25 describes the four reasons for the prior year adjustment. All four relate to incorrect treatment in the statutory accounts of the effects of the derivative foreign exchange currency trades. An incorrect treatment in the audited accounts to 31st March 2015 is also addressed in Note 25.

#### **Principal risks and uncertainties**

The company maintains a Business Risks and Opportunities Register and an Internal and External Issues Register. The policies on Reputational, Financial, Health and Safety and Environmental risks were last formally reviewed by the executive team in July and August 2014. The programmes for reviews and for internal audits are determined at quarterly meetings attended by the directors and the Head of Governance. The losses on the Kazakh related contracts have resulted in policy reviews, changes to the Quality Management System and a greater emphasis on governance particularly in relation to the tendering and execution of project work.

#### **Future Developments**

The company ended the period to 31st March 2017 with a strong pipeline of future work. The financial year end has been changed to 30th September. The pipeline of work along with the changes to procedures and personnel will provide periods of profitable trading in both the six months to 30th September 2017 and over the following twelve months thereafter.

# MECH-TOOL ENGINEERING LIMITED

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

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### Key performance indicators

The company uses a number of KPI's to monitor the likes of financial operating performance and liquidity, the value and conversion rates on enquiries, customer feedback, accidents and incidents in the work place, absenteeism and staff turnover. KPI's are reviewed monthly at executive meetings.

On behalf of the board



M Garner

Director

21/02/18

# MECH-TOOL ENGINEERING LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 MARCH 2017

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The directors present their annual report and financial statements for the year ended 31 March 2017.

#### Principal activities

The principal activity of the company continued to be that of design, engineering, and manufacture of fire and blast related products including module and enclosures along with the provision of associated project management.

#### Directors

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

|           |                            |
|-----------|----------------------------|
| P Bullock | (Retired 19 December 2017) |
| M Garner  |                            |
| V Garner  |                            |
| A Mather  |                            |
| A Lyon    | (Resigned 18 April 2017)   |
| K Bell    | (Resigned 30 March 2017)   |
| A Jones   |                            |

#### Results and dividends

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

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

#### Auditor

Haines Watts were appointed as auditor to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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.

# MECH-TOOL ENGINEERING LIMITED

## DIRECTORS' REPORT (CONTINUED)

**FOR THE YEAR ENDED 31 MARCH 2017**

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### Statement of disclosure to auditor

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

On behalf of the board



M Garner

Director

Date: 21/02/18

# **MECH-TOOL ENGINEERING LIMITED**

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE MEMBERS OF MECH-TOOL ENGINEERING LIMITED**

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We have audited the financial statements of Mech-Tool Engineering Limited for the Period ended 31 March 2017 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

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

As explained more fully in the Directors' Responsibilities Statement, 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.

#### **Basis of qualified opinion on financial statements**

With respect to stock having a carrying amount of £686,546 the audit evidence to us was limited because we did not observe the counting of the physical stock as at 31 March 2017, since that date was prior to our appointment as auditor of the company. Owing to the nature of the company's records, we were unable to obtain sufficient appropriate audit evidence regarding the stock quantities by using other audit procedures.

#### **Qualified opinion on the financial statements**

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the Period 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; and

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

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



# MECH-TOOL ENGINEERING LIMITED

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### TO THE MEMBERS OF MECH-TOOL ENGINEERING LIMITED

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#### Matters on which we are required to report by exception

In respect solely of the limitation on our audit work relating to stock, described above;

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records had been kept.

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

#### Other matters

The financial statements for the year ended 31 March 2016, forming part of the corresponding figures of the financial statements for the year ended 31 March 2017 are unaudited.



Stephen Easton FCA (Senior Statutory Auditor)  
for and on behalf of Haines Watts

22/2/18

Chartered Accountants and  
Statutory Auditor

Sterling House  
22 St Cuthberts Way  
Darlington  
Co Durham

# MECH-TOOL ENGINEERING LIMITED

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

|   |          | 2017               | 2016             |
|---|----------|--------------------|------------------|
|   | Notes    | £                  | as restated<br>£ |
| Turnover  | 3        | 27,022,419         | 27,468,564       |
| Cost of sales   |          | (28,213,068)       | (21,630,273)     |
| <b>Gross (loss)/profit</b>                            |          | <b>(1,190,649)</b> | <b>5,838,291</b> |
| Administrative expenses                               |          | (2,617,262)        | (2,753,891)      |
| Loss on foreign currency derivative contracts         | 4        | (2,476,614)        | -                |
| Other items relating to foreign currency transactions | 4        | 508,253            | 749,112          |
| <b>Operating (loss)/profit</b>                        | <b>5</b> | <b>(5,776,272)</b> | <b>3,833,512</b> |
| Interest receivable and similar income                | 8        | 2,470              | 4,904            |
| <b>(Loss)/profit before taxation</b>                  |          | <b>(5,773,802)</b> | <b>3,838,416</b> |
| Tax on (loss)/profit                                  | 9        | 1,535,793          | (305,339)        |
| <b>(Loss)/profit for the financial year</b>           |          | <b>(4,238,009)</b> | <b>3,533,077</b> |

The Profit And Loss Account has been prepared on the basis that all operations are continuing operations.


# MECH-TOOL ENGINEERING LIMITED

## BALANCE SHEET

AS AT 31 MARCH 2017

|   |       | 2017              |                         | 2016<br>as restated |                          |
|---|-------|-------------------|-------------------------|---------------------|--------------------------|
|   | Notes | £                 | £                       | £                   | £                        |
| <b>Fixed assets</b>                                   |       |                   |                         |                     |                          |
| Tangible assets                                       | 10    |                   | 2,053,309               |                     | 2,045,201                |
| Investments   | 11    |                   | 600,601                 |                     | 600,601                  |
|   |       |                   | <u>2,653,910</u>        |                     | <u>2,645,802</u>         |
| <b>Current assets</b>                                 |       |                   |                         |                     |                          |
| Stocks  | 14    | 686,546           |                         | 620,901             |                          |
| Debtors   | 15    | 17,303,354        |                         | 10,862,025          |                          |
| Cash at bank and in hand                              |       | 2,044,064         |                         | 3,618,553           |                          |
|   |       | <u>20,033,964</u> |                         | <u>15,101,479</u>   |                          |
| <b>Creditors: amounts falling due within one year</b> | 16    | (16,527,857)      |                         | (7,167,012)         |                          |
| <b>Net current assets</b>                             |       |                   | <u>3,506,107</u>        |                     | <u>7,934,467</u>         |
| <b>Total assets less current liabilities</b>          |       |                   | <u>6,160,017</u>        |                     | <u>10,580,269</u>        |
| <b>Provisions for liabilities</b>                     | 17    |                   | -                       |                     | (182,243)                |
| <b>Net assets</b>                                     |       |                   | <u><u>6,160,017</u></u> |                     | <u><u>10,398,026</u></u> |
| <b>Capital and reserves</b>                           |       |                   |                         |                     |                          |
| Called up share capital                               | 20    |                   | 1,050,000               |                     | 1,050,000                |
| Profit and loss reserves                              |       |                   | 5,110,017               |                     | 9,348,026                |
| <b>Total equity</b>                                   |       |                   | <u><u>6,160,017</u></u> |                     | <u><u>10,398,026</u></u> |

The financial statements were approved by the board of directors and authorised for issue on 21/02/18 and are signed on its behalf by:



M Garner

Director

21/02/18

Company Registration No. 04087377

# MECH-TOOL ENGINEERING LIMITED

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

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|  | Share<br>capital<br>£ | Profit and<br>loss<br>reserves<br>£ | Total<br>£  |
|--|-----------------------|-------------------------------------|-------------|
| As restated for the period ended 31 March 2016:    |                       |                                     |             |
| Balance at 1 April 2015                            | 1,050,000             | 5,814,949                           | 6,864,949   |
| Year ended 31 March 2016:                          |                       |                                     |             |
| Profit and total comprehensive income for the year | -                     | 3,533,077                           | 3,533,077   |
|  |                       |                                     |             |
| Balance at 31 March 2016                           | 1,050,000             | 9,348,026                           | 10,398,026  |
| Year ended 31 March 2017:                          |                       |                                     |             |
| Loss and total comprehensive income for the year   | -                     | (4,238,009)                         | (4,238,009) |
|  |                       |                                     |             |
| Balance at 31 March 2017                           | 1,050,000             | 5,110,017                           | 6,160,017   |

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# MECH-TOOL ENGINEERING LIMITED

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2017

|  | Notes | 2017<br>£          | £ | 2016<br>£          | £ |
|--|-------|--------------------|---|--------------------|---|
| <b>Cash flows from operating activities</b>                |       |                    |   |                    |   |
| Cash generated from operations                             | 24    | 51,455             |   | 1,234,546          |   |
| Income taxes paid  |       | (296,649)          |   | (444,786)          |   |
| <b>Net cash (outflow)/inflow from operating activities</b> |       | <b>(245,194)</b>   |   | <b>789,760</b>     |   |
| <b>Investing activities</b>                                |       |                    |   |                    |   |
| Purchase of tangible fixed assets                          |       | (510,781)          |   | (607,476)          |   |
| Proceeds on disposal of tangible fixed assets              |       | -                  |   | 3,504              |   |
| Proceeds on disposal of subsidiaries                       |       | -                  |   | (474,601)          |   |
| Interest received  |       | 2,470              |   | 4,904              |   |
| <b>Net cash used in investing activities</b>               |       | <b>(508,311)</b>   |   | <b>(1,073,669)</b> |   |
| <b>Financing activities</b>                                |       |                    |   |                    |   |
| Repayment of derivatives                                   |       | (820,984)          |   | (899,461)          |   |
| <b>Net cash used in financing activities</b>               |       | <b>(820,984)</b>   |   | <b>(899,461)</b>   |   |
| <b>Net decrease in cash and cash equivalents</b>           |       | <b>(1,574,489)</b> |   | <b>(1,183,370)</b> |   |
| Cash and cash equivalents at beginning of year             |       | 3,618,553          |   | 4,801,923          |   |
| <b>Cash and cash equivalents at end of year</b>            |       | <b>2,044,064</b>   |   | <b>3,618,553</b>   |   |

# **MECH-TOOL ENGINEERING LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017**

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### **1 Accounting policies**

#### **Company information**

Mech-Tool Engineering Limited is a private company limited by shares incorporated in England and Wales. The registered office is Mech Tool House, Whessoe Road, Darlington, Durham, DL3 0QT.

#### **1.1 Accounting convention**

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated accounts. The financial statements present information about the company as an individual entity and not about its group.

Mech-Tool Engineering Limited is a wholly owned subsidiary of Mech-Tool Holdings Limited and the results of Mech-Tool Engineering Limited are included in the consolidated financial statements of Mech-Tool Holdings Limited which are available from Mech-Tool House, Whessoe Road, Darlington.

#### **1.2 Going concern**

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

#### **1.3 Turnover**

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

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

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting end date. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When it is probable that total contract costs will exceed total contract turnover, the expected loss is recognised as an expense immediately.

Where the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred and contract revenue is recognised to the extent of contract costs incurred where it is probable that they will be recoverable.

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2017

### 1 Accounting policies

(Continued)

The "percentage of completion method" is used to determine the appropriate amount to recognise in a given period. The stage of completion is measured by the proportion of contract costs incurred for work performed to date compared to the estimated total contract costs. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. These costs are presented as stocks, prepayments or other assets depending on their nature, and provided it is probable they will be recovered.

#### 1.4 Tangible fixed assets

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

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

|                                |                            |
|--------------------------------|----------------------------|
| Land and buildings Leasehold   | 10% on cost and 5% on cost |
| Plant and machinery            | 10% - 33% on cost          |
| Fixtures, fittings & equipment | 10% - 20% on cost          |
| Computer equipment             | 33% on cost                |
| Motor vehicles                 | 10% - 20% on cost          |

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

#### 1.5 Fixed asset investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

#### 1.6 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

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### 1 Accounting policies

(Continued)

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

#### 1.7 Stocks

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

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

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

#### 1.8 Cash at bank and in hand

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

#### 1.9 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

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

##### **Other financial assets**

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.



# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

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### 1 Accounting policies

(Continued)

#### ***Impairment of financial assets***

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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

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

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

#### ***Classification of financial liabilities***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

#### ***Basic financial liabilities***

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

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

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

#### ***Other financial liabilities***

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless hedge accounting is applied and the hedge is a cash flow hedge.

Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss.

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

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### 1 Accounting policies

(Continued)

#### ***Derecognition of financial liabilities***

Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

#### **1.10 Equity instruments**

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

#### **1.11 Taxation**

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

##### ***Current tax***

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

##### ***Deferred tax***

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

#### **1.12 Employee benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

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

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

#### **1.13 Retirement benefits**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

#### **1.14 Leases**

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

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

### 2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

#### Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

#### Amounts recoverable on contracts

The amount included in debtors for amounts recoverable on contracts is based on an estimate of the value of work done but not invoiced as at the balance sheet date less an estimate by management of the costs that will not be recoverable on completion of the contract. This provision is based on an estimate of the profitability of the contract as a whole upon future completion.

### 3 Turnover and other revenue

|   | 2017<br>£         | 2016<br>£         |
|---|-------------------|-------------------|
| <b>Other significant revenue</b>                |                   |                   |
| Interest income                                 | 2,470             | 4,904             |
|   | <u>2,470</u>      | <u>4,904</u>      |
|   | 2017<br>£         | 2016<br>£         |
| <b>Turnover analysed by geographical market</b> |                   |                   |
| United Kingdom                                  | 5,775,169         | 9,174,323         |
| Overseas  | 21,247,250        | 18,294,241        |
|   | <u>27,022,419</u> | <u>27,468,564</u> |

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

### 4 Exceptional costs

|  | 2017<br>£        | 2016<br>£        |
|--|------------------|------------------|
| Loss on foreign currency derivative contracts                                  | 2,476,614        | -                |
| Change in fair value of hedging liabilities - (credit)/charge                  | (820,984)        | (899,461)        |
| Revaluation of foreign currency monetary items to spot rates - charge/(credit) | 312,731          | 150,349          |
|  | <u>1,968,361</u> | <u>(749,112)</u> |

The loss on foreign currency derivative contracts of £2,476,614 relates to contracts which were closed out during the year.

The change in fair value of hedging liabilities of £820,984 (2016 : £899,461) relate to forward foreign exchange contracts. The fair value of these derivative financial instruments at 31 March 2017, 31 March 2016 and 31 March 2015 were £301,051, £1,122,035 and £2,021,496 respectively resulting in the change in fair values noted previously.

Revaluation of foreign currency monetary items to spot rates include £256,451 charge (2016 : £578,984 credit) in respect of amounts recoverable on US dollar denominated contracts.

### 5 Operating (loss)/profit

|   | 2017<br>£  | 2016<br>£  |
|---|------------|------------|
| Operating (loss)/profit for the year is stated after charging:                            |            |            |
| Fees payable to the company's auditor for the audit of the company's financial statements | 9,500      | 9,500      |
| Depreciation of owned tangible fixed assets   | 502,673    | 449,095    |
| (Profit)/loss on disposal of tangible fixed assets  | -          | 2,452      |
| Cost of stocks recognised as an expense   | 16,791,375 | 12,823,876 |
| Operating lease charges   | 32,335     | 38,858     |
|   | <u></u>    | <u></u>    |

### 6 Employees

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

|                                     | 2017<br>Number | 2016<br>Number |
|-------------------------------------|----------------|----------------|
| Production and engineering services | 194            | 191            |
| Administration and selling          | 22             | 27             |
|                                     | <u>216</u>     | <u>218</u>     |

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

### 6 Employees (Continued)

Their aggregate remuneration comprised:

|                       | 2017<br>£         | 2016<br>£         |
|-----------------------|-------------------|-------------------|
| Wages and salaries    | 11,470,864        | 9,219,211         |
| Social security costs | 944,872           | 849,742           |
| Pension costs         | 335,256           | 323,599           |
|                       | <u>12,750,992</u> | <u>10,392,552</u> |

### 7 Directors' remuneration

|   | 2017<br>£      | 2016<br>£      |
|---|----------------|----------------|
| Remuneration for qualifying services                          | 492,574        | 547,877        |
| Company pension contributions to defined contribution schemes | 105,548        | 140,677        |
|   | <u>598,122</u> | <u>688,554</u> |

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 5 (2016 - 5).

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

|   | 2017<br>£      | 2016<br>£      |
|---|----------------|----------------|
| Remuneration for qualifying services                          | 126,250        | 125,000        |
| Company pension contributions to defined contribution schemes | 12,625         | 12,500         |
|   | <u>138,875</u> | <u>137,500</u> |

### 8 Interest receivable and similar income

|                           | 2017<br>£    | 2016<br>£    |
|---------------------------|--------------|--------------|
| <b>Interest income</b>    |              |              |
| Interest on bank deposits | 2,470        | 4,904        |
|                           | <u>2,470</u> | <u>4,904</u> |

Investment income includes the following:

|  |              |              |
|--|--------------|--------------|
| Interest on financial assets not measured at fair value through profit or loss | 2,470        | 4,904        |
|  | <u>2,470</u> | <u>4,904</u> |

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

### 9 Taxation

|  | 2017<br>£          | 2016<br>£      |
|--|--------------------|----------------|
| <b>Current tax</b>                                   |                    |                |
| UK corporation tax on profits for the current period | (430,000)          | 290,588        |
| Adjustments in respect of prior periods              | (370,558)          | (10,517)       |
| Total current tax                                    | <u>(800,558)</u>   | <u>280,071</u> |
| <b>Deferred tax</b>                                  |                    |                |
| Origination and reversal of timing differences       | (735,235)          | -              |
| Adjustment in respect of prior periods               | -                  | 25,268         |
| Total deferred tax                                   | <u>(735,235)</u>   | <u>25,268</u>  |
| Total tax (credit)/charge                            | <u>(1,535,793)</u> | <u>305,339</u> |

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

|   | 2017<br>£          | 2016<br>£        |
|---|--------------------|------------------|
| (Loss)/profit before taxation   | <u>(5,773,802)</u> | <u>3,838,416</u> |
| Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 20.00% (2016: 20.00%) | (1,154,760)        | 767,683          |
| Tax effect of expenses that are not deductible in determining taxable profit                                  | 1,200              | (31,862)         |
| Unutilised tax losses carried forward   | 135,325            | -                |
| Adjustments in respect of prior years   | (370,558)          | (213,104)        |
| Permanent capital allowances in excess of depreciation  | -                  | (9,143)          |
| Research and development tax credit   | (147,000)          | (160,000)        |
| Under/(over) provided in prior years  | -                  | (10,517)         |
| Deferred tax adjustments in respect of prior years  | -                  | 24,576           |
| Tax effect of hedging gains/losses included in profit   | -                  | (62,294)         |
| Taxation (credit)/charge for the year   | <u>(1,535,793)</u> | <u>305,339</u>   |

## MECH-TOOL ENGINEERING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

#### 10 Tangible fixed assets

|                                    | Land and<br>buildings<br>Leasehold | Plant and<br>machinery | Fixtures,<br>fittings &<br>equipment | Computer<br>equipment | Motor<br>vehicles | Total     |
|------------------------------------|------------------------------------|------------------------|--------------------------------------|-----------------------|-------------------|-----------|
|                                    | £                                  | £                      | £                                    | £                     | £                 | £         |
| <b>Cost</b>                        |                                    |                        |                                      |                       |                   |           |
| At 1 April 2016                    | 1,082,512                          | 2,119,330              | 632,130                              | 289,176               | 52,960            | 4,176,108 |
| Additions                          | 246,873                            | 95,520                 | 84,907                               | 83,482                | -                 | 510,782   |
| Disposals                          | -                                  | -                      | -                                    | (95,300)              | -                 | (95,300)  |
| At 31 March 2017                   | 1,329,385                          | 2,214,850              | 717,037                              | 277,358               | 52,960            | 4,591,590 |
| <b>Depreciation and impairment</b> |                                    |                        |                                      |                       |                   |           |
| At 1 April 2016                    | 475,640                            | 1,068,821              | 337,117                              | 200,019               | 49,311            | 2,130,908 |
| Depreciation charged in the year   | 126,713                            | 235,177                | 71,676                               | 66,858                | 2,249             | 502,673   |
| Eliminated in respect of disposals | -                                  | -                      | -                                    | (95,300)              | -                 | (95,300)  |
| At 31 March 2017                   | 602,353                            | 1,303,998              | 408,793                              | 171,577               | 51,560            | 2,538,281 |
| <b>Carrying amount</b>             |                                    |                        |                                      |                       |                   |           |
| At 31 March 2017                   | 727,032                            | 910,852                | 308,244                              | 105,781               | 1,400             | 2,053,309 |
| At 31 March 2016                   | 606,872                            | 1,050,510              | 295,013                              | 89,157                | 3,649             | 2,045,201 |

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

### 11 Fixed asset investments

|                             | Notes | 2017<br>£ | 2016<br>£ |
|-----------------------------|-------|-----------|-----------|
| Investments in subsidiaries | 12    | 600,601   | 600,601   |

### 12 Subsidiaries

Details of the company's subsidiaries at 31 March 2017 are as follows:

| Name of undertaking | Registered office | Nature of business                               | Class of shares held | % Held |          |
|---------------------|-------------------|--|----------------------|--------|----------|
|                     |                   |  |                      | Direct | Indirect |
| Mech-Tool Korea Inc | South Korea       | Manufacturing of fire and blast related products | Ordinary             | 100.00 |          |

### 13 Financial instruments

|   | 2017<br>£  | 2016<br>£ |
|---|------------|-----------|
| <b>Carrying amount of financial assets</b>      |            |           |
| Debt instruments measured at amortised cost     | 7,570,933  | 5,262,385 |
| <b>Carrying amount of financial liabilities</b> |            |           |
| Measured at fair value through profit or loss   |            |           |
| - Other financial liabilities                   | 301,051    | 1,122,035 |
| Measured at amortised cost                      | 15,972,133 | 5,656,250 |

Forward foreign currency contracts are valued using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

### 14 Stocks

|                               | 2017<br>£ | 2016<br>£ |
|-------------------------------|-----------|-----------|
| Raw materials and consumables | 686,546   | 620,901   |



# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

### 15 Debtors

|   | 2017<br>£         | 2016<br>£         |
|---|-------------------|-------------------|
| <b>Amounts falling due within one year:</b> |                   |                   |
| Trade debtors                               | 4,023,790         | 3,160,586         |
| Amounts recoverable on contracts            | 7,477,845         | 5,210,879         |
| Corporation tax recoverable                 | 1,002,754         | -                 |
| Amounts due from group undertakings         | 3,535,488         | 1,266,312         |
| Other debtors                               | 411,637           | 835,487           |
| Prepayments and accrued income              | 298,848           | 388,761           |
|   | <u>16,750,362</u> | <u>10,862,025</u> |
| Deferred tax asset (note 18)                | 552,992           | -                 |
|   | <u>17,303,354</u> | <u>10,862,025</u> |

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

|                                    | 2017<br>£         | 2016<br>£        |
|------------------------------------|-------------------|------------------|
| Payments received on account       | 8,427,286         | 778,582          |
| Trade creditors                    | 3,316,199         | 3,702,942        |
| Amounts due to group undertakings  | 2,594,500         | 458,437          |
| Corporation tax                    | -                 | 94,453           |
| Other taxation and social security | 254,673           | 294,274          |
| Derivative financial instruments   | 301,051           | 1,122,035        |
| Other creditors                    | 122,625           | 105,398          |
| Accruals and deferred income       | 1,511,523         | 610,891          |
|                                    | <u>16,527,857</u> | <u>7,167,012</u> |

### 17 Provisions for liabilities

|                          | Notes | 2017<br>£ | 2016<br>£ |
|--------------------------|-------|-----------|-----------|
| Deferred tax liabilities | 18    | -         | 182,243   |

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

### 18 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

|                                    | Liabilities<br>2017<br>£ | Liabilities<br>2016<br>£ | Assets<br>2017<br>£ | Assets<br>2016<br>£ |
|------------------------------------|--------------------------|--------------------------|---------------------|---------------------|
| <b>Balances:</b>                   |                          |                          |                     |                     |
| Accelerated capital allowances     | -                        | 182,243                  | (150,008)           | -                   |
| Tax losses                         | -                        | -                        | 703,000             | -                   |
|                                    | <u>-</u>                 | <u>182,243</u>           | <u>552,992</u>      | <u>-</u>            |
|                                    |                          |                          |                     | <b>2017</b>         |
| <b>Movements in the year:</b>      |                          |                          |                     | <b>£</b>            |
| Liability at 1 April 2016          |                          |                          |                     | 182,243             |
| Credit to profit or loss           |                          |                          |                     | (735,235)           |
|                                    |                          |                          |                     | <u>(552,992)</u>    |
| Liability/(Asset) at 31 March 2017 |                          |                          |                     | <u>(552,992)</u>    |

The deferred tax asset set out above is expected to reverse within 12 months and relates to the utilisation of tax losses against future expected profits of the same period.

### 19 Retirement benefit schemes

|   | 2017<br>£      | 2016<br>£      |
|---|----------------|----------------|
| <b>Defined contribution schemes</b>                                 |                |                |
| Charge to profit or loss in respect of defined contribution schemes | <u>335,256</u> | <u>323,599</u> |

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

### 20 Share capital

|                                      | 2017<br>£        | 2016<br>£        |
|--------------------------------------|------------------|------------------|
| <b>Ordinary share capital</b>        |                  |                  |
| <b>Issued and fully paid</b>         |                  |                  |
| 1,050,000 ordinary shares of £1 each | <u>1,050,000</u> | <u>1,050,000</u> |
|                                      | <u>1,050,000</u> | <u>1,050,000</u> |

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

### 21 Operating lease commitments

#### Lessee

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

|                            | 2017<br>£     | 2016<br>£     |
|----------------------------|---------------|---------------|
| Within one year            | 12,828        | 12,391        |
| Between two and five years | 12,910        | 4,000         |
|                            | <u>25,738</u> | <u>16,391</u> |

### 22 Related party transactions

#### Remuneration of key management personnel

The remuneration of key management personnel is as follows.

|                        | 2017<br>£      | 2016<br>£      |
|------------------------|----------------|----------------|
| Aggregate compensation | <u>663,140</u> | <u>695,743</u> |

Rental payments were made to a director during the year. The amount paid during the year was £300,000 (2016: £300,613).

### 23 Controlling party

The ultimate parent company is Mech-Tool Holdings Limited.

The ultimate controlling party is M K and V Garner by virtue of their majority shareholding in the parent company, Mech-Tool Holdings Limited.

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

### 24 Cash generated from operations

|  | 2017<br>£     | 2016<br>£        |
|--|---------------|------------------|
| (Loss)/profit for the year after tax                 | (4,238,009)   | 3,533,077        |
| <b>Adjustments for:</b>                              |               |                  |
| Taxation (credited)/charged                          | (1,535,793)   | 305,339          |
| Investment income                                    | (2,470)       | (4,904)          |
| (Gain)/loss on disposal of tangible fixed assets     | -             | 2,452            |
| Depreciation and impairment of tangible fixed assets | 502,673       | 449,095          |
| <b>Movements in working capital:</b>                 |               |                  |
| (Increase)/decrease in stocks                        | (65,645)      | 959,671          |
| (Increase)/decrease in debtors                       | (4,485,601)   | 895,440          |
| Increase/(decrease) in creditors                     | 9,876,300     | (4,905,624)      |
| <b>Cash generated from operations</b>                | <b>51,455</b> | <b>1,234,546</b> |

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

### 25 Prior period adjustment

#### Prior year adjustment 1

Hedge accounting was adopted in the preparation of the financial statements for the year ended 31 March 2016, albeit that this was not disclosed correctly in accordance with FRS 102.12.28 – 29A.

There was no hedge accounting policy statement approved by the Board or documented designations of hedging instruments and therefore hedge accounting should not have been applied.

The financial statements for the year ended 31 March 2016 include within current assets, amounts recoverable on contracts, amounts of £1,000,608 (2015 : £1,065,524 and 2014 : £601,022) in respect of hedges of the foreign currency risk of unrecognised firm commitments which have been accounted for as a cash flow hedge.

As described above, hedge accounting should not have been applied, and the above amounts should not have been recognised in current assets.

#### Prior year adjustment 2

Further, the financial statements for the year ended 31 March 2016 include within creditors, foreign exchange contracts hedging liabilities an amount of £915,778. The fair value of the derivatives representing this financial liability have been measured incorrectly and should have been stated at a fair value of £1,122,035.

#### Profit and loss account

The effect of the above two prior year adjustments on the profit and loss accounts (prepared under FRS102) are as follows:

|                          | Effect on profit |
|--------------------------|------------------|
|                          | £                |
| Year ended 31 March 2016 | (141,341)        |
| Year ended 31 March 2015 | (464,502)        |
| Year ended 31 March 2014 | <u>(601,022)</u> |
| Profit/(loss) before tax | (1,206,865)      |
| Corporation tax          | <u>241,373</u>   |
| Profit/(loss) after tax  | <u>(965,492)</u> |

#### Prior year adjustment 3

The financial statements for the years ended 31 March 2016 and 31 March 2015 include amounts paid as margin calls in respect of forward foreign currency contracts in the amounts of £829,225 and £1,509,054 respectively, which have been disclosed as balances within cash at bank and in hand.

The margin call payments have been reclassified as amounts within other debtors.

#### Prior year adjustment 4

The financial statements for the year ended 31 March 2016 do not include any adjustment to revalue amounts recoverable on US dollar denominated contracts to spot rate at the reporting period end.

An adjustment has been made of £578,984 representing the increase in the value of amounts recoverable on contracts as a result of revaluing dollar denominated contracts to spot rates. The adjustment has been disclosed within an additional line item in the income statement.

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

### 25 Prior period adjustment

(Continued)

#### Changes to balance sheet

|   | As previously<br>reported | At 31 March 2016      |                  | As restated        |
|---|---------------------------|-----------------------|------------------|--------------------|
|   | £                         | Prior year adjustment | £                | £                  |
| Current Assets                          |                           |                       |                  |                    |
| Trade debtors                           | 3,160,586                 | -                     | -                | 3,160,586          |
| Amounts recoverable on contracts        | 4,631,895                 | -                     | 578,984          | 5,210,879          |
| Hedges of unrecognised firm commitments | 1,000,608                 | (1,000,608)           | -                | -                  |
| Other debtors                           | 6,262                     | 829,225               | -                | 835,487            |
| Amounts owed by group undertaking       | 1,266,312                 | -                     | -                | 1,266,312          |
| Prepayments and accrued income          | 388,761                   | -                     | -                | 388,761            |
|   | <u>10,454,424</u>         | <u>(171,383)</u>      | <u>578,984</u>   | <u>10,862,025</u>  |
| Cash at bank and in hand                | <u>4,447,778</u>          | <u>(829,225)</u>      | <u>-</u>         | <u>3,618,553</u>   |
| Creditors due within one year           |                           |                       |                  |                    |
| Payments on account                     | (778,582)                 | -                     | -                | (778,582)          |
| Trade creditors                         | (3,702,942)               | -                     | -                | (3,702,942)        |
| Amounts owed to group undertakings      | (458,437)                 | -                     | -                | (458,437)          |
| Corporation tax                         | (220,029)                 | 241,373               | (115,797)        | (94,453)           |
| Taxation and social security            | (294,274)                 | -                     | -                | (294,274)          |
| Other creditors                         | (105,398)                 | -                     | -                | (105,398)          |
| Foreign exchange contracts - liability  | (915,778)                 | (206,257)             | -                | (1,122,035)        |
| Accruals and deferred income            | (610,891)                 | -                     | -                | (610,891)          |
|   | <u>(7,086,331)</u>        | <u>35,116</u>         | <u>(115,797)</u> | <u>(7,167,012)</u> |
| Capital and reserves                    |                           |                       |                  |                    |
| Profit and loss                         | <u>9,850,331</u>          | <u>(965,492)</u>      | <u>463,187</u>   | <u>9,348,026</u>   |

# MECH-TOOL ENGINEERING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

### 25 Prior period adjustment

(Continued)

#### Changes to the profit and loss account

|  | Period ended 31 March 2016 |                       |                  | As restated      |
|--|----------------------------|-----------------------|------------------|------------------|
|  | As previously reported     | Prior year adjustment |                  |                  |
|  | £                          | £                     | £                | £                |
| Exceptional items – (charge)/credit:           |                            |                       |                  |                  |
| Change in fair value of hedged items           | (64,916)                   | 64,916                | -                | -                |
| Change in fair value of hedging liabilities    | 1,105,718                  | (206,257)             | -                | 899,461          |
| Revaluation of foreign currency monetary items | (729,333)                  | -                     | 578,984          | (150,349)        |
|  | <u>311,469</u>             | <u>(141,341)</u>      | <u>578,984</u>   | <u>749,112</u>   |
| Taxation - (charge)/credit                     | <u>(430,915)</u>           | <u>241,373</u>        | <u>(115,797)</u> | <u>(305,339)</u> |
| Profit for the financial period                | <u>2,969,858</u>           | <u>100,032</u>        | <u>463,187</u>   | <u>3,533,077</u> |