

Company Registration No. 08670410 (England and Wales)

**DUTTON
MOORE**

Chartered Accountants
& Business Advisers

SPENCER ENGINEERING GROUP LIMITED
FINANCIAL STATEMENTS AND REPORTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2015



SPENCER ENGINEERING GROUP LIMITED

DIRECTORS AND ADVISERS

Directors

C. Spencer
N. Spencer
G. C. P. Gratton
G. Thornton

Company number

08670410

Registered office and business address

1 Humber Quays
Wellington Street West
Hull
East Yorkshire
HU1 2BN

Auditors

Dutton Moore
Aldgate House
1-4 Market Place
Hull
HU1 1RS

Bankers

HSBC Bank PLC
Yorkshire Corporate Banking Centre
4th Floor, City Point
29 King Street
Leeds
West Yorkshire
LS1 2HL

SPENCER ENGINEERING GROUP LIMITED

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SPENCER ENGINEERING GROUP LIMITED

STRATEGIC REPORT

FOR THE PERIOD ENDED 30 SEPTEMBER 2015

The directors present the strategic report and financial statements for the period ended 30 September 2015.

Principal activity

The principal activity of the group is the provision of multi disciplinary engineering services.

Results overview and dividends

The loss on ordinary activities before taxation for the period is £(10,890,000) (2014: profit £1,277,000). No interim dividend was paid during the period (2014: £100,000). No final dividend is proposed (2014: nil).

The loss after tax for the period is £(10,714,000) (2014: profit £1,239,000).

Business review

Reported turnover for the period is £126.0m (2014: £147.5m).

The directors aim to maintain the group's core values of quality, safety and client satisfaction whilst delivering engineering solutions tailored to our clients' requirements.

The group enjoys partnering arrangements to deliver agreed packages of work with certain clients and actively tenders for other projects. This approach and the Board's focus on sector diversification ensures that the group is not solely reliant on limited clients in a single market.

Current trading and prospects

The Board of the business has worked hard to refocus energies into delivering work across its traditional core markets of Rail, Materials Handling, Specialist Engineering Services and Design Management. Coupled with the successful financial conclusion of the Energy Works project this has meant that the business is not reliant on its relationship with one major client within the Rail sector, giving the company greater flexibility in its choosing of projects.

Works on the ground during the period ended 30 September 2015 led to a delivered turnover of £126.0m compared to £147.5m delivered turnover in the previous period ended 31 March 2014. Although this turnover is lower than previously achieved it represents a shift in Control Period spending through the major client base. Since the period end the business has secured two of the largest contracts in its history and enters the period to March 2017 with secured contracts of over £150m. Pipeline is considered by the Board to be very strong in the market with Rail and Mechanical Handling Sectors both recording opportunity growth.

Whilst the group has generated an operating loss in the trading period the Board takes comfort that this loss was generated through a small number of legacy contracts that were burdened with restrictive terms and conditions and although successfully delivered as projects were unable to be translated into commercial success.

Significant lessons have been taken from this period and include the business now maintaining a one team approach across all sectors, taking a more commercial approach to contract management, avoiding business silos and ensuring that the right team is in place to service the needs of our clients at all times. The group also continues to explore strategic options to add further services complementary to the group's portfolio.

The Energy Works development project was brought to a successful financial close on 20 November 2015 and as such has now converted into a delivery project with a substantial contract award for the Spencer Group. Whilst still highly active in the management of the overall project the company is now clearly focussed on delivering £35m of turnover through the civils contract.

SPENCER ENGINEERING GROUP LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE PERIOD ENDED 30 SEPTEMBER 2015

Review of key performance indicators

The directors monitor the following key indicators of performance:

	2015	2014
Employees and environmental		
Accident frequency rate (RIDDOR)	0.15	0.04
Percentage of working time lost due to sickness	2.2%	2.0%
Environmental orders	NIL	NIL
Order frequency		
Tenders won	25	11
Strike rate (tenders won/total tenders)	27.8%	40.7%
Financial indicators		
Turnover per employee	£363,000	£361,000
Gross profit/sales %	3.1%	7.5%
Overhead/sales %	11.1%	6.6%
Asset turnover (turnover/total assets less cash and bank balances)	3.8	4.0
Net current assets/sales %	(10.7%)	(0.2%)
Net working capital/sales %	(10.9%)	(0.8%)
Cash (outflow)	£(6,205,000)	£(2,354,000)

Cash flows and business investment

The net cash outflow for the period was £6,205,000 (2014: outflow £2,354,000) and is analysed on page 13. The group had positive bank balances totalling £0.3m and indebtedness of £19.4m at 30 September 2015, compared to positive bank balances of £1.0m and indebtedness of £15.2m at 31 March 2014. Total capital expenditure was £10.0m (2014: £0.3m).

The directors consider carefully the expected cash impact of all new contracts and capital asset acquisitions before the group formally enters into the commitment.

The group continues to enjoy high levels of repeat business through its existing blue chip client base but has also continued to strengthen this client roster by adding further blue chip customers to its client base.

SPENCER ENGINEERING GROUP LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE PERIOD ENDED 30 SEPTEMBER 2015

Business and risk management

The Board has responsibility for the group's system of internal control and for reviewing its effectiveness in safeguarding shareholders' investments and the group's assets. The role of management is to implement Board policies on risk and control which are designed to manage rather than eliminate the risk of failure to achieve business objectives.

The principal risks and challenges are reviewed by the Board at each of its scheduled meetings in order to assess whether the overall risk profile of the group is being maintained at an appropriate level. Additionally the group's auditors report to the Board any material risks identified during the annual audit.

Also the group maintains appropriate insurance cover that is reviewed each year with its insurance brokers.

Risks:

The main risks of the group, as identified by the Board are-

i. Pursuit of appropriate strategies.

Control measures include continuous monitoring of the markets in which the group operates, regular management strategic reviews, setting of budgets that represent implementation of strategies, monitoring of reported results and forecasts and holding 'lessons learned' workshops with senior staff.

ii. Retaining and recruiting the right staff.

Control measures include development of a pay and benefits package benchmarked against external comparators and investment in learning and development, including an intensive induction programme for all new management employees.

iii. Meeting the expectations of customers, on time.

Control measures include structuring of the group's customer delivery activities in line with customer classifications and core technical competences, maintaining an in-house design capability and increasing emphasis on demonstrable commitment to quality/risk management through certification and compliance with recognised standards such as ISO 9000/2000 (Quality), OHSAS 18001 (Health and Safety) and ISO 14001 (Environmental).

In addition to the above the group continues to work on being an employer of choice for both staff and our clients through a developed system of customer feedback reporting and the achievement of accreditation to standard ISO 11001 on Collaborative Working in January 2015.

iv. Maintenance of sufficient liquidity.

Control measures include preparing and monitoring forecasts of cash-flow on a regular basis, effective management of the investment in working capital, use of an Early Warning process on contracts in progress to highlight to management deviations from plan that could lead to the need for extra resources, monitoring debt and liquid funds and maintaining adequate financing facilities with the group's bankers and other finance providers.

v. Business failure of a major customer or supplier.

Control measures include giving consideration to creditworthiness of potential clients and suppliers before tender submission, ensuring that supply risk is spread wherever possible by not having a single source supplier for any key material or service, negotiating appropriate payment terms with both customers and suppliers and taking references and guarantees of performance where appropriate.

SPENCER ENGINEERING GROUP LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE PERIOD ENDED 30 SEPTEMBER 2015

Uncertainties

Whilst growth and confidence has returned to the UK economy it still sits in a relative state of flux, with the potential consequences following the recent referendum result high on the agenda of business and the public alike. The group historically is less exposed to this when compared to some of its competitors. Looking forward towards the future the group has identified a number of European based sector leads that are looking to partner with UK based engineering specialists across the core of the group's' activities and will look to take advantage of reputation and the ability to be able to react swiftly to aid in these opportunities.

The group draws its customer and supplier base from across different geographical areas and industries and has resources available to meet the requirements of secured work. The Board also consults widely and takes advice from external experts to guide its decision-making. The Board also recognises the need to maintain 'cutting edge' management information systems and continues to invest in developing the group's information technology systems and expanding their use within the group.

The directors consider that the group is well placed to manage its business risks.

By order of the board



C. Spencer
Director

22 July 2016

1 Humber Quays
Wellington Street West
Hull
East Yorkshire
HU1 2BN

SPENCER ENGINEERING GROUP LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 30 SEPTEMBER 2015

The directors present their report and financial statements for the period ended 30 September 2015.

Directors

The following directors have held office since 1 April 2014:

C. Spencer
N. Spencer
G. C. P. Gratton
G. Thornton

Financial instruments

The group's principal financial instruments comprise loan notes, bank balances, bank overdrafts, trade creditors, trade debtors and bank loans. The main purpose of these instruments is to raise funds for the group's operations and to finance the group's working capital.

Due to the nature of the financial instruments used by the group there is no exposure to price risk. The group's approach to managing other risks applicable to the financial instruments concerned is shown below.

In respect of loan notes, the interest rate is fixed at 2 1/2% per annum and the loan notes are repayable in full in 2023. The group ensures there is sufficient funds to meet the payments.

In respect of bank balances the liquidity risk is managed by maintaining a balance between the continuity of funding and flexibility through the use of overdrafts at floating rates of interest. The group makes use of money market facilities where funds are available.

In respect of bank loans the monthly repayments are fixed. The group manages the liquidity risk by ensuring there are sufficient funds to meet the payments.

Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits.

Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due.

Employee policy

The directors recognise that employees are the most important resource within the group and actively promote good working practices to maximise both performance and job satisfaction.

The directors have developed processes to ensure good communication is maintained with all areas of the business. Considerable investment has been made to develop the group Intranet which is the main conduit for news and information within the group. Feedback on all aspects of the group's operations is actively sought through formal and informal channels, including a staff opinion survey and Intranet Forums.

The directors encourage all staff to achieve personal and professional improvement. A central Training Plan identifies generic training for each staff discipline with the objective of preparing staff for the next stage of career development. Requests for additional specific training are reviewed on an individual basis and support is given to employees wishing to gain relevant recognised external qualifications. Annual staff reviews allow all aspects of performance and development to be discussed.

The group is an equal opportunities employer. Applications for employment and opportunities for promotion are considered equally regardless of age, race, sex, creed or disability.

SPENCER ENGINEERING GROUP LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE PERIOD ENDED 30 SEPTEMBER 2015

Environment, sustainability and health and safety

The group recognises that its activities as a multi-disciplinary engineering contractor can have an impact on the environment arising from the consumption of raw materials and energy, transport and emissions to air, land and water. The group continues to be committed to sustainability and is pleased to report that it has been accredited to BS 1493 and has committed to continuous reduction of its carbon footprint. Protecting and enhancing the environment by preventing pollution is regarded as an integral component of the business operations and the group works in a way to ensure this is not compromised. The directors consider the health and safety of employees, clients and suppliers to be a critical business issue. The group is, therefore, fully committed to the successful management of health and safety, the objective of which is to ensure a safe and accident free environment for all employees, suppliers and members of the public.

Political and charitable contributions

Donations to UK charities amounted to £35,000 (2014: £10,000). The group made no political donations during the period (2014: nil).

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

In addition to the general duties of directors specified in section 170 to 177 of the Act, the directors are responsible for ensuring that the group complies with laws and regulations applicable to its activities, and for establishing arrangements designed to prevent any non-compliance with laws and regulations and to detect any that occur.

SPENCER ENGINEERING GROUP LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE PERIOD ENDED 30 SEPTEMBER 2015

Statement of disclosure to auditors

So far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the group's auditors are aware of that information.

On behalf of the board



C. Spencer
Director

22 July 2016

1 Humber Quays
Wellington Street West
Hull
East Yorkshire
HU1 2BN

SPENCER ENGINEERING GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SPENCER ENGINEERING GROUP LIMITED

We have audited the financial statements of Spencer Engineering Group Limited for the period ended 30 September 2015 set out on pages 10 to 28. 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).

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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 group's and 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 Strategic Report and the Directors' Report 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 financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2015 and of the group's loss for the period 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.

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 period for which the financial statements are prepared is consistent with the financial statements.

SPENCER ENGINEERING GROUP LIMITED

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF SPENCER ENGINEERING GROUP LIMITED

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

Jonathan Waters BA FCA (Senior Statutory Auditor)
for and on behalf of Dutton Moore

22 July 2016

Chartered Accountants
Statutory Auditor

Aldgate House
1-4 Market Place
Hull
HU1 1RS

SPENCER ENGINEERING GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 30 SEPTEMBER 2015

		Period ended 30 September 2015 £000's	Period ended 31 March 2014 £000's
	Notes		
Turnover	2	125,985	147,470
Cost of sales		(122,032)	(136,337)
Gross profit		3,953	11,133
Administrative expenses		(13,938)	(9,734)
Other operating income		335	199
Operating (loss)/profit	3	(9,650)	1,598
Amounts written off	4	(1,059)	-
(Loss)/profit on ordinary activities before interest		(10,709)	1,598
Other interest receivable and similar income		-	2
Interest payable and similar charges	5	(181)	(323)
(Loss)/profit on ordinary activities before taxation		(10,890)	1,277
Tax on (loss)/profit on ordinary activities	9	176	(38)
(Loss)/profit on ordinary activities after taxation		(10,714)	1,239

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

SPENCER ENGINEERING GROUP LIMITED

STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE PERIOD ENDED 30 SEPTEMBER 2015

	Period ended 30 September 2015 £000's	Period ended 31 March 2014 £000's
(Loss)/profit for the financial period	(10,714)	1,239
Unrealised surplus on revaluation of properties	2,001	-
Total recognised gains and losses relating to the period	(8,713)	1,239

SPENCER ENGINEERING GROUP LIMITED

CONSOLIDATED AND COMPANY BALANCE SHEETS

AS AT 30 SEPTEMBER 2015

		Group		Company	
	Notes	30.09.15 £000's	31.03.14 £000's	30.09.15 £000's	31.03.14 £000's
Fixed assets					
Tangible assets	12	17,147	6,311	-	-
Investments	13	51	51	12,686	12,686
		<u>17,198</u>	<u>6,362</u>	<u>12,686</u>	<u>12,686</u>
Current assets					
Stocks	14	1,739	6,968	-	-
Debtors	15	13,866	23,292	-	-
Cash at bank and in hand		270	983	-	-
		<u>15,875</u>	<u>31,243</u>	<u>-</u>	<u>-</u>
Creditors: amounts falling due within one year	16	(29,319)	(31,508)	(605)	(344)
Net current liabilities		<u>(13,444)</u>	<u>(265)</u>	<u>(605)</u>	<u>(344)</u>
Total assets less current liabilities		<u>3,754</u>	<u>6,097</u>	<u>12,081</u>	<u>12,342</u>
Creditors: amounts falling due after more than one year	17	(13,625)	(12,500)	(12,060)	(12,500)
Accruals and deferred income	18	(5,245)	-	-	-
		<u>(15,116)</u>	<u>(6,403)</u>	<u>21</u>	<u>(158)</u>
Capital and reserves					
Called up share capital	19	21	21	21	21
Revaluation reserve	20	2,001	-	-	-
Merger reserve	20	(12,636)	(12,636)	-	-
Profit and loss account	20	(4,502)	6,212	-	(179)
Shareholders' funds	21	<u>(15,116)</u>	<u>(6,403)</u>	<u>21</u>	<u>(158)</u>

Approved by the Board and authorised for issue on 22 July 2016



C. Spencer
Director

Company Registration No. 08670410

SPENCER ENGINEERING GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD ENDED 30 SEPTEMBER 2015

			Period ended 30 September 2015 £000's	Period ended 31 March 2014 £000's
	Note	£000's	£000's	£000's
Net cash outflow from operating activities	26		(596)	(1,397)
Returns on investments and servicing of finance				
Interest received		-	2	
Interest paid		(181)	(323)	
Net cash outflow for returns on investments and servicing of finance			(181)	(321)
Taxation			(89)	(1)
Capital expenditure				
Payments to acquire tangible assets		(9,961)	(280)	
Receipts from sales of tangible assets		698	306	
Net cash (outflow)/inflow for capital expenditure			(9,263)	26
Equity dividends paid			-	(100)
Net cash outflow before management of liquid resources and financing			(10,129)	(1,793)
Financing				
New bank loan		2,700	-	
Government grant received		5,245	-	
Repayment of loan notes		(440)	-	
Repayment of bank loans		(3,581)	(561)	
Net cash inflow/(outflow) from financing			3,924	(561)
Decrease in cash in the period	27, 28		(6,205)	(2,354)

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2015

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

1.3 Basis of consolidation

The group financial statements consolidate the financial statements of the company, its subsidiary undertaking C Spencer Limited, and its sub-subsidiaries Spencer Rail Limited, Energy Works (Hull) Limited and Athena Project Services Limited, made up to 30 September 2015.

In the comparative period the creation of the new group was treated as a group reconstruction. The group financial statements have been prepared in accordance with the principles of merger accounting.

1.4 Turnover and profits

Turnover represents the value, excluding value added tax, of work performed during the period.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land and investment property are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life, as follows:

Buildings	2% per annum on cost
Construction in progress	Asset not yet in use
Plant and equipment	20% per annum on written down value
Computer equipment	50% per annum on written down value
Office equipment	20% per annum on written down value
Motor vehicles	25% per annum on written down value

Property held for investment is valued at its open market valuation. No depreciation is provided but any permanent diminution in value is charged in the period of the reduction. Investment property is not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is necessary for the accounts to give a true and fair view.

1.6 Leasing

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

1.7 Investments

Fixed asset investments, excluding investment property, are stated at cost less provision for permanent diminution in value.

1.8 Stock

Stock is valued at the lower of cost and net realisable value.

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

1 Accounting policies

(Continued)

1.9 Contracts

Contracts are classified as long or short term. The amount of profit attainable to the stage of completion of a contract is recognised on a prudent basis when the outcome can be foreseen with reasonable certainty. Provision is made for losses as soon as they are foreseen. On long-term contracts profits are recognised, if appropriate, once the contract reaches 50% completion. On short-term contracts, profits are recognised, where appropriate, once the contract reaches 20% completion.

The portion of profits recognised is discounted by a factor to recognise the uncertainties inherent until the contract achieves final completion.

The turnover for contracts reflects the value of work done, less any amounts recognised in previous years. Contract work in progress is stated at costs incurred, less those transferred to the Profit and Loss Account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

1.10 Pensions

The group operates defined contribution pension schemes. Contributions are charged to the Profit and Loss Account in accordance with the rules of the schemes.

1.11 Deferred taxation

Deferred tax is provided in full on all material timing differences which are expected to reverse and result in an obligation to pay more tax. Rates applied are consistent with current UK corporation tax legislation. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets and tax losses.

1.12 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the Profit and Loss Account.

1.13 Government grants

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

2 Turnover

The total turnover of the group for the period has been derived from its principal activity.

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

2 Turnover

(Continued)

Segmental analysis by geographical area

The analysis by geographical area of the group's turnover is set out as below:

	2015 £000's	2014 £000's
Geographical segment		
UK	122,579	143,835
Europe	3,406	3,635
	<u>125,985</u>	<u>147,470</u>

3 Operating (loss)/profit

2015 £000's	2014 £000's
----------------	----------------

Operating (loss)/profit is stated after charging:

Depreciation of tangible assets	370	312
Loss on disposal of tangible assets	58	99
Loss on foreign exchange transactions	120	2
Operating lease rentals		
- Plant and machinery	10,312	7,654
- Other assets	516	934
Fees payable to the group's auditor for the audit of the group's annual accounts	95	47
Auditors remuneration from non-audit work	29	15
	<u></u>	<u></u>

4 Amounts written off

During the period the group acquired, via Spencer Rail Limited, a controlling interest in Chase Meadow Consortium Limited and provided additional working capital finance. The project did not achieve the expected results and has now ceased. Costs written off in respect of the initial investment and the additional finance amount to £1,059,000.

5 Interest payable

2015 £000's	2014 £000's
----------------	----------------

On bank loans and overdrafts	329	124
Other interest	31	20
Other loan interest	(179)	179
	<u>181</u>	<u>323</u>

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

6	Directors' remuneration	2015 £000's	2014 £000's
	Remuneration for qualifying services	1,440	1,141
	Company pension contributions to defined contribution schemes	11	11
		<u>1,451</u>	<u>1,152</u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 1 (2014 - 1).

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

Remuneration for qualifying services	226	242
	<u>226</u>	<u>242</u>

7 Employees

Number of employees

The average monthly number of employees (including directors) during the period was:

	2015 Number	2014 Number
Administration and construction management	304	351
Construction	43	57
	<u>347</u>	<u>408</u>

Employment costs

	2015 £000's	2014 £000's
Wages and salaries	22,879	18,386
Social security costs	2,528	2,212
Other pension costs	209	153
	<u>25,616</u>	<u>20,751</u>

8 Retirement benefits

	2015 £000's	2014 £000's
Contributions payable by the group for the period	<u>209</u>	<u>153</u>

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

9	Taxation	2015 £000's	2014 £000's
	Domestic current year tax		
	U.K. corporation tax	(90)	176
	Adjustment for prior periods	(86)	(138)
	Total current tax	<u>(176)</u>	<u>38</u>
	Factors affecting the tax charge for the period		
	(Loss)/profit on ordinary activities before taxation	<u>(10,890)</u>	<u>1,277</u>
	(Loss)/profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20% (2014 - 22.32%)	<u>(2,178)</u>	<u>285</u>
	Effects of:		
	Non deductible expenses	264	58
	Capital allowances for period in excess of depreciation	(16)	(30)
	Losses brought forward	(41)	(59)
	Adjustment for change in rates	5	-
	Adjustment re previous periods	(86)	(138)
	Utilisation of tax losses	(90)	(119)
	Losses carried forward	1,966	41
		<u>2,002</u>	<u>169</u>
	Current tax charge for the period	<u>(176)</u>	<u>38</u>
10	Profit/(loss) for the financial period		
	As permitted by section 408 Companies Act 2006, the holding company's Profit and Loss Account has not been included in these financial statements. The profit/(loss) for the financial period ended 30 September 2015 and the comparative period from incorporation on 30 August 2013 to 31 March 2014 is made up as follows:		
		2015 £000's	2014 £000's
	Holding company's profit/(loss) for the financial period	<u>179</u>	<u>(179)</u>

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

11 Dividends	2015 £000's	2014 £000's
Dividends on equity shares:		
Ordinary interim paid	-	100

C Spencer Limited paid an ordinary dividend of £100,000 in the comparative period before the group reconstruction.

12 Tangible fixed assets

Group	Land and buildings £000's	Construction in progress £000's	Plant and equipment £000's	Office equipment £000's	Motor vehicles £000's	Total £000's
Cost or valuation						
At 1 April 2014	5,556	-	2,810	1,283	925	10,574
Additions	-	9,851	25	85	-	9,961
Revaluation	1,834	-	-	-	-	1,834
Disposals	(715)	-	(388)	(2)	(272)	(1,377)
At 30 September 2015	6,675	9,851	2,447	1,366	653	20,992
Depreciation						
At 1 April 2014	98	-	2,288	1,050	827	4,263
Revaluation	(167)	-	-	-	-	(167)
On disposals	-	-	(363)	(1)	(257)	(621)
Charge for the period	69	-	153	115	33	370
At 30 September 2015	-	-	2,078	1,164	603	3,845
Net book value						
At 30 September 2015	6,675	9,851	369	202	50	17,147
At 31 March 2014	5,458	-	522	233	98	6,311

The freehold land and buildings of the group were independently valued in 2015 on an open market basis, by Knight Frank LLP. The valuation was carried out in accordance with the Royal Institute of Chartered Surveyors Recommendations.

At 31 March 2014 the net book value of land and buildings included investment property with a cost of £715,000. This property was sold during the period.

On a historical cost basis the net book value value of freehold land and buildings carried at a valuation is £4,674,000 (2014: £5,458,000) comprising cost of £4,841,000 (2014: £5,556,000) and related depreciation of £167,000 (2014: £98,000).

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

13 Fixed asset investments Group

	Unlisted investments £000's
Cost	
At 1 April 2014	51
Additions	582
	<hr/>
At 30 September 2015	633
	<hr/>
Provisions for diminution in value	
At 1 April 2014	-
Charge for the period	582
	<hr/>
At 30 September 2015	582
	<hr/>
Net book value	
At 30 September 2015	51
	<hr/>
At 31 March 2014	51
	<hr/>

Unlisted investments comprise investments in subsidiary undertakings that have been excluded from the consolidated accounts. In the opinion of the directors, the aggregate value of the company's investment in these undertakings is not less than the amount included in the balance sheet.

Company

	Shares in group undertakings £000's
Cost	
At 1 April 2014 & at 30 September 2015	12,686
	<hr/>
Net book value	
At 30 September 2015	12,686
	<hr/>
At 31 March 2014	12,686
	<hr/>

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

The cost of the original investment in its subsidiary C Spencer Limited in the previous period was reduced by £20,479,500 due to merger relief.

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

13 Fixed asset investments

(Continued)

Companies excluded from the consolidation

The following companies have been excluded from the consolidation on the basis that, both individually and in aggregate, they are not material.

Company	Country of registration or incorporation	Shares held	
		Class	%
Subsidiaries of C Spencer Limited			
Darkstar Energy Limited	England	Ordinary	100.00
Brawley Construction Limited	England	Ordinary	50.00
Spencer Professional Services Limited	England	Ordinary	100.00
Spencer Engineering and Construction Ltd	England	Ordinary	100.00
Spencer Digital Services Ltd	England	Ordinary	100.00
Spencer Power and Process Limited	England	Ordinary	100.00
Spencer Resources Limited	England	Ordinary	100.00
Slipform Engineering Limited	England	Ordinary	100.00

The principal activity, capital and reserves, and results for the period for these undertakings for the last relevant financial period were as follows:

	Principal activity	Capital and reserves 2015 £	Profit for the period 2015 £
Darkstar Energy Limited	Solar panel installer	(89)	27
Brawley Construction Limited	Non-trading	105,632	-
Spencer Professional Services Limited	Non-trading	100	-
Spencer Engineering and Construction Ltd	Non-trading	100	-
Spencer Digital Services Ltd	Non-trading	100	-
Spencer Power and Process Limited	Non-trading	100	-
Spencer Resources Limited	Non-trading	100	-
Slipform Engineering Limited	Non-trading	100	-

14 Stocks

	Group		Company	
	2015 £000's	2014 £000's	2015 £000's	2014 £000's
Contract balances	1,660	6,889	-	-
Finished goods and goods for resale	79	79	-	-
	<u>1,739</u>	<u>6,968</u>	<u>-</u>	<u>-</u>

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

15 Debtors

	Group 2015 £000's	2014 £000's	Company 2015 £000's	2014 £000's
Trade debtors	6,598	11,888	-	-
Amounts recoverable on contracts	4,652	10,499	-	-
Amounts owed by related undertakings	-	66	-	-
Corporation tax	90	-	-	-
Other debtors	1,793	231	-	-
Prepayments and accrued income	733	608	-	-
	<u>13,866</u>	<u>23,292</u>	<u>-</u>	<u>-</u>

Amounts falling due after more than one year
and included in the debtors above are:

	2015 £000's	2014 £000's	2015 £000's	2014 £000's
Trade debtors	<u>106</u>	<u>355</u>	<u>-</u>	<u>-</u>

16 Creditors : amounts falling due within one year

	Group 2015 £000's	2014 £000's	Company 2015 £000's	2014 £000's
Bank loan and overdraft	5,762	2,716	-	-
Trade creditors	20,425	25,027	-	-
Amounts owed to group undertakings	-	-	605	165
Corporation tax	-	175	-	-
Taxes and social security costs	2,195	2,634	-	-
Other creditors	66	66	-	-
Accruals and deferred income	871	890	-	179
	<u>29,319</u>	<u>31,508</u>	<u>605</u>	<u>344</u>

Included in creditors amounts falling due within one year are secured creditors of £5,762,000 (2014: £2,716,000). HSBC Bank plc holds a debenture and charges over group assets. During the period the existing bank loan was repaid and a new bank loan of £2,700,000 taken out.

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

17 Creditors : amounts falling due after more than one year

	Group 2015 £000's	2014 £000's	Company 2015 £000's	2014 £000's
Bank loans	1,565	-	-	-
Other loan	12,060	12,500	12,060	12,500
	<u>13,625</u>	<u>12,500</u>	<u>12,060</u>	<u>12,500</u>
Analysis of loans				
Total loans	13,895	15,216	12,060	12,500
Included in current liabilities	(270)	(2,716)	-	-
	<u>13,625</u>	<u>12,500</u>	<u>12,060</u>	<u>12,500</u>
Loan maturity analysis				
In more than one year but not more than two years	270	-	-	-
In more than two years but not more than five years	810	-	-	-
In more than five years	12,545	12,500	12,060	12,500
	<u>13,625</u>	<u>12,500</u>	<u>12,060</u>	<u>12,500</u>

The other loan is unsecured and bears interest at a fixed rate of 2.5%. The loan is repayable in full on 3 September 2023 and was issued as part of the group reconstruction in 2014.

18 Accruals and deferred income

Group	Government grants £000's
Grants received during the period	5,245
Balance at 30 September 2015	<u>5,245</u>

19 Share capital

	2015 £000's	2014 £000's
Allotted, called up and fully paid 20,502 Ordinary shares of £1 each	<u>21</u>	<u>21</u>

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

20 Statement of movements on reserves Group

	Revaluation reserve £000's	Other reserves (see below) £000's	Profit and loss account £000's
Balance at 1 April 2014	-	(12,636)	6,212
Loss for the period	-	-	(10,714)
Revaluation during the period	2,001	-	-
Balance at 30 September 2015	<u>2,001</u>	<u>(12,636)</u>	<u>(4,502)</u>

Other reserves

Merger reserve

Balance at 1 April 2014 & at 30 September 2015	<u>(12,636)</u>
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Company

	Profit and loss account £000's
Balance at 1 April 2014	(179)
Profit for the period	179
Balance at 30 September 2015	<u>-</u>

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

21 Reconciliation of movements in shareholders' funds	2015	2014
Group	£000's	£000's
(Loss)/profit for the financial period	(10,714)	1,239
Dividends	-	(100)
	<u>(10,714)</u>	<u>1,139</u>
Other recognised gains and losses	2,001	-
	<u>(8,713)</u>	<u>1,139</u>
Net (depletion in)/addition to shareholders' funds	<u>(6,403)</u>	<u>(7,542)</u>
Opening shareholders' funds	<u>(15,116)</u>	<u>(6,403)</u>
Closing shareholders' funds		
Company	2015	2014
	£000's	£000's
Profit/(loss) for the financial period	179	(179)
Issue of Ordinary shares of £1 each	-	21
	<u>179</u>	<u>(158)</u>
Net addition to/(depletion in) shareholders' funds	<u>(158)</u>	-
Opening shareholders' funds	<u>21</u>	<u>(158)</u>
Closing shareholders' funds		

22 Contingent liabilities

The company's subsidiary, C Spencer Limited, has given performance bonds and guarantees in the normal course of trading.

The bank holds an unlimited multilateral guarantee in respect of C Spencer Limited, its subsidiary undertaking Darkstar Energy Limited and its related undertakings Asbestos Awareness and Identification Services Limited and Outsource Resource Limited, in respect of bank borrowings.

Included within cash at bank and in hand is £269,000 pledged as security for a bond on an ongoing contract. The cash is held by a third party and has restricted access.

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

23 Financial commitments

At 30 September 2015 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2015	2014	2015	2014
	£000's	£000's	£000's	£000's
Expiry date:				
Within one year	316	753	167	39
Between two and five years	200	125	376	643
In over five years	-	56	-	-
	<u>516</u>	<u>934</u>	<u>543</u>	<u>682</u>

At 30 September 2015 the group had no contracted capital commitments.

24 Post Balance Sheet Events

On 20 November 2015 the group sold Energy Works (Hull) Limited.

25 Controlling interest

The company is controlled by Mr C. Spencer.

26 Reconciliation of operating (loss)/profit to net cash outflow from operating activities

	2015	2014
	£000's	£000's
Operating (loss)/profit	(9,650)	1,598
Depreciation of tangible assets	370	312
Loss on disposal of tangible assets	58	99
Decrease/(increase) in stocks	5,229	(6,134)
Decrease/(increase) in debtors	9,516	(4,430)
(Decrease)/Increase in creditors within one year	(5,060)	5,840
Reclassification of fixed assets	-	1,318
Amounts written off	(1,059)	-
Net cash outflow from operating activities	<u>(596)</u>	<u>(1,397)</u>

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 SEPTEMBER 2015

27	Analysis of net debt	1 April 2014	Cash flow	Other non-	30 September
		£000's	£000's	cash changes	2015
				£000's	£000's
	Net cash:				
	Cash at bank and in hand	983	(713)	-	270
	Bank overdrafts	-	(5,492)	-	(5,492)
		<u>983</u>	<u>(6,205)</u>	<u>-</u>	<u>(5,222)</u>
	Bank loan	(2,716)	881	-	(1,835)
	Loan notes	(12,500)	440	-	(12,060)
		<u>(15,216)</u>	<u>1,321</u>	<u>-</u>	<u>(13,895)</u>
	Net debt	<u>(14,233)</u>	<u>(4,884)</u>	<u>-</u>	<u>(19,117)</u>
28	Reconciliation of net cash flow to movement in net debt			2015	2014
				£000's	£000's
	Decrease in cash in the period			(6,205)	(2,354)
	Cash outflow from decrease in debt			1,321	561
	Movement in net debt in the period			<u>(4,884)</u>	<u>(1,793)</u>
	Opening net debt			(14,233)	(12,440)
	Closing net debt			<u>(19,117)</u>	<u>(14,233)</u>

SPENCER ENGINEERING GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **FOR THE PERIOD ENDED 30 SEPTEMBER 2015**

29 Related party transactions

a) At 30 September 2015 the group owed £55,278 (2014: £55,278) to Brawley Construction Limited and was owed £378 (2014: £361) by Darkstar Energy Limited, both group undertakings being excluded from the consolidated accounts.

b) At 30 September 2015 the group was owed £65,094 (2014: £65,094) by C Spencer Environmental Limited, a related undertaking, controlled by Mr C. Spencer.

c) At 30 September 2015 the group owed £2,740 (2014: £2,740) and £7,491 (2014: £7,491) to Asbestos Awareness And Identification Services Limited and Outsource Resource Limited respectively, both related undertakings being controlled by Mr C. Spencer.

d) At 30 September 2015 the group had recharged costs of £267,968 to XER Limited, a related undertaking controlled by Mr C. Spencer. The balance due from the related party at 30 September 2015 was £267,968 (2014: nil).

e) During the period the group undertook the following other related party transactions:

- The group paid rent of £40,000 (2014: £40,000) for the provision of premises to The Spencer Trust, the beneficiaries of whom are Mr C. Spencer and Mrs N. Spencer.
- The group paid £76,200 (2014: £27,300) in respect of marketing services to Miss K. Spencer, the daughter of Mr C. Spencer.
- The group redeemed loan notes of £440,000 held by the director, Mrs N. Spencer. During the previous period interest of £179,000 was payable to Mrs N. Spencer in respect of the unsecured loan notes, this balance being outstanding at 31 March 2014. During the current period this interest was waived and written back to the Profit and Loss Account.
- The group sold an investment property to Mr C. Spencer and Mrs N. Spencer for £420,000.