

Registered No: 1405214

Express Engineering (Oil & Gas) Limited

Report and Financial Statements

For the period ended 30 September 2016



Directors

E J Lewis
K Scott
M V Blakey
G Thirlwell
W Barclay
N Ransom

Secretary

M V Blakey

Auditors

Ernst & Young LLP
Citygate
St James' Boulevard
Newcastle upon Tyne NE1 4JD

Bankers

Lloyds Bank
102 Grey Street
Newcastle upon Tyne NE1 6AG

Solicitors

Ward Hadaway LLP
Sandgate House
102 Quayside
Newcastle upon Tyne NE1 3DX

Registered Office

Kingsway North
Team Valley Trading Estate
Gateshead
Tyne and Wear NE11 0EG

Strategic report

Principal activities and review of the business

The company's principal activity during the period was contract manufacturing of complex components and assemblies in hard metals across a number of market sectors, including, Aerospace, Defence, Gas Turbines, Nuclear and Oil & Gas.

As detailed in the profit and loss account, the company achieved an operating profit before exceptional charges of £4.3m for the period to 30 September 2016 (year to 31 March 2015: £9.6m). With £3.2m of amortisation and depreciation added back (2015: £1.6m) this equates to an EBITDA for the 18 months of £7.5m (2015: £11.2m). In the context of the continued Oil & Gas industry wide challenging market conditions, these results are encouraging and reflect the steps taken by management to reduce costs and diversify into alternative market sectors.

Due to the downturn in the global Oil & Gas market, exacerbated by the ongoing political and economic turmoil in Brazil, the directors agreed in December 2016, to close the company's Brazilian subsidiary, Petrotec Componentes de Precisão Ltda, through a managed wind-down process. All employees of Petrotec were made redundant at that time. As a result of this decision, the carrying value of the investment has been impaired to the expected realisable value of £nil, resulting in a £13.0m exceptional charge to income.

The company balance sheet remains extremely strong with net assets of £17.2m at the end of the period. External debt in the company has fallen from £7.9m to £5.1m across the period and cash has increased by £1.5m since March 2015 to £4.6m at the balance sheet date.

The directors are satisfied that the company, as part of the Express Engineering Group of companies, is in a strong position to continue to meet the exacting demands of our key accounts across all market sectors.

Future developments

For the coming year, order intake and backlog has been adversely impacted by the sharp downturn in the global Oil & Gas sector. The directors are keen to retain the skills and capabilities of the company's highly skilled workforce and therefore we believe the initial progress made into new market sectors will be maintained and will provide growth. The directors believe Express will provide the capacity and capability into these supply chains, which is required by its new key accounts.

Since the period end, Express Engineering Group has announced the consolidation of its Stokesley production facilities into its main Gateshead site. The company's trade and activities are expected to move to Gateshead by the end of September 2017, and all employees are being encouraged to transfer. This move will allow Express to increase its focus on the Aerospace & Defence markets along with Gas Turbines, Oil & Gas and Nuclear and will result in an enhanced customer experience for all the group's key accounts. The move will also see further capital investment expanding the group's already extensive machining capability and further demonstrates management's commitment to delivering high quality product to its key accounts.

On 28 April 2017, the group secured significant additional investment from its existing management and ownership base. This investment, together with a new working capital facility and a sizable debt to equity conversion hugely strengthens the group balance sheet, substantially reduces the group's interest burden and provides the funding required to further develop the group's offering in its core markets.

The directors are confident the current business plan is robust and the fundamental concepts of developing key account relationships and continuing to invest in equipment and in a highly skilled workforce to deliver high complexity, high integrity, high added value components and sub-assemblies, particularly in hard metals, will deliver enhanced value to all stakeholders. The additional investment by the existing ownership structure has made the future of the Express Engineering Group more secure; the group has a strong balance sheet with limited external debt, meaning it has the ideal footing to take advantage of future growth opportunities.

Strategic report (continued)

Principal risks and uncertainties

The principal risks and uncertainties facing the company are broadly grouped as competitive, financial instrument risk and the use of derivatives.

Competitive risks

The company competes in an open market environment. The company's customers select suppliers based on a combination of factors including price, delivery, quality and reputation. The company has mitigated these risks by, wherever possible, entering into long-term partnership agreements with a number of its key accounts. The company also monitors key performance indicators (KPI's) including on-time delivery, cost of quality and quotation conversion rates to monitor its competitive position.

Use of derivatives

Where appropriate the company enters into foreign currency forward contracts and currency swaps to mitigate any foreign currency and interest rate risk.

Financial risk management policy

The company's principal financial investments comprise cash and loans. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the company's operating activities.

The main risks associated with the company's financial assets and liabilities are set out below. The company does not undertake any hedging activity and any significant financial risks are addressed on a case-by-case basis.

Price risk

The company does not deem the exposure to price changes in their operating activity costs to be significant enough to consider any hedging activity.

Credit risk

The company has external debtors; however, the company undertakes assessments of its customers in order to ensure that credit is not extended where there is a likelihood of default.

Interest rate risk

The company has access to a floating rate interest bearing working capital facility. The company also has access to a floating rate interest earning deposit bank account. The company's interest income and expense is therefore affected by movements in interest rates. The company also enters into fixed interest rate asset finance contracts.

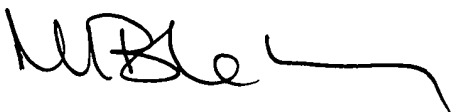
Liquidity risk

The company aims to mitigate liquidity risk by managing cash generated by its operations and applying robust cash collection procedures.

Cash flow risk

The company manages this risk, where significant, by use of derivatives as explained above.

On behalf on the Board



Michael Blakey
Director
29 June 2017

Directors' report

The directors present their report and financial statements for the period ended 30 September 2016.

Results and dividends

The loss after taxation in the period to 30 September 2016 was £9,428,184 (31 March 2015: profit of £8,044,722) and the directors have not recommended payment of a dividend leaving a loss of £9,428,184 (31 March 2015: profit of £8,044,722) to be transferred to reserves.

Directors

The directors who served during the period and since the balance sheet date were as follows:

| | |
|--------------|---------------------------|
| E J Lewis | (appointed 28 April 2017) |
| C S Thompson | (resigned 28 April 2017) |
| K Scott | |
| N Davison | (resigned 27 April 2017) |
| M V Blakey | |
| G Thirlwell | |
| W Barclay | |
| N Ransom | |

Employee involvement

The company operates a framework for employee information and consultation, which complies with the requirements of the Information and Consultation of Employees Regulations 2004. During the year, the policy of providing employees with information about the company has been continued through the weekly 'Team Brief' newsletter and the Monthly Business Updates. Regular meetings are held between management and employee representatives to allow a free flow of information and ideas. Employees participate directly in the success of the business through the company's profit sharing scheme.

Going concern

The directors have considered the company's current and future prospects and its availability of financing, and are satisfied that the company can continue to pay its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. For this reason the directors continue to adopt the going concern basis of preparation for these financial statements.

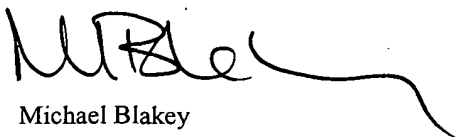
Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to re-appoint Ernst & Young LLP as the company's auditors will be put to the forthcoming Annual General Meeting.

On behalf on the Board



Michael Blakey
Director
29 June 2017

Statement of directors' responsibilities

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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Express Engineering (Oil & Gas) Limited

We have audited the financial statements of Express Engineering (Oil & Gas) Limited for the period ended 30 September 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'the Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'the Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

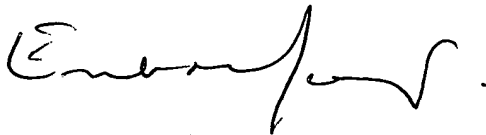
Independent auditors' report

to the members of Express Engineering (Oil & Gas) Limited (continued)

Matters on which we are required to report by exception

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

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



Mark Hatton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle upon Tyne

29 June 2017

Income Statement

for the period ended 30 September 2016

| | | 18 mths Sept 2016 £ | 12 mths Mar 2015 £ |
|---|-------|------------------------------|-----------------------------|
| | Notes | | |
| Turnover | 2 | 43,598,235 | 43,483,901 |
| Cost of sales | | 27,944,561 | 25,833,097 |
| Gross profit | | 15,653,674 | 17,650,804 |
| Administrative expenses | | 11,288,198 | 8,072,736 |
| Distribution costs | | 129,171 | 67,313 |
| | | 11,417,369 | 8,140,049 |
| Other operating income | | 4,236,305 63,475 | 9,510,755 112,218 |
| Operating profit before exceptional costs | 3 | 4,299,780 | 9,622,973 |
| Exceptional impairment of investment in associate | 8(b) | 12,997,633 | - |
| Exceptional restructuring and reorganisation costs | 3 | 1,099,858 | - |
| Operating (loss) / profit | 3 | (9,797,711) | 9,622,973 |
| Interest payable and similar charges | 6 | (300,479) | (213,744) |
| Interest receivable | | 22,168 | 5,321 |
| (Loss) / profit on ordinary activities before taxation | | (10,076,022) | 9,414,550 |
| Tax credit / (charge) on profit on ordinary activities | 7 | 647,838 | (1,369,828) |
| (Loss) / profit for the financial period / year | | (9,428,184) | 8,044,722 |

All activities of the company are continuing.

Statement of Comprehensive Income

for the period ended 30 September 2016

There is no other Comprehensive Income other than the loss attributable to the shareholders of £9,428,184 for the period ended 30 September 2016 (year to 31 March 2015: profit of £8,044,722).

Statement of Changes in Equity

for the period ended 30 September 2016

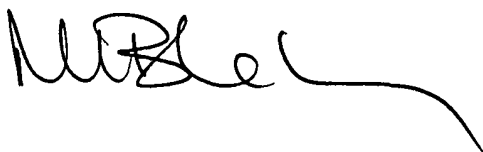
| | <i>Share Capital</i> £ | <i>Profit and loss account</i> £ | <i>Total</i> £ |
|-----------------------|-------------------------------|---|-------------------|
| At 31 March 2014 | 100,000 | 18,450,288 | 18,550,288 |
| Profit for the year | - | 8,044,722 | 8,044,722 |
| At 31 March 2015 | 100,000 | 26,495,010 | 26,595,010 |
| Profit for the period | - | (9,428,184) | (9,428,184) |
| At 30 September 2016 | 100,000 | 17,066,826 | 17,166,826 |

Statement of Financial Position

at 30 September 2016

| | Notes | Sept 2016 £ | Mar 2015 £ |
|--|-------|-------------------|-------------------|
| Fixed assets | | | |
| Intangible assets | 8(a) | - | 5,647 |
| Investment | 8(b) | - | 11,853,472 |
| Tangible assets | 9 | 9,247,007 | 11,677,394 |
| Total fixed assets | | <u>9,247,007</u> | <u>23,536,513</u> |
| Current assets | | | |
| Stocks | 10 | 2,401,641 | 6,853,116 |
| Debtors | 11 | 8,842,691 | 12,276,512 |
| Cash at bank and in hand | | 4,597,177 | 3,058,567 |
| | | <u>15,841,509</u> | <u>22,188,195</u> |
| Creditors: amounts falling due within one year | 12 | 4,319,588 | 12,891,859 |
| Net current assets | | <u>11,521,921</u> | <u>9,296,336</u> |
| Total assets less current liabilities | | <u>20,768,928</u> | <u>32,832,849</u> |
| Creditors: amounts falling due after more than one year | 13 | 3,232,058 | 5,786,873 |
| Provisions for liabilities | | | |
| Deferred taxation | 16 | 370,044 | 450,966 |
| | | <u>3,602,102</u> | <u>6,237,839</u> |
| Net assets | | <u>17,166,826</u> | <u>26,595,010</u> |
| Capital and reserves | | | |
| Called up share capital | 17 | 100,000 | 100,000 |
| Profit and loss account | | 17,066,826 | 26,495,010 |
| Equity shareholders' funds | | <u>17,166,826</u> | <u>26,595,010</u> |

The financial statements were approved by the Board of Directors on 29 June 2017 and signed on their behalf by:



Michael Blakey
Director

Notes to the financial statements

at 30 September 2016

1. Accounting policies

Statement of Compliance

Express Engineering (Oil & Gas) Limited is a limited liability company incorporated in England. The Registered Office is Kingsway North, Team Valley Trading Estate, Gateshead. Tyne and Wear, NE11 0EG. The Company's financial statements have been prepared in compliance with FRS 102, for the first time, as it applies to the financial statements of the Company for the period ended 30 September 2016. The Company transitioned from previously extant UK GAAP to FRS 102 as at 1 April 2014. An explanation of how transition to FRS102 has affected the reported financial position and financial performance is given in note 25.

In these financial statements, the company has applied the exemptions available under FRS 102 in respect of the following disclosures:

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv)
- the requirements of Section 7 Statement of Cash Flows
- the requirements of Section 11 Basic Financial Instruments paragraphs 11.39 to 11.48A
- the requirements of Section 33.7 and 33.1A Related Party Disclosures

The group in which the results of the Company are consolidated is Express Engineering (Group) Limited and financial statements are available from Kingsway North, Team Valley Trading Estate, Gateshead. Tyne and Wear, NE11 0EG.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards. The financial statements are prepared in GBP sterling which is the functional currency of the Company and rounded to the nearest £.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However the nature of estimation means that actual outcomes could differ from those estimates.

There are no key judgements in these financial statements.

Group financial statements

Group financial statements are prepared to consolidate the financial statements of Petrotec Componentes de Precisão Ltda. The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare group financial statements on the basis that it is a wholly owned subsidiary of Express Engineering (Group) Limited and is included together with Petrotec Componentes de Precisão Ltda in the group financial statements of that company. These financial statements present information about the company as an individual undertaking and not about its group.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful life, as follows:

| | | |
|------------------------|---|----------------------------|
| Leasehold improvements | - | over the life of the lease |
| Plant and machinery | - | 2 to 13 years |
| Fixtures and fittings | - | 3 to 8 years |
| Computer equipment | - | 4 to 8 years |

Notes to the financial statements

at 30 September 2016

1. Accounting policies (continued)

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying values may not be recoverable.

Deferred government grants

Government grants in respect of specific projects are credited to a deferred income account and are released to the profit and loss account over the life of the project.

Grants of a revenue nature are credited to income in the period to which they relate.

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value as follows:

- | | | |
|-------------------------------------|---|--|
| Raw materials and goods for resale | - | purchase cost on a first-in, first-out basis. |
| Work in progress and finished goods | - | cost of direct materials and labour plus attributable overheads based on a normal level of activity. |

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Leasing and hire purchase commitments

Assets held under hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The corresponding hire purchase obligation is capitalised in the balance sheet as a liability. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short term deposits with an original maturity date of three months or less.

Short term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in other operating expenses.

Turnover

Turnover represents net invoiced sales of services and recharges, excluding value added tax, derived from ordinary activities within the United Kingdom.

Notes to the financial statements

at 30 September 2016

1. Accounting policies (continued)

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date. 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 Company'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 the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Foreign currencies

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

Investments

Investments in associates are stated at cost less any provision for permanent diminution in value where appropriate.

The carrying values of fixed asset investments in associates are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Goodwill

Purchased goodwill arising on acquisitions of unincorporated businesses is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life of 30 months. It 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.

Other intangibles

Other intangibles are stated at amortised cost and are assessed for any permanent diminution in value when events or changes in circumstances indicate the carrying value may not be recoverable.

Notes to the financial statements

at 30 September 2016

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties.

The turnover and pre-tax profit is attributable to one continuing activity, namely precision engineering.

An analysis of turnover by geographical market is given below:

| | <i>18 mths Sept 2016 £</i> | <i>12 mths Mar 2015 £</i> |
|----------------|--|---------------------------------------|
| United Kingdom | 15,894,137 | 26,602,039 |
| Europe | 9,588,510 | 7,285,433 |
| Brazil | 3,958,467 | 4,601,551 |
| Rest of world | 14,157,121 | 4,994,878 |
| | <u>43,598,235</u> | <u>43,483,901</u> |

3. Operating profit

This is stated after charging/(crediting):

| | <i>18 mths Sept 2016 £</i> | <i>12 mths Mar 2015 £</i> |
|---|--|---------------------------------------|
| Auditors' remuneration - audit services | 32,000 | 28,000 |
| - non-audit services – compliance | 6,960 | 5,690 |
| Amortisation of purchased goodwill and other intangibles | 5,647 | 1,221 |
| Depreciation of owned fixed assets | 1,009,464 | 502,735 |
| Depreciation of assets held under finance leases and hire purchase contracts | 2,167,384 | 1,080,542 |
| Operating lease rentals - land and buildings | 1,145,925 | 735,867 |
| - other | 333,646 | 222,927 |
| Non-recurring reorganisation and restructuring costs | 1,099,858 | - |
| | <u>1,099,858</u> | <u>-</u> |

Notes to the financial statements

at 30 September 2016

4. Directors' emoluments

| | <i>18 mths Sept 2016 £</i> | <i>12 mths Mar 2015 £</i> |
|--|--|---------------------------------------|
| Emoluments (salaries and fees) | 471,266 | 290,543 |
| Estimated benefits in kind | 35,599 | 16,140 |
| Contributions to defined contribution pension scheme | 133,504 | 110,858 |
| | <u>640,369</u> | <u>417,541</u> |
| | <i>2016 £</i> | <i>2015 £</i> |
| Emoluments of the highest paid director | <u>170,264</u> | <u>105,738</u> |
| Company contributions paid to defined contribution pension schemes | <u>10,961</u> | <u>16,618</u> |
| The number of directors to whom retirement benefits are accruing in respect of qualifying services made: | | |
| | <i>2016 No.</i> | <i>2015 No.</i> |
| Defined contribution pension schemes | <u>4</u> | <u>4</u> |

The remaining directors are also directors of and are remunerated by, the parent undertaking, Express Engineering (Group) Limited. They do not receive any remuneration directly from the company and it is not practicable to apportion their remuneration for their services to the company. Total remuneration (including pension contributions) for their services to the entire group amounted to £553,118 (2015: £401,361).

Notes to the financial statements

at 30 September 2016

5. Staff costs

| | <i>18 mths Sept 2016 £</i> | <i>12 mths Mar 2015 £</i> |
|-----------------------|--|---------------------------------------|
| Wages and salaries | 9,925,125 | 10,146,072 |
| Social security costs | 1,078,339 | 1,102,345 |
| Other pension costs | 422,716 | 292,392 |
| | <u>11,426,180</u> | <u>11,540,809</u> |

The average monthly number of employees during the period was as follows:

| | <i>2016 No.</i> | <i>2015 No.</i> |
|----------------|---------------------|---------------------|
| Administration | 73 | 70 |
| Manufacturing | 142 | 204 |
| | <u>215</u> | <u>274</u> |

6. Interest payable and similar charges

| | <i>18 mths Sept 2016 £</i> | <i>12 mths Mar 2015 £</i> |
|---|--|---------------------------------------|
| Finance charges payable under hire purchase contracts | <u>300,479</u> | <u>213,744</u> |

Notes to the financial statements

at 30 September 2016

7. Tax on profit on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

| | <i>18 mths Sept 2016 £</i> | <i>12 mths Mar 2015 £</i> |
|--|--|---------------------------------------|
| <i>Current tax:</i> | | |
| UK Corporation tax | - | 1,218,013 |
| Tax (over)/underprovided in previous years | (566,916) | 1,540 |
| Total current tax (note 7(b)) | (566,916) | 1,219,553 |
| <i>Deferred tax:</i> | | |
| Origination and reversal of timing differences | (8,727) | 152,686 |
| Prior year adjustments | (72,195) | (2,411) |
| Deferred taxation (note 15) | (80,922) | 150,275 |
| Tax charge on profit on ordinary activities | (647,838) | 1,369,828 |

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the period is different to the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are reconciled below:

| | <i>18 mths Sept 2016 £</i> | <i>12 mths Mar 2015 £</i> |
|---|--|---------------------------------------|
| Profit on ordinary activities before tax | (10,076,022) | 9,414,550 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 21%) | (2,015,204) | 1,977,056 |
| Effect of: | | |
| Disallowable expenses/(Non-taxable income) | 2,944 | (41,513) |
| Adjustments in respect of previous periods | (639,111) | (871) |
| Impairment of investment | 2,599,527 | - |
| Group relief claimed for nil payment | (597,533) | (557,211) |
| Effect of rate differential on deferred tax movement | 1,539 | (7,633) |
| Total tax (note 7(a)) | (647,838) | 1,369,828 |

Notes to the financial statements

at 30 September 2016

7. Tax on profit on ordinary activities (continued)

(c) Factors that may affect future tax charges

The rate of Corporation Tax was reduced from 21% to 20% from 1 April 2015. Further reductions in the rate (to 19% from 1 April 2017 and to 17% from 1 April 2020) were substantively enacted on 26 October 2013 and 15 September 2016 respectively. The rate of 17% has been applied to the company's deferred tax liability at the balance sheet date.

8(a).Intangible Assets

| | <i>Purchased goodwill</i> £ | <i>Other intangibles</i> £ | <i>Total</i> £ |
|-------------------------------------|------------------------------------|-----------------------------------|-------------------|
| Cost: | | | |
| At 1 April 2015 & 30 September 2016 | 354,817 | 10,375 | 365,192 |
| Amortisation: | | | |
| At 1 April 2015 | 354,817 | 4,728 | 359,545 |
| Provided during the period | - | 5,647 | 5,647 |
| At 30 September 2016 | 354,817 | 10,375 | 365,192 |
| Net book value: | | | |
| At 30 September 2016 | - | - | - |
| At 1 April 2015 | - | 5,647 | 5,647 |

Notes to the financial statements

at 30 September 2016

8(b).Investment in subsidiary undertaking

| | <i>Sept</i> <i>2016</i> | <i>Mar</i> <i>2015</i> |
|---|----------------------------|---------------------------|
| | £ | £ |
| Equity investment in associate | 3,629,082 | 3,629,082 |
| Loans to associate | 9,368,551 | 8,224,390 |
| Less exceptional impairment of investment in associate and loans to associate | (12,997,633) | - |
| | <u>-</u> | <u>11,853,472</u> |

On 2 July 2013, Express Engineering (Oil & Gas) Limited completed the acquisition of the remaining 50% of the share capital from its joint venture partner Brastec Technologies Ltda and Petrotec is now a 100% owned subsidiary of Express Engineering (Oil & Gas) Limited.

Due to the downturn in the global Oil & Gas market, exacerbated by the ongoing political and economic turmoil in Brazil, the directors agreed, in December 2016, to close Petrotec through a managed wind-down process. All employees were made redundant at that time. As a result of this decision, the carrying value of the investment has been impaired to the expected realisable value of £nil.

Details of the investments in which the company holds at least 20% of the nominal value of any class of share capital are as follows:

| <i>Name of company</i> | <i>Country of registration</i> | <i>Holding</i> | <i>Proportion of voting rights and shares</i> | <i>Nature of business</i> |
|--|------------------------------------|----------------|---|-------------------------------|
| Petrotec Componentes de Precisão Ltda | Brazil | 100% | 100% | Engineering |

Notes to the financial statements

at 30 September 2016

9. Tangible fixed assets

| | <i>Leasehold property improvements</i> | <i>Plant and machinery</i> | <i>Fixtures, fittings and equipment</i> | <i>Total</i> |
|----------------------------|--|------------------------------------|---|--------------|
| | £ | £ | £ | £ |
| Cost: | | | | |
| At 1 April 2015 | 341,963 | 21,064,664 | 1,987,046 | 23,393,673 |
| Additions | - | 699,000 | 153,251 | 852,251 |
| Disposals | - | (161,250) | - | (161,250) |
| At 30 September 2016 | 341,963 | 21,602,414 | 2,140,297 | 24,084,674 |
| Depreciation: | | | | |
| At 1 April 2015 | 188,550 | 9,850,345 | 1,677,384 | 11,716,279 |
| Provided during the period | 65,373 | 2,942,020 | 169,453 | 3,176,846 |
| Disposals | - | (55,458) | - | (55,458) |
| At 30 September 2016 | 253,923 | 12,736,907 | 1,846,837 | 14,837,667 |
| Net book value: | | | | |
| At 30 September 2016 | 88,040 | 8,865,507 | 293,460 | 9,247,007 |
| At 1 April 2015 | 153,413 | 11,214,319 | 309,662 | 11,677,394 |

The net book value of plant and machinery above includes an amount of £7,409,822 (31 March 2015: £9,766,907) in respect of assets held under hire purchase contracts.

10. Stocks

| | <i>Sept 2016</i> | <i>Mar 2015</i> |
|-------------------------------|----------------------|---------------------|
| | £ | £ |
| Raw materials and consumables | 94,359 | 90,929 |
| Work in progress | 2,307,282 | 6,762,187 |
| | 2,401,641 | 6,853,116 |

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

Notes to the financial statements

at 30 September 2016

11. Debtors

| | <i>Sept 2016</i> | <i>Mar 2015</i> |
|-------------------------------------|----------------------|---------------------|
| | <i>£</i> | <i>£</i> |
| Trade debtors | 3,175,041 | 12,031,317 |
| Other debtors | - | 782 |
| Amounts due from group undertakings | 4,611,790 | 1,094 |
| Prepayments and accrued income | 262,505 | 243,319 |
| Corporation tax recoverable | 793,355 | - |
| | <u>8,842,691</u> | <u>12,276,512</u> |

12. Creditors: amounts falling due within one year

| | <i>Sept 2016</i> | <i>Mar 2015</i> |
|--|----------------------|---------------------|
| | <i>£</i> | <i>£</i> |
| Obligations under finance leases and hire purchase contracts (note 14) | 1,858,840 | 2,132,817 |
| Trade creditors | 927,427 | 2,994,808 |
| Other taxes and social security costs | 193,009 | 381,177 |
| Corporation tax payable | - | 470,201 |
| Other creditors | - | 20,000 |
| Deferred government grants (note 15) | 411,830 | - |
| Accruals | 928,482 | 2,592,246 |
| Amounts payable to parent undertaking | - | 4,300,610 |
| | <u>4,319,588</u> | <u>12,891,859</u> |

13. Creditors: amounts falling due after more than one year

| | <i>Sept 2016</i> | <i>Mar 2015</i> |
|--|----------------------|---------------------|
| | <i>£</i> | <i>£</i> |
| Obligations under finance leases and hire purchase contracts (note 14) | <u>3,232,058</u> | <u>5,786,873</u> |

Notes to the financial statements

at 30 September 2016

14. Obligations under hire purchase contracts

The maturity of these amounts is as follows:

| | <i>Sept</i> <i>2016</i> | <i>Mar</i> <i>2015</i> |
|---|----------------------------|---------------------------|
| | £ | £ |
| Amounts payable: | | |
| within one year | 2,036,917 | 2,385,993 |
| within two to five years | 3,291,511 | 6,068,578 |
| | <u>5,328,428</u> | <u>8,454,571</u> |
| Less: finance charges allocated to future periods | (237,530) | (534,881) |
| | <u>5,090,898</u> | <u>7,919,690</u> |

| | <i>Sept</i> <i>2016</i> | <i>Mar</i> <i>2015</i> |
|---|----------------------------|---------------------------|
| | £ | £ |
| Finance leases and hire purchase contracts are analysed as follows: | | |
| Current obligations (note 12) | 1,858,840 | 2,132,817 |
| Non-current obligations (note 13) | 3,232,058 | 5,786,873 |
| | <u>5,090,898</u> | <u>7,919,690</u> |

15. Deferred government grants

| | <i>Sept</i> <i>2016</i> | <i>Mar</i> <i>2015</i> |
|------------------------------|----------------------------|---------------------------|
| | £ | £ |
| At 1 April | - | - |
| Received in the period | 411,830 | - |
| Amortised in period (note 3) | - | - |
| | <u>411,830</u> | <u>-</u> |
| At 30 September / 31 March | <u>411,830</u> | <u>-</u> |

16. Provisions for liabilities

The movements in deferred taxation during the current period and previous years are as follows:

| | <i>Sept</i> <i>2016</i> | <i>Mar</i> <i>2015</i> |
|--|----------------------------|---------------------------|
| | £ | £ |
| At 1 April | 450,966 | 300,691 |
| Deferred taxation (credit)/charge for the year (note 7(a)) | (80,922) | 150,275 |
| | <u>370,044</u> | <u>450,966</u> |
| At 30 September / 31 March | <u>370,044</u> | <u>450,966</u> |

Notes to the financial statements

at 30 September 2016

16. Provisions for liabilities (continued)

Deferred taxation provided at 17% (2015: 20%) in the financial statements is as follows:

| | <i>Sept 2016</i> | <i>Mar 2015</i> |
|---|----------------------|---------------------|
| | <i>£</i> | <i>£</i> |
| Capital allowances in advance of depreciation | 371,981 | 490,966 |
| Other timing differences | (1,937) | (40,000) |
| | <u>370,044</u> | <u>450,966</u> |

17. Share capital

| | <i>Sept 2016</i> | <i>Mar 2015</i> |
|------------------------------------|----------------------|---------------------|
| | <i>£</i> | <i>£</i> |
| 100,000 Ordinary shares of £1 each | 100,000 | 100,000 |

18. Off Balance Sheet Commitments

The company enters into operating lease arrangements for the hire of buildings and other assets as these arrangements are a cost-effective way of obtaining the short-term benefits of these assets. The commitments under these arrangements are disclosed in Note 20. There are no other material off-balance sheet arrangements.

19. Pension commitments

The company operates a defined contribution pension scheme for its directors and employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The unpaid contributions outstanding at the year-end, included in accruals (note 12) are £15,289 (31 March 2015: £44,099).

Notes to the financial statements

at 30 September 2016

20. Other financial commitments

At 30 September 2016, the company had total future minimum rentals payable under non-cancellable operating leases as set out below:

| | <i>Land and buildings</i> | | <i>Other</i> | |
|--------------------------------|-------------------------------|------------------|----------------|----------------|
| | <i>Sept</i> | <i>Mar</i> | <i>Sept</i> | <i>Mar</i> |
| | <i>2016</i> | <i>2015</i> | <i>2016</i> | <i>2015</i> |
| | <i>£</i> | <i>£</i> | <i>£</i> | <i>£</i> |
| Operating leases which expire: | | | | |
| within one year | - | - | 29,328 | 10,105 |
| within two to five years | - | 247,708 | 233,719 | 256,497 |
| in more than five years | 5,456,225 | 6,602,150 | 53,060 | - |
| | <u>5,456,225</u> | <u>6,849,858</u> | <u>316,106</u> | <u>266,602</u> |

21. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £nil (31 March 2015: £225,207).

22. Related parties

The company has not disclosed transactions with other Group companies, as it has taken advantage of the exemption contained within FRS 102.33.1A on the grounds that the company is a wholly owned subsidiary.

23. Ultimate parent undertaking and controlling party

The company is a wholly owned subsidiary undertaking of Express Engineering (Holdings) Limited, a company registered in England. The ultimate parent undertaking is Express Engineering (Group) Limited (formerly Hamsard 3314 Limited), a company registered in England.

There is no controlling party of Express Engineering (Group) Limited

24. Contingent liabilities

The bank borrowings of the company's ultimate parent undertaking, Express Engineering (Group) Limited were secured at the balance sheet date by fixed and floating charges over the assets of that company and its subsidiary undertakings. At 30 September 2016, total bank borrowings of the group amounted to £17,238,870 (31 March 2015: £20,193,391).

On 28 April 2017, the Express Engineering (Group) Limited secured significant additional investment from its existing management and ownership base. The bank borrowings of Express Engineering (Group) Limited were fully paid off at this time and the fixed and floating charges were released.

25. Transition to FRS 102

The company transitioned to FRS 102 from previously extant UK GAAP as at 1 April 2014.

There is no impact of transition to FRS 102 at either 1 April 2014 or 1 April 2015 due to there being no significant accounting policy differences.