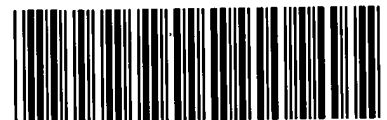


Company Registration No. 08813058 (England and Wales)

**FLEXIBLE ENGINEERED SOLUTIONS (GROUP)
HOLDINGS LIMITED**

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 JULY 2017**

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FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

COMPANY INFORMATION

Directors	Mr R Anderson Mr I Latimer
Company number	08813058
Registered office	Merchant Court North Seaton Industrial Estate Freeman Way Ashington NE63 0YB
Auditor	RSM UK Audit LLP Chartered Accountants 1 St. James' Gate Newcastle upon Tyne NE1 4AD

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 JULY 2017

The directors present the group strategic report for the year ended 31 July 2017, which includes Flexible Engineered Solutions (Group) Holdings Limited, which is a holding company, and its subsidiaries Flexible Engineered Solutions Holdings Limited, also a holding company, and Flexible Engineered Solutions Limited.

Fair review of the business

Despite the current downturn within the oil and gas industry we are pleased to be able to report another profitable year.

Whilst we are not unaffected by the industry slump we have been successful in managing our resources to ensure that we can continue to operate a profitable business. This has been achieved by continuing to improve our products and services to both our long term existing and new customers. We also appreciate the importance of the long-term relationships that we continue to maintain with our suppliers during these difficult periods.

Despite the decrease in turnover, staff levels have remained the same without the need for any redundancies.

Net liabilities in the year have decreased from £2,437,253 in 2016 to £19,830 in 2017 as a result of the profit in the year.

We still anticipate that this industry slump will continue in the short term, however we are experiencing encouraging signs of recovery.

Key performance indicators

The directors consider the following key performance indicators to be the key measures of the company's performance.

- Turnover has decreased during the year 24.65% to £10,103,268 from £13,409,132, this is due to the industry downturn.
- Gross profit percentage has increased this year from 45.38% to 46.04%, this is consistent with prior years.
- EBITDA has decreased this year from £5,157,679 to £3,646,766, this is due to the decrease in turnover being reflected in the decrease in profit.

Principal risks and uncertainties

The directors have identified the key risks and uncertainties which are a threat to the business and wherever possible have taken steps to address this.

Quality, Environment, health and safety incidents

The group recognises its responsibilities to ensure that the risk of any environmental and health and safety issues are minimised. The company has maintained accreditation for ISO9001:2015, ISO14001 and OHSAS18001 during the year whilst also achieving API Q1.

Foreign exchange rate risk

The group understands the effect that foreign exchange risk can have on the business, in order to reduce the risk all foreign transactions are monitored throughout the year on a timely basis.

Employees

The group understands the effect that the loss of key employees may have on the business, this risk is managed by providing competitive pay conditions to all employees.

Industry

The group is impacted by the fall in the oil price within the industry, this risk is managed by continuing to monitor industry trends.

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

Development and performance

Despite the industry downturn the group continues to strive to improve the products and services that we can offer to our existing and new customer base. This is achieved by the support and effort of the employees along with ensuring that the facilities are in place to produce these services.

On behalf of the board



Mr R Anderson

Director

24 May 2018

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 JULY 2017

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

Principal activities

The principal activity of the company is that of a holding company. The principal activity of the group is the design and supply of offshore fluid transfer systems together with associated sub sea products and hardware.

Directors

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

Mr R Anderson

Mr I Latimer

Results and dividends

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

Auditor

A resolution to reappoint RSM UK Audit LLP, chartered accountants, as auditor will be put to the members at the annual general meeting.

Statement of disclosure to auditor

So far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors 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



Mr R Anderson

Director

24 May 2018

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 JULY 2017

The directors are responsible for preparing the Strategic Report and the Directors' 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 group and company, and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

Opinion

We have audited the financial statements of Flexible Engineered Solutions (Group) Holdings Limited (the 'parent company') and its subsidiaries for the year ended 31 July 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement Of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 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 group's and of the parent company's affairs as at 31 July 2017 and of the group's 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 group 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED (CONTINUED)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 set out on page 4, 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 group's and the parent 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 group or the parent 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's 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.



Steven Cleugh FCCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
1 St. James' Gate
Newcastle upon Tyne
NE1 4AD
29/5/18.....

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 JULY 2017

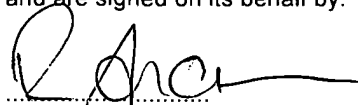
	Notes	2017 £	2016 £
Turnover	3	10,103,268	13,409,132
Cost of sales		(5,451,953)	(7,323,958)
Gross profit		4,651,315	6,085,174
Administrative expenses		(1,163,760)	(1,105,840)
Other operating income		15,200	18,018
Operating profit	4	3,502,755	4,997,352
Share of results of joint ventures		(40,970)	(3,644)
Interest receivable and similar income	8	10,324	14,723
Interest payable and similar expenses	9	(762,500)	(1,058,333)
Profit on ordinary activities before taxation		2,709,609	3,950,098
Taxation	10	(292,186)	(518,451)
Profit for the financial year	24	2,417,423	3,431,647

Total comprehensive income for the year is all attributable to the owners of the parent company.

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 JULY 2017**

	Notes	2017 £	£	2016 £	£
Fixed assets					
Goodwill	11	1,085,868		1,180,398	
Tangible assets	12	148,442		197,924	
Investments	13	(346,058)		(305,088)	
		<u>888,252</u>		<u>1,073,234</u>	
Current assets					
Debtors	16	6,119,048		4,643,046	
Cash at bank and in hand		2,446,591		3,491,121	
		<u>8,565,639</u>		<u>8,134,167</u>	
Creditors: amounts falling due within one year	17	(4,473,721)		(3,144,654)	
Net current assets		<u>4,091,918</u>		<u>4,989,513</u>	
Total assets less current liabilities		<u>4,980,170</u>		<u>6,062,747</u>	
Creditors: amounts falling due after more than one year	18	(5,000,000)		(8,500,000)	
Net liabilities		<u>(19,830)</u>		<u>(2,437,253)</u>	
Capital and reserves					
Called up share capital	23	30,000		30,000	
Other reserves	24	2,961,600		2,961,600	
Profit and loss reserves	24	(3,011,430)		(5,428,853)	
Total equity		<u>(19,830)</u>		<u>(2,437,253)</u>	

The financial statements were approved by the board of directors and authorised for issue on 24 May 2018 and are signed on its behalf by:

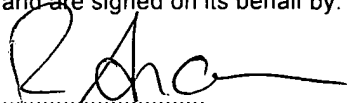


Mr R. Anderson
Director

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED**COMPANY STATEMENT OF FINANCIAL POSITION****AS AT 31 JULY 2017**

	Notes	2017 £	£	2016 £	£
Fixed assets					
Investments	13	20,279,998		20,279,998	
Current assets					
Debtors	16	3,235,598		3,126,913	
Cash at bank and in hand		168		112	
		3,235,766		3,127,025	
Creditors: amounts falling due within one year	17	(5,606,482)		(4,843,971)	
Net current liabilities		(2,370,716)		(1,716,946)	
Total assets less current liabilities		17,909,282		18,563,052	
Creditors: amounts falling due after more than one year	18	(5,000,000)		(8,500,000)	
Net assets		12,909,282		10,063,052	
Capital and reserves					
Called up share capital	23	30,000		30,000	
Profit and loss reserves	24	12,879,282		10,033,052	
Total equity		12,909,282		10,063,052	

The financial statements were approved by the board of directors and authorised for issue on 24 May 2018 and are signed on its behalf by:



Mr R. Anderson
Director

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2017

	Share capital	Other reserves	Profit and loss reserves	Total
	£	£	£	£
Balance at 1 August 2015	30,000	2,961,600	(8,860,500)	(5,868,900)
Year ended 31 July 2016:				
Profit and total comprehensive income for the year	-	-	3,431,647	3,431,647
Balance at 31 July 2016	30,000	2,961,600	(5,428,853)	(2,437,253)
Year ended 31 July 2017:				
Profit and total comprehensive income for the year	-	-	2,417,423	2,417,423
Balance at 31 July 2017	30,000	2,961,600	(3,011,430)	(19,830)

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JULY 2017

	Share capital	Profit and loss reserves	Total
	£	£	£
Balance at 1 August 2015	30,000	5,921,507	5,951,507
Year ended 31 July 2016:			
Profit and total comprehensive income for the year	-	4,111,545	4,111,545
Balance at 31 July 2016	30,000	10,033,052	10,063,052
Year ended 31 July 2017:			
Profit and total comprehensive income for the year	-	2,846,230	2,846,230
Balance at 31 July 2017	30,000	12,879,282	12,909,282

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 JULY 2017

	Notes	2017 £	£	2016 £	£
Cash flows from operating activities					
Cash generated from operations	29	2,803,790		4,864,763	
Income taxes paid		(358,644)		(629,518)	
Net cash inflow from operating activities		<u>2,445,146</u>		<u>4,235,245</u>	
Investing activities					
Purchase of tangible fixed assets		-		(1,942)	
Interest received		10,324		14,723	
Net cash generated from investing activities		<u>10,324</u>		<u>12,781</u>	
Financing activities					
Repayment of borrowings		(3,500,000)		(5,000,000)	
Net cash used in financing activities		<u>(3,500,000)</u>		<u>(5,000,000)</u>	
Net decrease in cash and cash equivalents		<u>(1,044,530)</u>		<u>(751,974)</u>	
Cash and cash equivalents at beginning of year		3,491,121		4,243,095	
Cash and cash equivalents at end of year		<u><u>2,446,591</u></u>		<u><u>3,491,121</u></u>	

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2017

1 Accounting policies

Company information

Flexible Engineered Solutions (Group) Holdings Limited ("the company") is a private company limited by shares, and is registered, domiciled and incorporated in England and Wales. The registered office is Merchant Court, North Seaton Industrial Estate, Freeman Way, Ashington, NE63 0YB.

The group consists of Flexible Engineered Solutions (Group) Holdings Limited and all of its subsidiaries.

The company's and the group's principal activities and nature of its operations are disclosed in the Directors' Report.

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.

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes as it prepares group accounts. The company's profit for the year was £2,846,230 (2016: £4,111,545).

Basis of consolidation

Where a business combination results in a change of control the results of subsidiaries acquired are consolidated for the year from which control passed. Acquisitions are accounted for under the acquisition method with goodwill, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, being written off against reserves.

Joint ventures are accounted for under the gross equity method where the group's share of the gross assets and liabilities underlying the net investment are included in the consolidated balance sheet and the group's share of the joint ventures result are included in the consolidated profit and loss account for the period.

The consolidated financial statements incorporate those of Flexible Engineered Solutions (Group) Holdings Limited and all of its subsidiary undertakings for the year.

The merger method of accounting is applied to group reconstructions as if the entities had always been combined. Accordingly, in those years when a group reconstruction takes place, the whole of the results, assets, liabilities, shareholders funds and cash flows of the merged companies are consolidated, regardless of the actual date of the group reconstruction and corresponding figures from previous years are restated.

Going concern

No material uncertainties that may cast significant doubt about the ability of the group to continue as a going concern have been identified by the directors.

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

1 Accounting policies (Continued)

Turnover

Turnover is recognised at the fair value of the consideration received or receivable for sale of goods and services in the ordinary nature of the business. Turnover is shown net of Value Added Tax, of goods and services provided to customers and, in the case of long term contracts, credit is taken appropriate to the stage of completion when the outcome of the contract can be ascertained with reasonable certainty.

Long term contracts

Long term contracts are assessed on a contract by contract basis and reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Turnover is ascertained in a manner appropriate to the stage of completion of the contract, and credit taken for profit earned to date when the outcome of the contract can be assessed with reasonable certainty. The amount by which turnover exceeds payments on account is classified as "amounts recoverable on contracts" and included in debtors; to the extent that payments on account exceed relevant turnover, the excess is included as a creditor. The amount of long term contracts, at cost net of amounts transferred to cost of sales, less provision for foreseeable losses and payments on account not matched with turnover, is included within stocks.

Intangible fixed assets - goodwill

Goodwill representing the excess of the consideration for an acquired undertaking, or acquired trade and assets, compared with fair value of net assets acquired is capitalised and written off evenly over 20 years as in the opinion of the directors this represents the period over which the goodwill is expected to give rise to economic benefits. Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Tangible fixed assets

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

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

Equipment, plant and machinery	25% reducing balance per annum
Fixtures, fittings and equipment	25% reducing balance per annum
Motor vehicles	25% reducing balance per annum

Fixed asset investments

In the separate accounts of the company, interests in subsidiaries 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.

Entities in which the group has a long term interest and shares control under a contractual arrangement are classified as jointly controlled entities.

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

1 Accounting policies (Continued)

Impairment of fixed assets

At each reporting period end date, the group reviews the carrying amounts of its tangible and intangible 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.

The carrying amount of the investments accounted for using the equity method is tested for impairment as a single asset. Any goodwill included in the carrying amount of the investment is not tested separately for impairment.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

Financial instruments

The group 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 when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and 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 trade and other 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 financial asset is measured at the present value of the future receipts discounted at a market rate of interest.

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.

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

1 Accounting policies (Continued)

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 group 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 group after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, including trade and other creditors, and loans from fellow group companies, 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.

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

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the group's contractual obligations are discharged, cancelled, or they expire.

Equity instruments

Equity instruments issued by the group are recorded at the fair value of 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 group.

Taxation

The tax expense represents the sum of the current tax expense and deferred tax expense. Current tax assets are recognised when tax paid exceeds the tax payable.

Current tax is based on taxable profit for the year. Current tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

1 Accounting policies (Continued)

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on the net basis or to realise the asset and settle the liability simultaneously.

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.

Retirement benefits

The group operates a defined contribution pension scheme for the benefit of employees. Contributions payable are charged to the profit and loss account in the year they are payable. The assets of the scheme are held separately from those of the group.

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.

Foreign exchange

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

The assets and liabilities of overseas joint ventures are translated at the exchange rate ruling at the balance sheet date. The profit and loss account of the joint venture is translated at the average exchange rate for the period. Exchange differences arising on these transactions are taken to reserves.

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

2 Judgements and key sources of estimation uncertainty

In the application of the group'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.

Revenue recognition

When assessing the recognition of turnover and costs, management make an assessment of the % complete by reference to information available to them at the time. Management consider whether the stage of completion, future costs and the collectability of billings can be reliably estimated. Turnover and costs are then recognised using these estimates. The process has an inherent level of uncertainty.

3 Turnover and other revenue

An analysis of the group's turnover is as follows:

	2017 £	2016 £
Turnover analysed by class of business		
Sale of offshore fluid transfer systems and products	10,103,268	13,409,132
	<u> </u>	<u> </u>
Other revenue		
Interest income	10,324	14,723
	<u> </u>	<u> </u>
Turnover analysed by geographical market		
	2017 £	2016 £
United Kingdom	2,152,242	2,827,818
USA	2,257,501	4,011,321
Europe (excluding United Kingdom)	5,059,326	2,099,484
Rest of the world	634,199	4,470,509
	<u> </u>	<u> </u>
	10,103,268	13,409,132
	<u> </u>	<u> </u>

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

4 Operating profit

	2017 £	2016 £
Operating profit for the year is stated after charging/(crediting):		
Exchange gains	(44,628)	(5,602)
Depreciation of owned tangible fixed assets	49,481	65,797
Amortisation of intangible assets	94,530	94,530
Operating lease charges	109,105	108,918
	<u> </u>	<u> </u>

5 Auditor's remuneration

	2017 £	2016 £
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the group	16,000	15,450
	<u> </u>	<u> </u>
For other services		
All other non-audit services	16,150	14,555
	<u> </u>	<u> </u>

6 Employees

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

	Group 2017 Number	2016 Number	Company 2017 Number	2016 Number
Directors	2	2	-	-
Office and administration	6	6	-	-
Engineers and workshop	36	36	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	44	44	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Their aggregate remuneration comprised:

	Group 2017 £	2016 £	Company 2017 £	2016 £
Wages and salaries	1,514,201	1,419,193	-	-
Social security costs	164,386	158,373	-	-
Pension costs	70,587	63,328	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	1,749,174	1,640,894	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

7 Directors' remuneration

	2017 £	2016 £
Remuneration for qualifying services	205,378	217,068

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

	2017 £	2016 £
Remuneration for qualifying services	103,760	104,445

8 Interest receivable and similar income

	2017 £	2016 £
Interest income		
Interest on bank deposits	2,089	5,228
Other interest	8,235	9,495
Total income	10,324	14,723

9 Interest payable and similar expenses

	2017 £	2016 £
Other finance costs:		
Other interest	762,500	1,058,333
Total finance costs	762,500	1,058,333

10 Taxation

	2017 £	2016 £
Current tax		
UK corporation tax on profits for the current period	748,789	1,033,577
Adjustments in respect of prior periods	(343,895)	(334,418)
Total current tax	404,894	699,159
Deferred tax		
Origination and reversal of timing differences	(112,708)	(180,708)
Total tax charge	292,186	518,451

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

10 Taxation (Continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2017 £	2016 £
Profit before taxation	2,709,609	3,950,098
Expected tax charge based on the standard rate of corporation tax in the UK of 19.67% (2016: 20.00%)	532,980	790,020
Tax effect of expenses that are not deductible in determining taxable profit	208,313	233,688
Permanent capital allowances in excess of depreciation	2,797	400
Adjustments to previous periods	(343,895)	(334,418)
Unrealised interest on loan notes	(108,009)	(171,239)
Taxation charge for the year	292,186	518,451

11 Intangible fixed assets

Group	Goodwill £
Cost	
At 1 August 2016 and 31 July 2017	1,890,603
Amortisation and impairment	
At 1 August 2016	710,205
Amortisation charged for the year	94,530
At 31 July 2017	804,735
Carrying amount	
At 31 July 2017	1,085,868
At 31 July 2016	1,180,398

The company had no intangible fixed assets at 31 July 2017 or 31 July 2016.

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

12 Tangible fixed assets

Group	Equipment, plant and machinery £	Fixtures, Motor vehicles fittings and equipment £	£	Total £
Cost				
At 1 August 2016 and 31 July 2017	404,745	209,655	70,585	684,985
Depreciation and impairment				
At 1 August 2016	308,127	127,440	51,495	487,062
Depreciation charged in the year	24,155	20,553	4,773	49,481
At 31 July 2017	332,282	147,993	56,268	536,543
Carrying amount				
At 31 July 2017	72,463	61,662	14,317	148,442
At 31 July 2016	96,618	82,216	19,090	197,924

The company had no tangible fixed assets at 31 July 2017 or 31 July 2016.

13 Fixed asset investments

	Notes	Group 2017 £	2016 £	Company 2017 £	2016 £
Investments in subsidiaries	14	-	-	20,279,998	20,279,998
Investments in joint ventures	15	(346,058)	(305,088)	-	-
		(346,058)	(305,088)	20,279,998	20,279,998

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

13 Fixed asset investments (Continued)

Movements in fixed asset investments Group

	Shares in group undertakings and participating interests £
Cost or valuation	
At 1 August 2016	(305,088)
Share of loss for year	(40,970)
At 31 July 2017	(346,058)
Carrying amount	
At 31 July 2017	(346,058)
At 31 July 2016	(305,088)

Movements in fixed asset investments Company

	Shares in group undertakings £
Cost or valuation	
At 1 August 2016 and 31 July 2017	20,279,998
Carrying amount	
At 31 July 2017	20,279,998
At 31 July 2016	20,279,998

14 Subsidiaries

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

Name of undertaking and country of incorporation or residency	Nature of business	Class of shareholding	% Held	
			Direct	Indirect
Flexible Engineered Solutions Holdings Limited	United Kingdom	Holding company	Ordinary	100.00
Flexible Engineered Solutions Limited	United Kingdom	Design and supply of offshore fluid transfer systems together with associated sub sea products and hardware	Ordinary	100.00

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

14 Subsidiaries (Continued)

The aggregate capital and reserves and the profit for the year of the subsidiaries noted above was as follows:

Name of undertaking	Profit £	Capital and Reserves £
Flexible Engineered Solutions Holdings Limited	3,500,000	2,746,000
Flexible Engineered Solutions Limited	3,204,693	10,078,244

The company's investment in Flexible Engineered Solutions Limited is through Flexible Engineered Solutions Holdings Limited.

15 Joint ventures

Details of joint ventures at 31 July 2017 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held Direct Indirect
Rematech Offshore PTE.LTD	Singapore	Agent for oil and gas	Ordinary	- 25.00

The company's investment in Rematech Offshore PTE.LTD is through Flexible Engineered Solutions Limited.

16 Debtors

	Group 2017 £	2016 £	Company 2017 £	2016 £
Amounts falling due within one year:				
Trade debtors	3,397,023	2,161,065	-	-
Amounts recoverable on long term contracts	604,798	855,002	-	-
Amounts due from fellow group undertakings	-	-	2,750,000	2,750,000
Amounts due from associate undertakings	337,865	312,865	-	-
Other debtors	1,256,182	894,145	2	2
Prepayments and accrued income	46,817	56,314	-	-
	<u>5,642,685</u>	<u>4,279,391</u>	<u>2,750,002</u>	<u>2,750,002</u>
Deferred tax asset (note 21)	476,363	363,655	485,596	376,911
	<u>6,119,048</u>	<u>4,643,046</u>	<u>3,235,598</u>	<u>3,126,913</u>

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

17 Creditors: amounts falling due within one year

	Group 2017 £	2016 £	Company 2017 £	2016 £
Payments received on account	336,506	73,151	-	-
Trade creditors	760,580	508,300	-	-
Amounts due to group undertakings	-	-	2,750,000	2,750,000
Corporation tax payable	449,066	402,816	33	22
Other taxation and social security	50,562	38,432	-	-
Other creditors	458	7,906	-	-
Accruals and deferred income	2,876,549	2,114,049	2,856,449	2,093,949
	<u>4,473,721</u>	<u>3,144,654</u>	<u>5,606,482</u>	<u>4,843,971</u>

18 Creditors: amounts falling due after more than one year

	Notes	Group 2017 £	2016 £	Company 2017 £	2016 £
Other borrowings	20	<u>5,000,000</u>	<u>8,500,000</u>	<u>5,000,000</u>	<u>8,500,000</u>

Other borrowings represents loan notes of £50,000 each, dated 24 October 2014 and with a repayment date of 24 October 2024. Interest is accrued on the principal amount of the notes outstanding at a fixed rate of 10%.

The company may repay the notes or any part of them prior to the repayment date provided note holders are given 3 business days' notice. A note holder may demand immediate repayment of the principal amount of all of their loan notes in the event of a default.

The company's obligation to repay the loan notes on the repayment date is subject to the company having sufficient cash to discharge its liabilities as and when they fall due for payment.

During the year £3,500,000 (2016: £5,000,000) was repaid.

Amounts included above which fall due after five years are as follows:

Payable other than by instalments	<u>5,000,000</u>	<u>8,500,000</u>	<u>5,000,000</u>	<u>8,500,000</u>
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FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

19 Financial instruments

	Group 2017 £	2016 £	Company 2017 £	2016 £
Carrying amount of financial assets				
Debt instruments measured at amortised cost	4,957,472	3,279,807	2,750,000	2,750,000
Equity instruments measured at cost less impairment	(346,058)	(305,088)	20,279,998	20,279,998
Carrying amount of financial liabilities				
Measured at amortised cost	8,974,093	11,203,406	10,606,449	13,343,949

20 Borrowings

	Group 2017 £	2016 £	Company 2017 £	2016 £
Other loans	5,000,000	8,500,000	5,000,000	8,500,000
Payable after one year	5,000,000	8,500,000	5,000,000	8,500,000
Amounts included above which fall due after five years:				
Payable other than by instalments	5,000,000	8,500,000	5,000,000	8,500,000

21 Deferred taxation

Deferred tax assets and liabilities are offset where the group or company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

Group	Assets 2017 £	Assets 2016 £
Accelerated capital allowances	(9,233)	(13,256)
Other short term timing differences	485,596	376,911
	476,363	363,655

FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

21 Deferred taxation (Continued)

	Assets 2017 £	Assets 2016 £
Company		
Other short term timing differences	485,596	376,911
	<u> </u>	<u> </u>
	Group 2017 £	Company 2017 £
Movements in the year:		
Liability/(asset) at 1 August 2016	(363,655)	(376,911)
Credit to profit or loss	(112,708)	(108,685)
	<u> </u>	<u> </u>
Liability/(asset) at 31 July 2017	(476,363)	(485,596)
	<u> </u>	<u> </u>

22 Retirement benefit schemes

	2017 £	2016 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	70,587	63,328
	<u> </u>	<u> </u>

A defined contribution pension scheme is operated for all qualifying employees. The assets of the scheme are held separately from those of the group in an independently administered fund.

Included within other creditors is £nil (2016: £7,484) relating to liabilities to the pension fund.

23 Share capital

	Group and company 2017 £	2016 £
Ordinary share capital		
Issued and fully paid		
30,000 Ordinary shares of £1 each	30,000	30,000
	<u> </u>	<u> </u>

The Company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the Company.

24 Reserves

Other reserves

Other reserves represent the merger reserve. The merger reserve represents the difference between the cost of investment and the nominal value of the share capital.

Profit and loss reserves

Cumulative profit and loss net of distributions to owners.

FOR THE YEAR ENDED 31 JULY 2017

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FLEXIBLE ENGINEERED SOLUTIONS (GROUP) HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 JULY 2017

27 Related party transactions (Continued)

The following amounts were outstanding at the reporting end date:

	Amounts owed by related parties	Amounts owed by related parties
	2017	2016
	Balance	Balance
	£	£
Group		
Entities with common control	591,597	892,713
Entities over which the group has control, joint control or significant influence	337,865	312,865
	<u>929,462</u>	<u>1,205,578</u>

No guarantees have been given or received.

28 Controlling party

In the opinion of the directors the company and group is controlled by Mr R Anderson and Mr I Latimer as they control 100% of the issued share capital of the company.

29 Cash generated from group operations

	2017	2016
	£	£
Profit for the year after tax	2,417,423	3,431,647
Adjustments for:		
Share of results of associates and joint ventures	40,970	3,644
Taxation charged	292,186	518,451
Finance costs	762,500	1,058,333
Investment income	(10,324)	(14,723)
Amortisation and impairment of intangible assets	94,530	94,530
Depreciation and impairment of tangible fixed assets	49,481	65,797
Movements in working capital:		
(Increase)/decrease in debtors	(1,363,293)	3,476,131
Increase/(decrease) in creditors	520,317	(3,769,047)
Cash generated from operations	<u>2,803,790</u>	<u>4,864,763</u>