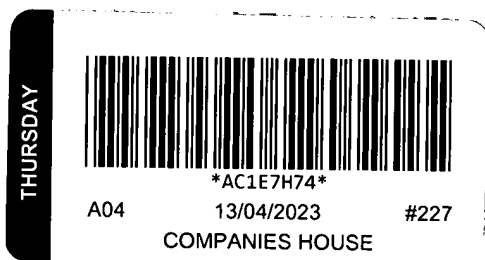


Company registration number 04087377 (England and Wales)

MECH-TOOL ENGINEERING LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2022



MECH-TOOL ENGINEERING LIMITED

COMPANY INFORMATION

Directors	M Garner V Garner K Judson
Company number	04087377
Registered office	Mech Tool House Whessoe Road Darlington Durham DL3 0QT
Auditor	Haines Watts North East Audit LLP 17 Queens Lane Newcastle Upon Tyne NE1 1 RN

MECH-TOOL ENGINEERING LIMITED

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MECH-TOOL ENGINEERING LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2022

The directors present the strategic report for the year ended 30 September 2022.

Fair review of the business

In last year's strategic report I commented on how climate change concerns and a low price for oil had resulted in the market for the company's main firewall and blastwall products remaining relatively weak. In the year to 30th September 2022 the war in the Ukraine has had a significant impact on the performance, as work from a number of clients on a major Russian project came to a complete standstill. In these circumstances the company has performed well in only finishing with a 1% year on year drop in turnover, down to £13.93m, whilst still recording an operating profit of £216.7k.

The war in the Ukraine contributed towards an overall strategic review of the business. The decision was taken to cease the manufacturing of steel fabrications in the UK. The factories in Darlington, along with the quayside facility at Middlesbrough will be rented on 10 year leases commencing in December 2022 and March 2023 respectively. Fabrication of firewalls, blastwalls and heatshields will continue at Mech-Tool Korea. The current level of enquiries for these products indicates a slow recovery in market demand, but given the pace of engineering and financial approval on large capital projects, a return to even 2021 levels of sales for these products is not expected before 2025.

The purchase of the quayside facility at Middlesbrough was the major factor behind the reduction in cash at bank from £8.59m at the 2021 year end to £4.60m at 30th September 2022. The company has no bank borrowings.

The company is continuing with its business development initiatives to reduce dependence on new build projects in the offshore oil and gas sector. After a decade of development work on a new thermal insulation product, the company is confident of being awarded a defence industry related contract during 2023 which will provide the business with around ten years of design, engineering, manufacturing and site installation related activities.

The management of health and safety continues to be a priority and the company is proud to have been awarded the ROSPA Gold award for occupational safety for the twenty second consecutive year.

The vulnerability of IT systems to cyber crime is constantly reviewed. Cyber security has been enhanced as a result of the company's involvement with the UK defence sector.

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 January 2023. The programmes for reviews and for internal audits are determined at dedicated half yearly meetings chaired by the Head of Governance.

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 Gamer

Director

24/3/2023

MECH-TOOL ENGINEERING LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2022

The directors present their annual report and financial statements for the year ended 30 September 2022.

Principal activities

The principal activity of the company continued to be that of design, engineering, and manufacture of fire and blast related products including modules and enclosures along with the provision of associated project management. The company has achieved substantial progress in the development of a thermal insulation product for use in defence applications.

Results and dividends

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

Ordinary dividends were paid amounting to £100,086. The directors do not recommend payment of a further dividend.

Directors

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

M Garner

V Garner

K Judson

M Camp

(Resigned 5 September 2022)

Financial instruments

Financial risk management objectives and policies

The company's activities expose it to a number of financial risks including cash flow risk, liquidity risk and credit risk. The use of financial derivatives is governed by the company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The company does not use derivative financial instruments for speculative purposes.

Cash flow risk

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company uses foreign exchange forward contracts to hedge these exposures.

Liquidity risk

The company manages its cash and borrowing requirements in order to maximise interest income and minimise interest expense, whilst ensuring the company has sufficient liquid resources to meet the operating needs of the business.

Credit risk

The company's principal financial assets are bank balances and cash, trade and other receivables, and investments.

The company's credit risk is primarily attributable to its trade receivables. All customers who wish to trade on credit terms are subject to credit verification procedures. Trade debtors are monitored on an ongoing basis and provision is made for doubtful debts where necessary.

Auditor

The auditor, Haines Watts North East Audit LLP, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

MECH-TOOL ENGINEERING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2022

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.

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: 24/3/2023

MECH-TOOL ENGINEERING LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MECH-TOOL ENGINEERING LIMITED

Opinion

We have audited the financial statements of Mech-Tool Engineering Limited (the 'company') for the year ended 30 September 2022 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MECH-TOOL ENGINEERING LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF MECH-TOOL ENGINEERING LIMITED

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory framework applicable to both the company itself and the industry in which it operates. We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors and other management. The most significant were identified as the Companies Act 2006, UK GAAP (FRS102) and relevant tax legislation.

We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements. Our audit procedures included:

- making enquires of directors and management as to where they consider there to be a susceptibility to fraud and whether they have any knowledge or suspicion of fraud;
- obtaining an understanding of the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- assessing the risk of management override including identifying and testing journal entries;
- challenging the assumptions and judgements made by management in its significant accounting estimates.

Our audit did not identify any key audit matters relating to the detection of irregularities including fraud. However, despite the audit being planned and conducted in accordance with ISAs (UK) there remains an unavoidable risk that material misstatements in the financial statements may not be detected owing to inherent limitations of the audit, and that by their very nature, any such instances of fraud or irregularity likely involve collusion, forgery, intentional misrepresentations, or the override of internal controls.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

MECH-TOOL ENGINEERING LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF MECH-TOOL ENGINEERING LIMITED

Use of our report

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.



Stephen Easton FCA

Senior Statutory Auditor

For and on behalf of Haines Watts North East Audit LLP

Date: 31/3/2023

Chartered Accountants and

Statutory Auditor

17 Queens Lane
Newcastle Upon Tyne
NE1 1 RN

MECH-TOOL ENGINEERING LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Notes	2022 £	2021 £
Turnover	3	13,929,276	14,162,380
Cost of sales		(9,497,568)	(10,945,730)
Gross profit		4,431,708	3,216,650
Administrative expenses		(4,214,977)	(3,173,063)
Other operating income		-	3,365,419
Operating profit	5	216,731	3,409,006
Interest receivable and similar income	8	11	5
Interest payable and similar expenses	9	(52)	-
Fair value gains and losses on foreign exchange contracts		(4,762)	(44,298)
Profit before taxation		211,928	3,364,713
Tax on profit	10	76,171	(737,442)
Profit for the financial year		288,099	2,627,271

The profit and loss account has been prepared on the basis that all operations are continuing operations.

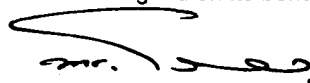
MECH-TOOL ENGINEERING LIMITED

BALANCE SHEET

AS AT 30 SEPTEMBER 2022

	Notes	2022 £	£	2021 £	£
Fixed assets					
Tangible assets	12	3,379,488		606,081	
Investments	13	600,601		600,601	
		<u>3,980,089</u>		<u>1,206,682</u>	
Current assets					
Stocks	16	7,856		-	
Debtors	17	3,426,237		4,608,631	
Cash at bank and in hand		4,603,109		8,592,042	
		<u>8,037,202</u>		<u>13,200,673</u>	
Creditors: amounts falling due within one year	18	(3,735,841)		(6,339,853)	
Net current assets		<u>4,301,361</u>		<u>6,860,820</u>	
Total assets less current liabilities		<u>8,281,450</u>		<u>8,067,502</u>	
Provisions for liabilities					
Deferred tax liability	19	30,398		4,463	
		<u>(30,398)</u>		<u>(4,463)</u>	
Net assets		<u>8,251,052</u>		<u>8,063,039</u>	
Capital and reserves					
Called up share capital	21	1,050,000		1,050,000	
Profit and loss reserves		7,201,052		7,013,039	
Total equity		<u>8,251,052</u>		<u>8,063,039</u>	

The financial statements were approved by the board of directors and authorised for issue on 24/3/2023 and are signed on its behalf by:


 M Garner
 Director

Company Registration No. 04087377

MECH-TOOL ENGINEERING LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Notes	Share capital £	Profit and loss reserves £	Total £
Balance at 1 October 2020		1,050,000	6,478,313	7,528,313
Year ended 30 September 2021:				
Profit and total comprehensive income for the year		-	2,627,271	2,627,271
Dividends	11	-	(2,092,545)	(2,092,545)
Balance at 30 September 2021		1,050,000	7,013,039	8,063,039
Year ended 30 September 2022:				
Profit and total comprehensive income for the year		-	288,099	288,099
Dividends	11	-	(100,086)	(100,086)
Balance at 30 September 2022		1,050,000	7,201,052	8,251,052

MECH-TOOL ENGINEERING LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2022

	Notes	2022 £	£	2021 £	£
Cash flows from operating activities					
Cash (absorbed by)/generated from operations	25		(789,722)		5,588,112
Interest paid			(52)		-
Income taxes (paid)/refunded			(46,008)		375,766
Net cash (outflow)/inflow from operating activities			(835,782)		5,963,878
Investing activities					
Purchase of tangible fixed assets		(3,033,151)		(70,185)	
Proceeds from disposal of tangible fixed assets		12,300		5,499	
Interest received		11		5	
Net cash used in investing activities			(3,020,840)		(64,681)
Financing activities					
Repayment of derivatives		(32,225)		32,227	
Dividends paid		(100,086)		(2,092,545)	
Net cash used in financing activities			(132,311)		(2,060,318)
Net (decrease)/increase in cash and cash equivalents			(3,988,933)		3,838,879
Cash and cash equivalents at beginning of year			8,592,042		4,753,163
Cash and cash equivalents at end of year			4,603,109		8,592,042

MECH-TOOL ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2022

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 revenue is recognised to the extent of contract costs incurred where it is probable that they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs if the contract is obtained in a subsequent period.

MECH-TOOL ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2022

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

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 30 SEPTEMBER 2022

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 cost and replacement 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 and cash equivalents

Cash and cash equivalents 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 30 SEPTEMBER 2022

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.

Derecognition of financial liabilities

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

MECH-TOOL ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2022

1 Accounting policies

(Continued)

1.10 Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of transaction 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 profit or loss 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 leases asset are consumed.

MECH-TOOL ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2022

1 Accounting policies

(Continued)

1.15 Government grants

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

A grant that specifies performance conditions is recognised in income when the performance conditions are met. Where a grant does not specify performance conditions it is recognised in income when the proceeds are received or receivable. A grant received before the recognition criteria are satisfied is recognised as a liability.

1.16 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

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

	2022 £	2021 £
Turnover analysed by geographical market		
United Kingdom	5,690,648	2,066,418
Overseas	8,238,628	12,095,962
	<u>13,929,276</u>	<u>14,162,380</u>

MECH-TOOL ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2022

3	Turnover and other revenue	(Continued)	
		2022	2021
		£	£
	Other revenue		
	Interest income	11	5
	Grants received	-	65,419
		<u> </u>	<u> </u>

4	Exceptional items	2022	2021
		£	£
	Income		
	Other operating income	-	3,300,000
		<u> </u>	<u> </u>
	Expenditure		
	Redundancy costs	467,412	-
		<u> </u>	<u> </u>

Other operating income in the previous year related to settlement of a legal claim against a third party.

Redundancy and pay in lieu of notice costs of £467,412 are included in administrative expenses.

5	Operating profit	2022	2021
		£	£
	Operating profit for the year is stated after charging/(crediting):		
	Exchange losses	61,204	51,003
	Government grants	-	(65,419)
	Fees payable to the company's auditor for the audit of the company's financial statements	10,250	10,000
	Depreciation of owned tangible fixed assets	259,149	198,360
	Profit on disposal of tangible fixed assets	(11,705)	(5,500)
	Operating lease charges	87,249	194,464
		<u> </u>	<u> </u>

6 Employees

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

	2022	2021
	Number	Number
Production and engineering services	55	55
Administration and selling	25	14
	<u> </u>	<u> </u>
Total	80	69
	<u> </u>	<u> </u>

MECH-TOOL ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2022

6 Employees (Continued)

Their aggregate remuneration comprised:

	2022 £	2021 £
Wages and salaries	3,636,106	2,801,405
Social security costs	422,311	188,366
Pension costs	140,918	102,448
	<u>4,199,335</u>	<u>3,092,219</u>

7 Directors' remuneration

	2022 £	2021 £
Remuneration for qualifying services	252,045	358,149
Company pension contributions to defined contribution schemes	16,541	-
	<u>268,586</u>	<u>358,149</u>

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

	2022 £	2021 £
Remuneration for qualifying services	90,000	97,500
Company pension contributions to defined contribution schemes	6,300	7,303
	<u>96,300</u>	<u>104,803</u>

8 Interest receivable and similar income

	2022 £	2021 £
Interest income		
Interest on bank deposits	11	5
	<u>11</u>	<u>5</u>

Investment income includes the following:

Interest on financial assets not measured at fair value through profit or loss	11	5
	<u>11</u>	<u>5</u>

9 Interest payable and similar expenses

	2022 £	2021 £
Other finance costs:		
Other interest	52	-
	<u>52</u>	<u>-</u>

MECH-TOOL ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2022

10 Taxation

	2022 £	2021 £
Current tax		
UK corporation tax on profits for the current period	(27,600)	74,506
Adjustments in respect of prior periods	(74,506)	109,803
Total current tax	(102,106)	184,309
Deferred tax		
Origination and reversal of timing differences	25,935	553,133
Total tax (credit)/charge	(76,171)	737,442

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

	2022 £	2021 £
Profit before taxation	211,928	3,364,713
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	40,266	639,295
Adjustments in respect of prior years	(74,506)	109,803
Research and development tax credit	(86,450)	(123,500)
Deferred tax adjustments in respect of prior years	44,519	111,844
Taxation (credit)/charge for the year	(76,171)	737,442

11 Dividends

	2022 £	2021 £
Final paid	100,086	-
Interim paid	-	2,092,545
	100,086	2,092,545

MECH-TOOL ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2022

12 Tangible fixed assets

	Land and buildings Leasehold	Plant and machinery	Fixtures, fittings & equipment	Computer equipment	Total
	£	£	£	£	£
Cost					
At 1 October 2021	1,302,855	2,121,650	646,977	348,147	4,419,629
Additions	2,927,591	48,226	-	57,334	3,033,151
Disposals	-	(62,441)	-	-	(62,441)
At 30 September 2022	4,230,446	2,107,435	646,977	405,481	7,390,339
Depreciation and impairment					
At 1 October 2021	1,052,041	1,879,977	582,978	298,552	3,813,548
Depreciation charged in the year	122,310	86,044	19,590	31,205	259,149
Eliminated in respect of disposals	-	(61,846)	-	-	(61,846)
At 30 September 2022	1,174,351	1,904,175	602,568	329,757	4,010,851
Carrying amount					
At 30 September 2022	3,056,095	203,260	44,409	75,724	3,379,488
At 30 September 2021	250,814	241,673	63,999	49,595	606,081

13 Fixed asset investments

	Notes	2022 £	2021 £
Investments in subsidiaries	14	600,601	600,601

14 Subsidiaries

Details of the company's subsidiaries at 30 September 2022 are as follows:

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

15 Financial instruments

	2022 £	2021 £
Carrying amount of financial liabilities		
Measured at fair value through profit or loss		
- Other financial liabilities	13,861	41,325

MECH-TOOL ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2022

16 Stocks

	2022 £	2021 £
Raw materials and consumables	7,000	-
Work in progress	856	-
	<u>7,856</u>	<u>-</u>

17 Debtors

	2022 £	2021 £
Amounts falling due within one year:		
Trade debtors	1,405,079	3,712,883
Amounts recoverable on contracts	1,574,646	444,966
Corporation tax recoverable	287,911	214,304
Amounts due from group undertakings	12,723	116,325
Other debtors	-	645
Prepayments and accrued income	145,878	119,508
	<u>3,426,237</u>	<u>4,608,631</u>

18 Creditors: amounts falling due within one year

	2022 £	2021 £
Payments received on account	90,621	2,494,450
Trade creditors	1,030,862	1,238,163
Amounts owed to group undertakings	1,371,852	907,862
Corporation tax	78,922	153,428
Other taxation and social security	293,982	120,040
Derivative financial instruments	13,861	41,325
Other creditors	90,931	39,014
Accruals and deferred income	764,810	1,345,571
	<u>3,735,841</u>	<u>6,339,853</u>

Derivative financial instruments - Forward contracts

The company enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency receivables. The outstanding contracts all mature by 26 October 2022. At 30 September 2022, the company is committed to sell Euro 375k and to receive a fixed sterling amount.

The forward foreign currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are quoted forward exchange rates for GBP:USD and GBP:EUR. The fair value of forward foreign currency contracts is £13,861.

MECH-TOOL ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2022

19 Deferred taxation

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

	Liabilities 2022 £	Liabilities 2021 £
Balances:		
Accelerated capital allowances	30,398	4,463
	<u>30,398</u>	<u>4,463</u>
Movements in the year:		2022 £
Liability at 1 October 2021		4,463
Charge to profit or loss		25,935
		<u>30,398</u>
Liability at 30 September 2022		<u>30,398</u>

The deferred tax balance set out above is expected to reverse within 12 months and relates to accelerated capital allowances that are expected to mature within the same period and tax losses which are expected to be utilised.

20 Retirement benefit schemes

	2022 £	2021 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	140,918	102,448
	<u>140,918</u>	<u>102,448</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.

21 Share capital

	2022 Number	2021 Number	2022 £	2021 £
Ordinary share capital				
Issued and fully paid				
ordinary shares of £1 each	1,050,000	1,050,000	1,050,000	1,050,000
	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,050,000</u>

22 Contingent asset

As at 30th September 2022 the company has contingent assets in respect of an ongoing legal claims. The value of the claims has not been disclosed on the basis that stating an amount may prejudice the outcome of the legal disputes. However the company recognises the existence of the contingent assets as the settlement of the claims is likely to result in a significant future financial benefit.

MECH-TOOL ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2022

23 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is as follows.

	2022 £	2021 £
Aggregate compensation	580,261	536,419

During the year the company paid rent of £80,445 (2021 : £71,972) to the directors and close members of the directors' family.

24 Ultimate controlling party

The ultimate parent company is Mech-Tool Holdings Limited.

Mech-Tool Holdings Limited prepares group financial statements and copies can be obtained from the company's registered office, Mech Tool House, Whessoe Road, Darlington, Durham, DL3 0QT.

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

25 Cash (absorbed by)/generated from operations

	2022 £	2021 £
Profit for the year after tax	288,099	2,627,271
Adjustments for:		
Taxation (credited)/charged	(76,171)	737,442
Finance costs	52	-
Investment income	(11)	(5)
Gain on disposal of tangible fixed assets	(11,705)	(5,500)
Fair value loss on foreign exchange contracts	4,762	44,298
Depreciation and impairment of tangible fixed assets	259,149	198,360
Movements in working capital:		
Increase in stocks	(7,856)	-
Decrease/(increase) in debtors	1,256,001	(291,437)
(Decrease)/increase in creditors	(2,502,042)	2,277,683
Cash (absorbed by)/generated from operations	(789,722)	5,588,112

26 Analysis of changes in net funds

	1 October 2021 £	Cash flows 30 September 2022 £	£
Cash at bank and in hand	8,592,042	(3,988,933)	4,603,109