

Registered No: 1405214

Express Engineering (Gateshead) Limited

(formerly known as Express Engineering (Oil & Gas) Limited)

Report and Financial Statements

For the year ended 30 September 2017

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COMPANIES HOUSE

Directors

E J Lewis
K Scott
M J M Bevan
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 year 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.

On 30 June 2017 the company changed its name to Express Engineering (Gateshead) Limited.

As detailed in the income statement, the company achieved an operating loss before exceptional charges of £(1.68)m for the year to 30 September 2017 (period to 30 September 2016: profit of £4.3m). With £1.97m of depreciation added back (2016: £3.2m) this equates to an EBITDA for the year of £0.3m (2016: £7.5m). This reduction in profitability reflects the extended downturn in the Oil & Gas sector which has historically represented a significant proportion of the company's sales. Turnover for the year to September 2017 has fallen to £16.6m compared to £43.6m for the 18 months to September 2016. Gross margins for 2017 were 33% which is lower than the 36% achieved in 2016.

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 (the company's former subsidiary) through a managed wind-down process. All employees were made redundant at that time. On 28 September 2017 Petrotec was sold to its former Brazilian manager for a nominal sum. At the time of this sale an indemnity insurance policy was put in place to insure the Express Engineering Group of companies against potential labour liability claims, originating in Brazil, being brought against the UK Group companies. Under Brazilian labour laws it is possible for aggrieved, former employees to make a claim against previous shareholders, including overseas shareholders and corporate entities. Following professional advice, the directors believe the likelihood of a claim being successfully pursued in the UK courts is extremely low; the directors believe that the insurance policy fully mitigates this potential risk.

During the year, Express Engineering Group began the consolidation of its Stokesley production facilities into the company's main Gateshead site. By the year end almost all of the trade and activities from Stokesley had moved to Gateshead, with a large proportion of the employees previously employed in Stokesley also agreeing to transfer. This move allows 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. In parallel with the consolidation of operations, significant progress has been made in diversifying into new market sectors; reducing the company's reliance on the Oil & Gas sector. Key accounts continue to be developed within the Aerospace, Defence, Gas Turbine and Nuclear sectors.

The company balance sheet remains extremely strong with net assets of £15.1m. On 28 April 2017, the Express Engineering Group of companies 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. External debt in the company at the balance sheet date is only £4.8m with cash balances of £3.5m.

Future developments

Order intake and backlog are expected to see a recovery throughout calendar 2018, across all market sectors, including Oil & Gas. The directors are keen to retain the skills and capabilities of the company's highly skilled workforce and will continue to invest in equipment and training as existing and new market sectors provide growth. The directors believe Express is well placed to provide the additional capacity and strong technical capabilities required by our key accounts' supply chains.

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.

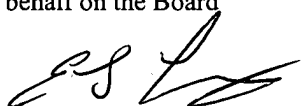
Liquidity risk

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



E J Lewis
Director
1 May 2018

Directors' report

The directors present their report and financial statements for the year ended 30 September 2017.

Results and dividends

The loss after taxation in the year to 30 September 2017 was £2,100,119 (18 months period to 30 September 2016: loss of £9,428,184) and the directors have not recommended payment of a dividend leaving a loss of £2,100,119 (18 months period to 30 September 2016: loss of £9,428,184) to be transferred to reserves.

Directors

The directors who served during the year 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	(resigned 1 February 2018)
G Thirlwell	
W Barclay	
N Ransom	
M J M Bevan	(appointed 1 February 2018)

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 regular 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.

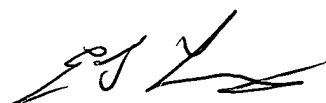
Disclosure of information to auditors

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



E J Lewis
Director
1 May 2018

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 (Gateshead) Limited

Opinion

We have audited the financial statements of Express Engineering (Gateshead) Limited for the year ended 30 September 2017 which comprise Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 25, 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 company's affairs as at 30 September 2017 and of its 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 below. 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.

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.

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 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.

Independent auditors' report

to the members of Express Engineering (Gateshead) Limited (continued)

Other information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the 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 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 company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Independent auditors' report

to the members of Express Engineering (Gateshead) Limited (continued)

Responsibilities of directors

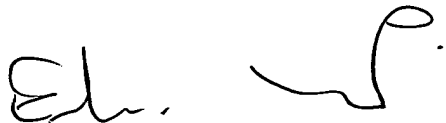
As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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



Darren Rutherford (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle upon Tyne
8 May 2018

Income Statement

for the year ended 30 September 2017

		12 mths 2017	18 mths 2016
	Notes	£	£
Turnover	2	16,619,335	43,598,235
Cost of sales		11,215,288	27,944,561
Gross profit		<u>5,404,047</u>	<u>15,653,674</u>
Administrative expenses		7,024,963	11,288,198
Distribution costs		87,431	129,171
		<u>7,112,394</u>	<u>11,417,369</u>
		(1,708,347)	4,236,305
Other operating income		30,653	63,475
Operating (loss) / profit before exceptional costs	3	<u>(1,677,694)</u>	<u>4,299,780</u>
Exceptional impairment of investment in subsidiary undertaking	8	200,000	12,997,633
Exceptional restructuring and reorganisation costs	3	451,903	1,099,858
Operating loss	3	<u>(2,329,597)</u>	<u>(9,797,711)</u>
Interest payable and similar charges	6	(186,113)	(300,479)
Interest receivable		-	22,168
Loss before taxation		<u>(2,515,710)</u>	<u>(10,076,022)</u>
Tax credit on loss	7	415,591	647,838
Loss for the financial year / period		<u><u>(2,100,119)</u></u>	<u><u>(9,428,184)</u></u>

All activities of the company are continuing.

Statement of Comprehensive Income

for the year ended 30 September 2017

There is no other Comprehensive Income other than the loss attributable to the shareholders of £2,100,119 for the year to 30 September 2017 (18 months period to 30 September 2016: loss of £9,428,184)

Statement of Changes in Equity

for the year ended 30 September 2017

	<i>Share Capital</i> £	<i>Profit and loss account</i> £	<i>Total</i> £
At 31 March 2015	100,000	26,495,010	26,595,010
Loss for the period	-	(9,428,184)	(9,428,184)
At 30 September 2016	100,000	17,066,826	17,166,826
Loss for the year	-	(2,100,119)	(2,100,119)
At 30 September 2017	100,000	14,966,707	15,066,707

Statement of Financial Position

at 30 September 2017

	<i>Notes</i>	RESTATED	
		<i>2017</i>	<i>2016</i>
		<i>£</i>	<i>£</i>
Fixed assets			
Investment	8	-	-
Tangible assets	9	7,633,028	9,247,007
Total fixed assets		<u>7,633,028</u>	<u>9,247,007</u>
Current assets			
Stocks	10	806,545	3,092,110
Debtors	11	11,269,433	8,842,691
Cash at bank and in hand		3,515,812	4,597,177
		<u>15,591,790</u>	<u>16,531,978</u>
Creditors: amounts falling due within one year	12	4,512,260	4,319,588
Net current assets		<u>11,079,530</u>	<u>12,212,390</u>
Total assets less current liabilities		<u>18,712,558</u>	<u>21,459,397</u>
Creditors: amounts falling due after more than one year	13	3,064,322	3,232,058
Provisions for liabilities			
Provisions	17	632,256	690,469
Deferred taxation	17	(50,727)	370,044
		<u>3,645,851</u>	<u>4,292,571</u>
Net assets		<u><u>15,066,707</u></u>	<u><u>17,166,826</u></u>
Capital and reserves			
Called up share capital	18	100,000	100,000
Profit and loss account	18	14,966,707	17,066,826
Equity shareholders' funds		<u><u>15,066,707</u></u>	<u><u>17,166,826</u></u>

The financial statements were approved by the Board of Directors on 1 May 2018 and signed on their behalf by:



E J Lewis
Director

Notes to the financial statements

at 30 September 2017

1. Accounting policies

Statement of Compliance

Express Engineering (Gateshead) Limited is a private limited liability company, limited by shares, 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, as it applies to the financial statements of the Company for the year ended 30 September 2017. The Company transitioned from previously extant UK GAAP to FRS 102 as at 1 April 2014.

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.

Group financial statements

Group financial statements are not 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 2017

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, subject to grant conditions being met.

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 Statement of Financial Position and are depreciated over their useful lives.

The corresponding hire purchase obligation is capitalised in the Statement of Financial Position as a liability. The interest element of the rental obligations is charged to the Income Statement 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 Income Statement 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 2017

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 Statement of Financial Position 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 Statement of Financial Position 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 Statement of Financial Position 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 Statement of Financial Position date. All differences are taken to the Income Statement.

Investments

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

The carrying values of fixed asset investments in subsidiaries 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 Statement of Financial Position 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 2017

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>12 mths</i> 2017 £	<i>18 mths</i> 2016 £
United Kingdom	5,174,444	15,894,137
Europe	5,870,359	9,588,510
Brazil	3,232,856	3,958,467
Rest of world	2,341,676	14,157,121
	<u>16,619,335</u>	<u>43,598,235</u>

3. Operating loss

This is stated after charging/(crediting):

	<i>12 mths</i> 2017 £	<i>18 mths</i> 2016 £
Auditors' remuneration - audit services	32,000	32,000
- non-audit services – tax compliance	3,060	6,960
Amortisation of purchased goodwill and other intangibles	-	5,647
Depreciation of owned fixed assets	695,842	1,009,464
Depreciation of assets held under finance leases and hire purchase contracts	1,276,547	2,167,384
Operating lease rentals - land and buildings	775,138	1,145,925
- other	153,419	333,646
Non-recurring reorganisation and restructuring costs	<u>451,903</u>	<u>1,099,858</u>

The non-recurring reorganisation and restructuring costs relate to the transfer of the trade and assets of the Group's Stokesley site, into Gateshead to enable it to consolidate operations at one site, streamlining efficiency.

Notes to the financial statements

at 30 September 2017

4. Directors' emoluments

	<i>12 mths</i>	<i>18 mths</i>
	<i>2017</i>	<i>2016</i>
	<i>£</i>	<i>£</i>
Emoluments (salaries and fees)	234,837	420,025
Estimated benefits in kind	21,516	35,599
Contributions to defined contribution pension scheme	71,934	133,504
	<u>328,287</u>	<u>589,128</u>
	<i>2017</i>	<i>2016</i>
	<i>£</i>	<i>£</i>
Emoluments of the highest paid director	90,650	154,999
	<u> </u>	<u> </u>
Company contributions paid to defined contribution pension schemes	8,000	10,961
	<u> </u>	<u> </u>
The number of directors to whom retirement benefits are accruing in respect of qualifying services made:		
	<i>2017</i>	<i>2016</i>
	<i>No.</i>	<i>No.</i>
Defined contribution pension schemes	4	4
	<u> </u>	<u> </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 £338,089 (2016: £513,163).

Notes to the financial statements

at 30 September 2017

5. Staff costs

	<i>12 mths</i> <i>2017</i> £	<i>18 mths</i> <i>2016</i> £
Wages and salaries	5,109,190	9,925,125
Social security costs	555,100	1,078,339
Other pension costs	206,832	422,716
	<u>5,871,122</u>	<u>11,426,180</u>

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

	<i>2017</i> <i>No.</i>	<i>2016</i> <i>No.</i>
Administration	56	73
Manufacturing	86	142
	<u>142</u>	<u>215</u>

6. Interest payable and similar charges

	<i>12 mths</i> <i>2017</i> £	<i>18 mths</i> <i>2016</i> £
Finance charges payable under hire purchase contracts	159,362	300,479
Interest payable on finance loans	26,751	-
	<u>186,113</u>	<u>300,479</u>

Notes to the financial statements

at 30 September 2017

7. Tax on loss

(a) Tax on loss

The tax credit is made up as follows:

	12 mths Sept 2017 £	18 mths Sept 2016 £
<i>Current tax:</i>		
UK Corporation tax	-	-
Tax (over)/underprovided in previous years	5,180	(566,916)
Total current tax (note 7(b))	5,180	(566,916)
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(392,197)	(8,727)
Prior year adjustments	(28,574)	(72,195)
Deferred taxation (note 15)	(420,771)	(80,922)
Tax credit on loss	(415,591)	(647,838)

(b) Factors affecting current tax credit

The tax assessed on the loss for the year / period is different to the standard rate of corporation tax in the UK of 19.5% (2016: 20%). The differences are reconciled below:

	12 mths Sept 2017 £	18 mths Sept 2016 £
Loss before tax	(2,515,710)	(10,076,022)
Loss multiplied by standard rate of corporation tax in the UK of 19.5% (2016: 20%)	(490,563)	(2,015,204)
Effect of:		
Disallowable expenses/(Non-taxable income)	1,690	2,944
Adjustments in respect of previous periods	(23,394)	(639,111)
Impairment of investment	39,000	2,599,527
Group relief claimed for nil payment	-	(597,533)
Effect of rate differential on deferred tax movement	57,676	1,539
Total tax (note 7(a))	(415,591)	(647,838)

Notes to the financial statements

at 30 September 2017

7. Tax on loss (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. Investment in subsidiary undertaking

	2017 £	2016 £
<i>Cost</i>		
Equity investment in subsidiary undertaking at 1 October / 1 April	3,629,082	3,629,082
Loans to subsidiary undertaking at 1 October / 1 April	9,368,551	8,224,390
	<u>12,997,633</u>	<u>11,853,472</u>
New Loans made in the year / period	200,000	1,144,161
On disposal of subsidiary undertaking	(13,197,633)	-
	<u>-</u>	<u>12,997,633</u>
<i>Provision</i>		
Provision against investment at 1 October / 1 April	(12,997,633)	-
	<u>(200,000)</u>	<u>(12,997,633)</u>
Exceptional impairment of investment in year / period	(200,000)	(12,997,633)
On disposal on subsidiary undertaking	13,197,633	-
	<u>-</u>	<u>(12,997,633)</u>
Provision against investment at 30 September	-	(12,997,633)

Petrotec Componentes de Precisão Ltda was initially established in 2009 as a joint venture between Express Engineering (Gateshead) Limited and Brastec Technologies Ltda. On 2 July 2013, Express completed the acquisition of the remaining 50% of the share capital from Brastec and Petrotec became a 100% owned subsidiary of Express Engineering (Gateshead) 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, including loans, was impaired in the period to 30 September 2016 to the expected realisable value of £nil.

During the year to 30 September 2017 a further £200,000 payment was made by Express to finance the closure costs of Petrotec, including redundancies. This balance has also been impaired to its expected realisable value of £nil.

On 28 September 2017 Petrotec was sold to its Brazilian management team for a nominal sum of R\$2.00. At the time of this sale an indemnity insurance policy was put in place to insure the Express Engineering Group of companies against potential labour liability claims, originating in Brazil, being brought against the companies in the UK. Under Brazilian labour laws it is possible for aggrieved former employees to make a claim against previous shareholders, including overseas shareholders and corporate entities. Following professional advice, the directors believe the likelihood of a claim being successfully pursued in the UK courts is extremely low; the directors believe that the insurance policy fully mitigates this potential risk.

Following the disposal of Petrotec, the company has no significant shareholdings in other companies.

Notes to the financial statements

at 30 September 2017

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 October 2016	341,963	21,602,414	2,140,297	24,084,674
Additions	10,180	543,701	54,530	608,411
Disposals	-	(1,891,713)	(177,203)	(2,068,916)
At 30 September 2017	352,143	20,254,402	2,017,624	22,624,169
Depreciation:				
At 1 October 2016	253,923	12,736,907	1,846,837	14,837,667
Provided during the year	44,091	1,791,800	136,498	1,972,389
Disposals	-	(1,686,892)	(132,023)	(1,818,915)
At 30 September 2017	298,014	12,841,815	1,851,312	14,991,141
Net book value:				
At 30 September 2017	54,129	7,412,587	166,312	7,633,028
At 1 October 2016	88,040	8,865,507	293,460	9,247,007

The net book value of plant and machinery above includes an amount of £5,606,591 (30 September 2016: £7,409,822) in respect of assets held under hire purchase contracts.

10. Stocks

	RESTATED	
	2017	2016
	£	£
Raw materials and consumables	93,065	94,359
Work in progress	713,480	2,997,751
	806,545	3,092,110

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 2017

11. Debtors

	2017 £	2016 £
Trade debtors	2,856,181	3,175,041
Amounts due from group undertakings	7,972,790	4,611,790
Prepayments and accrued income	365,995	262,505
Corporation tax recoverable	-	793,355
Other taxes recoverable	74,467	-
	<u>11,269,433</u>	<u>8,842,691</u>

12. Creditors: amounts falling due within one year

	2017 £	2016 £
Obligations under finance leases and hire purchase contracts (note 15)	1,390,310	1,858,840
Current instalments under loans (note 14)	333,859	-
Trade creditors	685,722	927,427
Other taxes and social security costs	194,696	193,009
Corporation tax payable	480,787	-
Other creditors	31,879	-
Deferred government grants (note 16)	411,830	411,830
Accruals	983,177	928,482
	<u>4,512,260</u>	<u>4,319,588</u>

The accrual balance includes a dilapidations provision of £394,549 (2016: £275,000) in relation to any costs which would have to be incurred on exit from its facilities.

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

	2017 £	2016 £
Obligations under finance leases and hire purchase contracts (note 15)	2,201,854	3,232,058
Loans (note 14)	862,468	-
	<u>3,064,322</u>	<u>3,232,058</u>

Notes to the financial statements

at 30 September 2017

14. Borrowings

	2017	2016
	£	£
Amounts payable:		
within one year	333,859	-
within two to five years	862,468	-
	<u>1,196,327</u>	<u>-</u>

The loan is a term loan facility provided in April 2017 by Shawbrook Bank Limited secured against certain plant & equipment. The facility is payable in equal monthly instalments through to April 2021 with interest being charged monthly at the Lloyds Bank plc base rate +4.50%.

In addition to the plant & equipment term loan, in April 2017 Shawbrook Bank made available an invoice finance facility which remains unutilised since inception. This facility allows up to £5m of invoice finance, subject to various concentration limits and eligibility conditions, with a discount rate of the Lloyds Bank plc base rate +2.25%.

15. Obligations under hire purchase contracts

The maturity of these amounts is as follows:

	2017	2016
	£	£
Amounts payable:		
within one year	1,505,437	2,036,917
within two to five years	2,302,753	3,291,511
	<u>3,808,190</u>	<u>5,328,428</u>
Less: finance charges allocated to future periods	(216,026)	(237,530)
	<u>3,592,164</u>	<u>5,090,898</u>

	2017	2016
	£	£
Finance leases and hire purchase contracts are analysed as follows:		
Current obligations (note 12)	1,390,310	1,858,840
Non-current obligations (note 13)	2,201,854	3,232,058
	<u>3,592,164</u>	<u>5,090,898</u>

Notes to the financial statements

at 30 September 2017

16. Deferred government grants

	2017	2016
	£	£
At 1 October / 1 April	411,830	-
Received in the year / period	-	411,830
At 30 September	411,830	411,830

17. Provisions for liabilities

The movements in warranty provision during the current year and previous period is as follows:

	2017	2016
	£	£
At 1 October / 1 April	690,469	-
Provision (credit) / charge for the year / period	(58,213)	690,469
At 30 September	632,256	690,469

The movements in deferred taxation during the current year and previous period is as follows:

	2017	2016
	£	£
At 1 October / 1 April	370,044	450,966
Deferred taxation (credit)/charge for the year / period (note 7(a))	(420,771)	(80,922)
At 30 September	(50,727)	370,044

Deferred taxation provided at 17% (2016: 17%) in the financial statements is as follows:

	2017	2016
	£	£
Capital allowances in advance of depreciation	256,358	371,981
Other timing differences	-	(1,937)
Losses	(307,085)	-
	(50,727)	370,044

Notes to the financial statements

at 30 September 2017

18. Share capital and reserves

	<i>Allotted, called up and fully paid</i>	
	2017	2016
	£	£
100,000 Ordinary shares of £1 each	100,000	100,000

The profit and loss account reserve represents cumulative comprehensive income less any dividends paid.

19. 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 21. There are no other material off-balance sheet arrangements.

20. 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 £35,767 (2016: £15,289).

21. Other financial commitments

At 30 September 2017, the company had total future minimum rentals payable under non-cancellable operating leases in the following periods as follows:

	<i>Land and buildings</i>		<i>Other</i>	
	2017	2016	2017	2016
	£	£	£	£
Operating leases which expire:				
within one year	783,130	-	125,567	29,328
within two to five years	3,708,191	-	150,580	233,718
in more than five years	289,430	5,456,225	2,714	53,060
	<u>4,780,751</u>	<u>5,456,225</u>	<u>279,132</u>	<u>316,106</u>

22. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £nil (2016: £Nil).

23. 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.

Notes to the financial statements

at 30 September 2017

24. 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, a company registered in England.

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

25. Contingent liabilities

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

At the same time Express Engineering (Gateshead) Ltd received a term loan advance of £1.4m from Shawbrook Bank Limited. This loan was secured against certain plant & equipment of the Express Engineering Group companies, including assets owned by Express Engineering (Aerospace) Ltd. Shawbrook Bank Ltd also provided an invoice finance facility to Express Engineering (Gateshead) Ltd and Express Engineering (Aerospace) Ltd that is secured at the balance sheet date by fixed and floating charges over the assets of the Group and its subsidiary undertakings.

26. Restatement of Comparative

In the accounts to 30 September 2016, the company disclosed its provision for warranty net of its stock figure in the Statement of Financial Position. In these statements, this provision has been disclosed as a separate item on the face of the Statement of Financial Position, meaning the prior year stock figure has been restated. The impact on the Statement of Financial Position is as follows: -

	2017	2016
	£	£
Current assets		
Stocks	632,256	690,469
Net current assets	632,256	690,469
Total assets less current liabilities	632,256	690,469
Provisions for liabilities		
Provisions	(632,256)	(690,469)
Net assets	-	-

There is no impact on the Income Statement of this restatement.

Detailed profit and loss account

for the year ended 30 September 2017

**UNAUDITED
NOT FOR PUBLICATION**

	<i>Notes</i>	RESTATED	
		<i>12 mths 2017</i>	<i>18 mths 2016</i>
		<i>£</i>	<i>£</i>
Sales and work done		16,619,335	43,598,235
Cost of sales			
Opening stock and WIP		3,092,110	7,543,585
Materials		2,915,424	11,202,020
Subcontract costs		712,001	2,152,012
Loose tools and plant repairs		1,353,597	2,221,103
Direct wages		3,728,402	7,476,428
Carriage and packing		220,299	441,523
		12,021,833	31,036,671
Closing stock and work in progress		806,545	3,092,110
		11,215,288	27,944,561
Gross profit		5,404,047	15,653,674
Sundry income			
Miscellaneous income		30,653	63,475
		30,653	63,475
		5,434,700	15,717,149
Overheads			
Administration expenses	1	1,388,640	2,501,845
Depreciation	2	1,972,389	3,180,787
Finance expenses	3	743,324	869,149
Property expenses	4	1,503,337	2,294,005
Staff costs	5	2,142,720	3,949,752
Exceptional impairment of investment in subsidiary undertaking		200,000	12,997,633
		7,950,410	25,793,171
Net loss for the year / period before tax		(2,515,710)	(10,076,022)

Detailed breakdown of overheads

for the year ended 30 September 2017

**UNAUDITED
NOT FOR PUBLICATION**

	<i>12 mths 2017 £</i>	<i>18 mths 2016 £</i>
1. Administration expenses		
Advertising	13,646	4,105
Audit and accountancy	7,350	18,203
Cleaning / workwear	13,176	16,659
Entertaining	9,711	22,059
IT maintenance and support	166,289	174,968
Legal and professional	38,020	70,615
Motor and travel	87,431	129,171
Operating lease rentals, other	72,833	148,712
Print, postage and stationery	27,289	49,240
Sundries	129,936	224,636
Telephone	17,692	35,920
Training	11,364	66,699
Project costs	451,903	1,099,858
Management Charges	342,000	441,000
	<u>1,388,640</u>	<u>2,501,845</u>
2. Depreciation and amortisation		
Depreciation - Leasehold land and buildings	44,091	65,373
- Plant and machinery	1,791,800	2,942,022
- Fixtures and fittings	136,498	169,453
Amortisation of purchased goodwill and other intangibles	-	5,647
Profit on sale of fixed asset	-	(1,708)
	<u>1,972,389</u>	<u>3,180,787</u>
3. Finance expenses		
Bank charges	61,464	16,780
Bank interest	-	(22,168)
Finance loan interest	26,751	-
Hire purchase interest	159,362	300,479
Foreign exchange loss / (gain)	9,747	1,058
Management Charges	486,000	573,000
	<u>743,324</u>	<u>869,149</u>
4. Property expenses		
Heat, light and power	385,662	570,274
Insurance	106,700	225,334
Rent, rates and water	1,009,897	1,496,772
Repairs and renewals	1,078	1,625
	<u>1,503,337</u>	<u>2,294,005</u>

Detailed breakdown of overheads

for the year ended 30 September 2017

UNAUDITED
NOT FOR PUBLICATION

	<i>12 mths</i>	<i>18 mths</i>
	<i>2017</i>	<i>2016</i>
	£	£
5. Staff costs		
Directors' remuneration	322,888	526,866
Directors' NIC	38,918	63,899
Directors' pension contributions	68,953	133,692
Office wages and salaries	1,561,603	3,160,921
Staff pension contributions	137,879	289,024
Medical insurance	12,479	13,855
Bonus	-	(238,505)
	<u>2,142,720</u>	<u>3,949,752</u>