

MECH-TOOL HOLDINGS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2019

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MECH-TOOL HOLDINGS LIMITED

COMPANY INFORMATION

Directors	V Garner M Garner
Company number	08832105
Registered office	Mech Tool House Whessoe Road Darlington Durham DL3 0QT
Auditor	Haines Watts Sterling House 22 St Cuthberts Way Darlington Co Durham

MECH-TOOL HOLDINGS LIMITED

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MECH-TOOL HOLDINGS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

The directors present the strategic report for the year ended 30 September 2019.

Fair review of the business

In the year to 30th September 2019 Mech-Tool Engineering and Mech-Tool Korea achieved combined sales of £13.2m, down from £31.2m in the previous year. There were a number of reasons which contributed to this significant fall in turnover. Too much senior management time was absorbed during the financial period in resolving a host of issues associated with closing out the £48m contract to supply complex fully integrated equipment housing modules to a major Kazakh project. Business development resource was focused on securing the external walls on the \$21 billion Arctic LNG project in Russia. Fabrication of walls for this project will commence in February 2020. The company did not respond quickly enough to the increased competitiveness of certain market prices. This resulted in the failures to secure expected sales for the supply of Mech-Tool's escape tunnel and heatshield products. Along with other fabrication companies based in the north-east, Mech-Tool was also unsuccessful in winning the anticipated volumes of secondary steelwork on UK offshore wind farm projects.

Operating conditions in Korea have remained difficult because the local construction yards have struggled to secure international oil and gas projects. Despite this Mech-Tool Korea returned an operating loss of only £7k on sales of £2.15m. Hence the majority of the company's total Loss before Tax of £869k is attributable to the UK activities of Mech-Tool Engineering.

At 30th September 2019 Cash at bank was £5.73m.

During the financial year slightly more than 60 percent of turnover was represented by export sales.

Over the next few years the company expects to be reasonably active on the design, engineering and supply of firewalls and blastwalls for the Arctic LNG projects to construction yards in both China and Russia. Because of the aforementioned increase in competitive market pricing of certified fire and blastwalls the company is increasing the utilisation of Mech-Tool Korea for the fabrication of cladding on European wind farm projects as well as on other international oil and gas projects. A repositioning of the company's product offering is underway so UK manufacturing capacity can be more focused on the supply of lower integrity modular buildings.

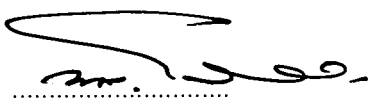
Principal risks and uncertainties

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 December 2019. 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. Garner

Director

17/12/19

MECH-TOOL HOLDINGS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2019

The directors present their annual report and financial statements for the year ended 30 September 2019.

Principal activities

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

Directors

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

V Garner

M Garner

Results and dividends

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

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

Auditor

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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;
- 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 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.

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 auditor of the company 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 auditor of the company is aware of that information.

MECH-TOOL HOLDINGS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

On behalf of the board



M Garner

Director

Date: 17/12/2019

MECH-TOOL HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MECH-TOOL HOLDINGS LIMITED

Opinion

We have audited the financial statements of Mech-Tool Holdings Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2019 which comprise the group statement of comprehensive income, the group balance sheet, the company balance sheet, the group statement of changes in equity, the company statement of changes in equity, the group statement of cash flows, the company 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 the parent company's affairs as at 30 September 2019 and of the group's loss 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

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 directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

MECH-TOOL HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED) TO THE MEMBERS OF MECH-TOOL HOLDINGS LIMITED

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.

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 where 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, 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.

MECH-TOOL HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF MECH-TOOL HOLDINGS 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

17/12/2019

Chartered Accountants and
Statutory Auditor

Sterling House
22 St Cuthberts Way
Darlington
Co Durham

MECH-TOOL HOLDINGS LIMITED

GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	2019 £	2018 £
Turnover	3	13,116,170	31,207,107
Cost of sales		(10,368,353)	(24,888,926)
Gross profit		2,747,817	6,318,181
Administrative expenses		(3,672,543)	(6,355,179)
Other operating income		7,566	110,948
Operating (loss)/profit	4	(917,160)	73,950
Interest receivable and similar income	7	1,338	6,429
Interest payable and similar expenses	8	(680)	-
(Loss)/profit before taxation		(916,502)	80,379
Tax on (loss)/profit	9	301,477	129,355
(Loss)/profit for the financial year		(615,025)	209,734

(Loss)/profit for the financial year is all attributable to the owners of the parent company.

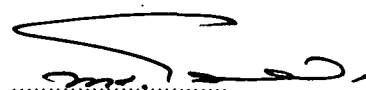
Total comprehensive income for the year is all attributable to the owners of the parent company.

MECH-TOOL HOLDINGS LIMITED

GROUP BALANCE SHEET AS AT 30 SEPTEMBER 2019

	Notes	2019 £	£	2018 £	£
Fixed assets					
Tangible assets	10		1,025,549		1,414,555
Current assets					
Stocks	14	194,218		437,611	
Debtors	15	2,778,207		10,365,581	
Cash at bank and in hand		5,970,516		3,086,007	
		<u>8,942,941</u>		<u>13,889,199</u>	
Creditors: amounts falling due within one year	16	<u>(1,701,595)</u>		<u>(6,405,823)</u>	
Net current assets			<u>7,241,346</u>		<u>7,483,376</u>
Total assets less current liabilities			<u>8,266,895</u>		<u>8,897,931</u>
Capital and reserves					
Called up share capital	19	50,502		50,502	
Other reserves		29,765		45,776	
Profit and loss reserves		8,186,628		8,801,653	
Total equity			<u>8,266,895</u>		<u>8,897,931</u>

The financial statements were approved by the board of directors and authorised for issue on 17/12/19 and are signed on its behalf by:



M Garner
Director

MECH-TOOL HOLDINGS LIMITED

COMPANY BALANCE SHEET

AS AT 30 SEPTEMBER 2019

	Notes	2019 £	£	2018 £	£
Fixed assets					
Investments	11		51,000		51,000
Current assets					
Debtors	15	502		130,502	
Creditors: amounts falling due within one year	16	<u>(1,000)</u>		<u>(131,000)</u>	
Net current liabilities			<u>(498)</u>		<u>(498)</u>
Total assets less current liabilities			<u>50,502</u>		<u>50,502</u>
Capital and reserves					
Called up share capital	19		<u>50,502</u>		<u>50,502</u>

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes. The company's profit for the year was £0 (2018 - £0 profit).

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of directors and authorised for issue on 17/12/19 and are signed on its behalf by:



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M Garner
Director

Company Registration No. 08832105

MECH-TOOL HOLDINGS LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Share capital £	Other reserves £	Profit and loss reserves £	Total £
Balance at 1 October 2017	50,502	131,283	8,591,919	8,773,704
Year ended 30 September 2018:				
Profit and total comprehensive income for the year	-	-	209,734	209,734
Transfers	-	(85,507)	-	(85,507)
Balance at 30 September 2018	50,502	45,776	8,801,653	8,897,931
Year ended 30 September 2019:				
Loss and total comprehensive income for the year	-	-	(615,025)	(615,025)
Transfers	-	(16,011)	-	(16,011)
Balance at 30 September 2019	50,502	29,765	8,186,628	8,266,895

MECH-TOOL HOLDINGS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Share capital £
Balance at 1 October 2017	50,502
Year ended 30 September 2018:	
Profit and total comprehensive income for the year	-
Balance at 30 September 2018	50,502
Year ended 30 September 2019:	
Profit and total comprehensive income for the year	-
Balance at 30 September 2019	50,502

MECH-TOOL HOLDINGS LIMITED

GROUP STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	2019 £	£	2018 £	£
Cash flows from operating activities					
Cash generated from/(absorbed by) operations	21		2,970,899		(722,739)
Interest paid			(680)		-
Income taxes (paid)/refunded			(47,561)		1,104,617
Net cash inflow from operating activities			<u>2,922,658</u>		<u>381,878</u>
Investing activities					
Purchase of tangible fixed assets		(27,505)		(32,135)	
Proceeds on disposal of tangible fixed assets		-		1,501	
Interest received		1,338		6,429	
Net cash used in investing activities			<u>(26,167)</u>		<u>(24,205)</u>
Financing activities					
Payment of finance leases obligations		(951)		(2,103)	
Net cash used in financing activities			<u>(951)</u>		<u>(2,103)</u>
Net increase in cash and cash equivalents			<u>2,895,540</u>		<u>355,570</u>
Cash and cash equivalents at beginning of year			3,086,007		2,822,014
Effect of foreign exchange rates			(11,031)		(91,577)
Cash and cash equivalents at end of year			<u><u>5,970,516</u></u>		<u><u>3,086,007</u></u>

MECH-TOOL HOLDINGS LIMITED

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Notes	2019 £	£	2018 £	£
Cash flows from operating activities					
Net increase in cash and cash equivalents			—		—
Cash and cash equivalents at beginning of year			—		—
Cash and cash equivalents at end of year			—		—

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 Accounting policies

Company information

Mech-Tool Holdings Limited ("the company") is a private limited company domiciled and incorporated in England and Wales. The registered office is Mech Tool House, Whesoe Road, Darlington, Durham, DL3 0QT.

The group consists of Mech-Tool Holdings Limited and all of its subsidiaries.

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, modified to include the revaluation of freehold properties and to include investment properties and certain financial instruments at fair value. The principal accounting policies adopted are set out below.

1.2 Basis of consolidation

In the parent company financial statements, the cost of a business combination is the fair value at the acquisition date of the assets given, equity instruments issued and liabilities incurred or assumed, plus costs directly attributable to the business combination. The excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill. The cost of the combination includes the estimated amount of contingent consideration that is probable and can be measured reliably, and is adjusted for changes in contingent consideration after the acquisition date. Provisional fair values recognised for business combinations in previous periods are adjusted retrospectively for final fair values determined in the 12 months following the acquisition date. Investments in subsidiaries, joint ventures and associates are accounted for at cost less impairment.

Deferred tax is recognised on differences between the value of assets (other than goodwill) and liabilities recognised in a business combination accounted for using the purchase method and the amounts that can be deducted or assessed for tax, considering the manner in which the carrying amount of the asset or liability is expected to be recovered or settled. The deferred tax recognised is adjusted against goodwill or negative goodwill.

The consolidated financial statements incorporate those of Mech-Tool Holdings Limited and all of its subsidiaries (ie entities that the group controls through its power to govern the financial and operating policies so as to obtain economic benefits). Subsidiaries acquired during the year are consolidated using the purchase method. Their results are incorporated from the date that control passes.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

1.3 Going concern

The company has prepared forecasts and projections that take account of reasonable possible changes in trading performance and which show that the company will continue to remain liquid with a healthy cash balance. At the time of approving the financial statement the directors therefore expect the company to continue to operate for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 Accounting policies

(Continued)

1.4 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.

Sale of goods

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

Sale of services

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

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

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

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.

Bank interest accruing on capital borrowed to fund the production of long term contracts is carried forward within long term contract balances.

1.5 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:

Leasehold land and buildings	10% on cost and 5% on cost
Plant and machinery	10% - 33% on cost
Fixtures and fittings	10% - 20% on cost
Computer equipment	33% on cost
Motor vehicles	10% - 20% on cost

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

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 Accounting policies

(Continued)

1.6 Fixed asset investments

Equity investments are measured at fair value through profit or loss, except for those equity investments that are not publicly traded and whose fair value cannot otherwise be measured reliably, which are recognised at cost less impairment until a reliable measure of fair value becomes available.

In the parent company financial statements, investments in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses.

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

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

1.7 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.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.8 Stocks

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

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

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

1.9 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.

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 Accounting policies

(Continued)

1.10 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 in the group's balance sheet 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 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.

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 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.

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 Accounting policies

(Continued)

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 group's contractual obligations expire or are discharged or cancelled.

1.11 Equity instruments

Equity instruments issued by the group 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 group.

1.12 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 group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date. Current tax assets and liabilities are offset to settle on a net basis or to realise the asset and settle the liability simultaneously.

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 Accounting policies

(Continued)

Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

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 if, and only if, there is 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.

1.13 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.

1.14 Retirement benefits

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

1.15 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at the lower of the assets fair value at the date of inception and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to profit or loss so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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 leased asset are consumed.

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1 Accounting policies

(Continued)

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 are included in the profit and loss account for the period.

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.

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

	2019 £	2018 £
Other significant revenue		
Interest income	1,338	6,429
	<u> </u>	<u> </u>
	2019 £	2018 £
Turnover analysed by geographical market		
United Kingdom	5,194,274	2,785,684
Overseas	7,921,896	28,421,423
	<u> </u>	<u> </u>
	13,116,170	31,207,107
	<u> </u>	<u> </u>

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

4 Operating (loss)/profit

	2019 £	2018 £
Operating (loss)/profit for the year is stated after charging/(crediting):		
Exchange (gains)/losses	(367,839)	22,588
Depreciation of owned tangible fixed assets	407,123	522,543
Loss on disposal of tangible fixed assets	8,615	46,460
Cost of stocks recognised as an expense	6,203,247	13,464,315
Operating lease charges	212,692	288,737
	<u> </u>	<u> </u>

5 Auditor's remuneration

	2019 £	2018 £
Fees payable to the company's auditor and associates:		
For audit services		
Audit of the financial statements of the group and company	-	-
Audit of the financial statements of the company's subsidiaries	9,500	9,500
	<u> </u>	<u> </u>

6 Employees

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

	Group 2019 Number	2018 Number	Company 2019 Number	2018 Number
Production and engineering	104	194	-	-
Administration and sales	27	29	-	-
	<u>131</u>	<u>223</u>	<u>-</u>	<u>-</u>

Their aggregate remuneration comprised:

	Group 2019 £	2018 £	Company 2019 £	2018 £
Wages and salaries	5,888,371	14,345,067	-	-
Social security costs	278,827	570,052	-	-
Pension costs	129,403	291,730	-	-
	<u>6,296,601</u>	<u>15,206,849</u>	<u>-</u>	<u>-</u>

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

7 Interest receivable and similar income

	2019 £	2018 £
Interest income		
Interest on bank deposits	1,338	2,178
Other interest income	-	4,251
	<u>1,338</u>	<u>6,429</u>
Total income	<u>1,338</u>	<u>6,429</u>
Investment income includes the following:		
Interest on financial assets not measured at fair value through profit or loss	<u>1,338</u>	<u>2,178</u>

8 Interest payable and similar expenses

	2019 £	2018 £
Other finance costs:		
Interest on finance leases and hire purchase contracts	416	-
Other interest	264	-
	<u>680</u>	<u>-</u>
Total finance costs	<u>680</u>	<u>-</u>

9 Taxation

	2019 £	2018 £
Current tax		
UK corporation tax on profits for the current period	(175,704)	(187,511)
Adjustments in respect of prior periods	(41,280)	(69,920)
	<u>(216,984)</u>	<u>(257,431)</u>
Deferred tax		
Origination and reversal of timing differences	<u>(84,493)</u>	<u>128,076</u>
Total tax credit	<u>(301,477)</u>	<u>(129,355)</u>

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

9 Taxation

(Continued)

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

	2019 £	2018 £
(Loss)/profit before taxation	(916,502)	80,379
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	(174,135)	15,272
Tax effect of expenses that are not deductible in determining taxable profit	-	190
Change in unrecognised deferred tax assets	-	45,438
Research and development tax credit	(92,238)	(380,000)
Under/(over) provided in prior years	(41,280)	-
Deferred tax adjustments in respect of prior years	6,176	189,745
Taxation credit	(301,477)	(129,355)

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

10 Tangible fixed assets

Group	Leasehold land and buildings	Plant and machinery	Fixtures and fittings	Computer equipment	Motor vehicles	Total
	£	£	£	£	£	£
Cost						
At 1 October 2018	1,359,787	2,292,116	703,419	324,152	43,693	4,723,167
Additions	-	26,230	-	1,275	-	27,505
Disposals	-	(31,535)	-	-	(33,400)	(64,935)
Exchange adjustments	(1,043)	(2,084)	(1,063)	(517)	(188)	(4,895)
At 30 September 2019	1,358,744	2,284,727	702,356	324,910	10,105	4,680,842
Depreciation and impairment						
At 1 October 2018	811,232	1,657,726	517,560	281,628	40,465	3,308,611
Depreciation charged in the year	116,026	194,148	59,763	34,990	2,196	407,123
Eliminated in respect of disposals	-	(22,920)	-	-	(33,400)	(56,320)
Exchange adjustments	(571)	(1,900)	(972)	(511)	(167)	(4,121)
At 30 September 2019	926,687	1,827,054	576,351	316,107	9,094	3,655,293
Carrying amount						
At 30 September 2019	432,057	457,673	126,005	8,803	1,011	1,025,549
At 30 September 2018	548,555	634,390	185,859	42,523	3,228	1,414,555

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

11 Fixed asset investments

	Notes	Group 2019 £	2018 £	Company 2019 £	2018 £
Investments in subsidiaries		-	-	51,000	51,000

Movements in fixed asset investments Company

	Shares in group undertakings £
Cost or valuation	
At 1 October 2018 and 30 September 2019	51,000
Carrying amount	
At 30 September 2019	51,000
At 30 September 2018	51,000

12 Subsidiaries

Details of the company's subsidiaries at 30 September 2019 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held Direct Indirect
Mech-Tool Engineering Limited	United Kingdom	Manufacturing fire and blast products	Ordinary	100.00
MTE Design Limited	United Kingdom	Dormant	Ordinary	100.00

13 Financial instruments

	Group 2019 £	2018 £	Company 2019 £	2018 £
Carrying amount of financial assets				
Debt instruments measured at amortised cost	771,151	1,764,942	502	130,502
Carrying amount of financial liabilities				
Measured at amortised cost	1,351,670	5,175,405	1,000	131,000

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 SEPTEMBER 2019

14 Stocks

	Group 2019 £	2018 £	Company 2019 £	2018 £
Raw materials and consumables	194,218	437,611	-	-

15 Debtors

	Group 2019 £	2018 £	Company 2019 £	2018 £
Amounts falling due within one year:				
Trade debtors	674,488	1,613,487	-	-
Amounts recoverable on contracts	781,368	7,031,684	-	-
Corporation tax recoverable	503,914	205,280	-	-
Other debtors	96,663	156,517	502	130,502
Prepayments and accrued income	244,111	965,443	-	-
	2,300,544	9,972,411	502	130,502
Deferred tax asset (note 17)	477,663	393,170	-	-
	2,778,207	10,365,581	502	130,502

16 Creditors: amounts falling due within one year

Notes	Group 2019 £	2018 £	Company 2019 £	2018 £
Obligations under finance leases	-	951	-	-
Payments received on account	176,728	199,104	-	-
Trade creditors	564,898	3,421,025	-	-
Corporation tax payable	38,296	-	-	-
Other taxation and social security	311,629	1,230,418	-	-
Other creditors	83,917	299,877	1,000	131,000
Accruals and deferred income	526,127	1,254,448	-	-
	1,701,595	6,405,823	1,000	131,000

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

17 Deferred taxation

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

	Assets 2019 £	Assets 2018 £
Group		
Accelerated capital allowances	(37,739)	(70,754)
Tax losses	515,402	463,924
	<u>477,663</u>	<u>393,170</u>

	Group 2019 £	Company 2019 £
Movements in the year:		
Liability/(asset) at 1 October 2018	(393,170)	-
Credit to profit or loss	(84,493)	-
	<u>(477,663)</u>	<u>-</u>
Liability/(asset) at 30 September 2019	<u>(477,663)</u>	<u>-</u>

18 Retirement benefit schemes

	2019 £	2018 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	129,403	291,730
	<u>129,403</u>	<u>291,730</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.

19 Share capital

	Group and company 2019 £	2018 £
Ordinary share capital		
Issued and fully paid		
50,002 ordinary shares of £1 each	50,002	50,002
500 ordinary shares of £1 each	500	500
	<u>50,502</u>	<u>50,502</u>

MECH-TOOL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2019

20 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel is as follows.

	2019 £	2018 £
Aggregate compensation	90,717	292,513

Transactions with related parties

During the year the group entered into the following transactions with related parties:

During the year the group paid rent of £300,613 (2018 : £300,613) to the directors and close members of the directors' family.

21 Cash generated from/(absorbed by) group operations

	2019 £	2018 £
(Loss)/profit for the year after tax	(615,025)	209,734
Adjustments for:		
Taxation credited	(301,477)	(129,355)
Finance costs	680	-
Investment income	(1,338)	(6,429)
Loss on disposal of tangible fixed assets	8,615	46,460
Depreciation and impairment of tangible fixed assets	407,123	522,543
Movements in working capital:		
Decrease in stocks	243,393	444,775
Decrease in debtors	7,970,501	2,830,944
Decrease in creditors	(4,741,573)	(4,641,411)
Cash generated from/(absorbed by) operations	2,970,899	(722,739)

22 Cash absorbed by operations - company

	2019 £	2018 £
Profit for the year after tax	-	-
Movements in working capital:		
Decrease in debtors	130,000	-
Decrease in creditors	(130,000)	-
Cash absorbed by operations	-	-