

Vacuum Furnace Engineering Limited

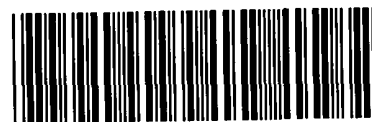
Report and Financial Statements

Year Ended

31 December 2016

Company Number 01920664

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Vacuum Furnace Engineering Limited

**Report and financial statements
for the year ended 31 December 2016**

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Directors

R Kishor
S Lees
K Masters
K Potter
J Jepson
S Nicholson
G Nicholson
S Schmidt-Chiari
D Hartland

Registered office

Unit 8 Hingley Road, Hayes Industrial Estate, Halesowen, West Midlands, B63 2RR

Company number

01920664

Auditors

BOO LLP Two Snowhill, Birmingham, B4 6GA

Vacuum Furnace Engineering Limited

Strategic report for the year ended 31 December 2016

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2016.

Business review

We aim to present a balanced and comprehensive review of the development and performance of the business during the year and its position at the year end. Our review is consistent with the size and non-complex nature of the business and is written in the context of the risks and uncertainties we face.

Primary markets for the company continue to be aerospace, power generation and the general heat treatment sector. In August 2016, we acquired the trade, assets and undertaking of Autoclave and Industrial Controls Limited and in December 2016, we also acquired the controls part of the AIC business. These acquisitions comprised a service and calibration business, a small amount of inventory and fixed assets but the key part of the acquisition was the exclusive rights to and use of the next generation of autoclave control system which can be sold with new autoclaves or retrospectively installed onto existing autoclaves. We expect this to be a significant opportunity to grow the business over the next 3 years. AIC shares a significant number of common customers and also provides opportunities in other markets such as motorsport and the wider composites industry.

Demand continues to grow globally for our service based solutions and has benefitted from the complimentary service provided by vacuum pump maintenance division established in 2015. This integrated service delivery has been well received by our client base and is demonstrated through the renewal of existing maintenance contracts as well of winning new orders.

2016 was a year of on-going investment in the business with the acquisition of AIC as well as investment in the existing Halesowen site in order to provide a platform for growth in the coming years. This resulted in an increase in the company's cost base in preparation for the anticipated growth. The level of growth in 2016 was not as high as we hoped for so the increased cost base has contributed to a reduction in profits.

We have successfully integrated AIC into the business following the acquisition so all divisions are now utilising the IT systems implemented during 2015.

The outlook for 2017 and beyond is for strong growth levels as our quotation pipeline and other key performance indicators indicate good progress in both the vacuum furnace and autoclave businesses. We are confident that we have the skills and expertise to take advantage of this growth opportunity.

The company continues to have a strong balance sheet with net current assets of £2,307,297 (2015 - £2,162,707) and has the support of its parent undertakings.

Principal risks and uncertainties

The board has overall responsibility for ensuring that risks are effectively managed. The risk management process is designed to identify, evaluate and manage any significant risks that the company faces.

The principal risks and uncertainties facing the company are the turbulence in the financial markets, competition from the UK and abroad and changes in macro-economic conditions. Global markets and economic conditions have been challenging with tighter credit conditions and slower growth in most major economies during the last few years. Although signs of recovery exist, there are continued concerns about government austerity measures, bank debts, the availability and cost of credit and geographical issues that all contribute to increased market volatility.

In addition, availability of sufficient skilled labour is a risk that the board is managing through recruitment and retention is being closely addressed.

Vacuum Furnace Engineering Limited

Strategic report for the year ended 31 December 2016 (continued)

With these risks and uncertainties in mind, we are aware that plans for the future development of the business may be subject to unforeseen future events outside of our control.

Nevertheless the company is now Europe's largest leading specialist in the supply, design, overhaul and service of vacuum furnaces and autoclaves

Financial risk management

The company has an established approach to the management of financial risks. The company's activities expose it to a variety of financial risks, including credit, liquidity, cash flow foreign exchange and interest rate risks. The company has adopted risk management policies that seek to mitigate these risks in a cost effective manner. The policies set by the Board of Directors are implemented by the company's finance department.

Liquidity / cash flow risk

We monitor cash flow on a daily and long term basis ensuring that there is always sufficient liquidity to meet all upcoming financial commitments. We take a prudent view of the projected future cash flows in order to minimise downside risk.

Credit risk

We have a customer base which includes a number of large well known organisations. However, despite this, for all new customers, we conduct a thorough credit investigation and set customer credit limits or payment terms accordingly. These are subsequently monitored so that timely action can be taken if any issues emerge. The company has not experienced significant bad debts and has therefore opted not to utilise credit insurance.

Foreign exchange risk

We have a number of customers and suppliers who trade in currencies other than sterling (predominantly Euro and US Dollars) so have a level of natural hedge although the company has no formal hedging policy in place. If the proportion of sales and purchases in a particular currency was to increase, the company would consider implementing a hedging policy.

Interest rate risk

We have a revolving credit facility which bears interest at variable rates. The finance department monitor future interest yield curves and will consider the use of interest rate derivatives if appropriate.

Key performance indicators

Our key performance indicators measure the financial performance and strength of the company, these being turnover, gross margin and profitability. In addition, the board focus closely on quotations, orders and cash generation.

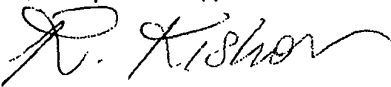
Turnover for the year has increased by 16% compared with the previous year (9% excluding the impact of AIC).

Gross profit has increased by £475,733 and the gross margin from 27.1% to 27.3%.

Profit before tax of £218,054 has decreased by £537,553 year on year due to the restructuring costs and costs associated with the acquisition of AIC.

The overall order book remains healthy and the board believes that the continued investment in sales and marketing will further strengthen the company's ability to increase market share.

This report was approved by the board on 30 October 2017 and signed on its behalf.



R Kishor
Director

Vacuum Furnace Engineering Limited

Report of the directors for the year ended 31 December 2016

The directors present their report together with the audited financial statements for the year ended 31 December 2016.

There are a number of items required to be included in the directors' report, which are covered in the strategic report in accordance with the Companies Act 2006 section 414 (11):

- Review of the business and future developments
- Key performance indicators
- Principal risks and uncertainties

Principal activity

The Company's principal activity is the supply, design, overhaul, repair and service of vacuum furnaces.

Results and dividends

The profit for the year, after taxation, amounted to £289,437 (2015 - £788,583).

No dividends were paid during the year ended 31 December 2016 (2015 - £Nil). The directors do not recommend the payment of a final dividend.

Directors

The directors of the company during the year and up to date of approval of this report were:

R Kishor
S Lees
K Masters
K Potter
C L White (resigned 11/7/17)
G Nicholson (appointed 9/8/16)
S Schmidt-Chiari (appointed 9/8/16)
D Hartland (appointed 27/10/16)
J Rhodes (appointed 27/10/16, resigned 24/8/17)
J Jepson (appointed 1/6/17)
S Nicholson (appointed 1/6/17)

Post balance sheet events

There have been no significant events affecting the company since the year end.

Likely future developments in the business of the company

Information on likely future developments in the business of the company has been included in the Strategic Report on page 1.

Vacuum Furnace Engineering Limited

Report of the directors for the year ended 31 December 2016 (continued)

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under Company law the directors must not approve the financial statements unless 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; 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.

Disclosure of information to auditors

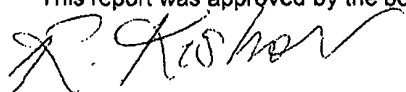
Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

BDO LLP have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the annual general meeting.

This report was approved by the board on 30 October 2017 and signed on its behalf by:


R Kishor
Director

Vacuum Furnace Engineering Limited

Independent auditor's report

TO THE MEMBERS OF VACUUM FURNACE ENGINEERING LIMITED

We have audited the financial statements of Vacuum Furnace Engineering Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes. 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 statement of directors' responsibilities, 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 Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit:

- the information given in the strategic report and 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 the applicable legal requirements

Vacuum Furnace Engineering Limited

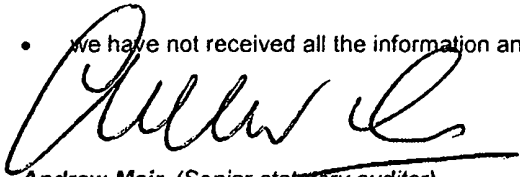
Independent auditor's report (continued)

Matters on which we are required to report by exception

In 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 the Directors' report.

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

- adequate accounting records have not been kept, 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.



Andrew Mair (Senior statutory auditor)
for and on behalf of BDO LLP, Statutory auditor
Birmingham
United Kingdom

Date 30 October 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Vacuum Furnace Engineering Limited

Statement of comprehensive income for the year ended 31 December 2016

| | Note | 2016 £ | 2015 £ |
|---|------|--------------------|--------------------|
| Turnover | | 11,622,121 | 9,995,253 |
| Cost of sales | | (8,438,748) | (7,287,613) |
| Gross profit | | 3,183,373 | 2,707,640 |
| Administrative expenses (including exceptional costs in respect of the acquisitions and restructuring activities) | | (2,936,910) | (1,953,691) |
| Operating profit | 7 | 246,463 | 753,949 |
| Interest receivable and similar income | 8 | 2,746 | 1,658 |
| Interest payable and similar charges | 9 | (31,155) | - |
| Profit before tax | | 218,054 | 755,607 |
| Taxation on profit from ordinary activities | 10 | 71,383 | 32,976 |
| Profit for the year after tax | | 289,437 | 788,583 |
| Other comprehensive income for the year | | - | - |
| Total comprehensive income and profit for the year | | 289,437 | 788,583 |

The notes on pages 10 to 27 form part of these financial statements.

Vacuum Furnace Engineering Limited

Statement of financial position at 31 December 2016

| Company number 01920664 | Note | 2016 £ | 2016 £ | 2015 £ | 2015 £ |
|--|-------------|--------------------|--------------------|--------------------|-------------------|
| Fixed assets | | | | | |
| Tangible assets | 11 | | 511,987 | | 167,341 |
| Intangible assets | 12 | | 973,525 | | - |
| | | | <u>1,485,512</u> | | <u>167,341</u> |
| Current assets | | | | | |
| Stocks | 13 | 1,694,897 | | 1,393,527 | |
| Debtors: amounts falling due after more than one year | 17 | 9,366 | | - | |
| Debtors: amounts falling due in less than one year | 14 | 6,210,228 | | 3,269,590 | |
| Cash at bank and in hand | | 592,227 | | 1,293,414 | |
| | | <u>8,506,718</u> | | <u>5,956,531</u> | |
| Creditors: amounts falling due within one year | 15 | <u>(5,803,421)</u> | | <u>(3,793,824)</u> | |
| Net current assets | | | <u>2,703,297</u> | | <u>2,162,707</u> |
| Total assets less current liabilities | | | <u>4,188,809</u> | | <u>2,330,048</u> |
| Creditors: amounts falling due after more than one year | 16 | | <u>(1,579,500)</u> | | <u>-</u> |
| Provisions for liabilities | | | | | |
| Deferred tax | 17 | | - | | (10,176) |
| Net assets | | | <u>2,609,309</u> | | <u>2,319,872</u> |
| Capital and reserves | | | | | |
| Called up share capital | 18 | | 600 | | 600 |
| Capital redemption reserve | 19 | | 150 | | 150 |
| Profit and loss account | 19 | | 2,608,559 | | 2,319,122 |
| Shareholders' funds | | | <u>2,609,309</u> | | <u>2,319,872</u> |

The financial statements were approved by the Board of Directors and authorised for issue on 30 October 2017



R Kishor
Director

The notes on pages 10 to 27 form part of these financial statements.

Vacuum Furnace Engineering Limited

Statement of changes in equity for the year ended 31 December 2016

| | Share capital £ | Capital redemption reserve £ | Retained earnings £ | Total equity £ |
|--|-----------------------|---------------------------------------|---------------------------|----------------------|
| At 1 January 2016 | 600 | 150 | 2,319,122 | 2,319,872 |
| Profit for the year | - | - | 289,437 | 289,437 |
| Total comprehensive income for the year | - | - | 289,437 | 289,437 |
| At 31 December 2016 | 600 | 150 | 2,608,559 | 2,609,309 |
| | Share capital £ | Capital redemption reserve £ | Retained earnings £ | Total Equity £ |
| At 1 January 2015 | 600 | 150 | 1,530,539 | 1,531,289 |
| Profit for the year | - | - | 788,583 | 788,583 |
| Total comprehensive income for the year | - | - | 788,583 | 788,583 |
| At 31 December 2015 | 600 | 150 | 2,319,122 | 2,319,872 |

The notes on pages 10 to 27 form part of these financial statements.

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements for the year ended 31 December 2016

1 General information

Vacuum Furnace Engineering Limited is a private company limited by shares, incorporated in England & Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activities are the supply, design, overhaul, repair and service of vacuum furnaces.

2 Accounting policies

Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.39 to 11.48A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of Fox Investments Limited as at 31 December 2016 and these financial statements may be obtained from Companies House.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer. In the case of delivery of the equipment in accordance with the terms of the contract, revenue is recorded as at the date of delivery unless the sale qualifies as a bill and hold arrangement at the request of the customer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the transaction;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

2 Accounting policies (continued)

Any amounts received in advance of the delivery of goods are not recognised as revenue but are rather deferred and accounted for as a liability in the statement of financial position.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided, in accordance with the stage of completion of the contract, when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably. In the case of installation of the equipment this is considered a separate service and revenue for installation is recognised when installation is complete;
- it is probable that the company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably, and;
- the costs incurred and the costs to complete the contract can be measured reliably.

Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

Depreciation is provided on the following bases:

| | | |
|------------------------|---|----------------------|
| Plant and machinery | - | 20% straight line |
| Motor vehicles | - | 25% straight line |
| Leasehold improvements | | 25 % straight line |
| Fixtures and fittings | - | 25% reducing balance |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in the Statement of Comprehensive Income.

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (*continued*)

2 Accounting policies (*continued*)

Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of a business combination over the fair value of the company's share of the net identifiable assets at the date of acquisition. Goodwill on acquisitions is included in 'intangible assets'. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill amortisation is calculated by applying the straight-line method to its estimated useful life. If a reliable estimate cannot be made, the useful life of goodwill is presumed to be 10 years. Goodwill is being amortised within 'administrative expenses' over a period of 10 years.

Estimates of the useful economic life of goodwill are based on a variety of factors such as the expected use of the acquired assets, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

b) Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

The significant intangibles recognised by the company, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

| Intangible asset | Useful economic life | Valuation method |
|-----------------------|----------------------|------------------------------|
| Intellectual property | 10 years | Relief from royalties method |
| Brand | 10 years | Relief from royalties method |

Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements for the year ended 31 December 2016 (*continued*)

2 Accounting policies (*continued*)

Leases

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of the estimated useful economic life and the term of the lease. Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. The lease rentals are charged to profit or loss on a straight-line basis over the term of the lease.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

Work in progress includes all direct expenditure and an appropriate proportion of fixed and variable overheads.

Financial instruments

Basic Financial Instruments

Financial assets

Financial assets include cash at bank and in hand, trade debtors and amounts owed by group undertakings; these are initially recorded at cost on the date they originate and are subsequently recorded at amortised cost under the effective interest rate method. The company considers evidence of impairment for all individual trade and other debtors and any subsequent impairment is recognised in profit or loss.

Impairment of financial assets carried at amortised cost

Impairment provisions are recognised when there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulties of the counterparty, default or significant delays in payment.

Impairment provisions represent the difference between the net carrying amount of a financial and the present value of the expected future cash receipts from that asset.

Financial liabilities

Financial liabilities include trade creditors, amounts owing to group undertakings, bank loans and accruals; these are initially recorded at cost on the date they originate and are subsequently carried at amortised cost under the effective interest rate method.

Debtors

Short term debtors are measured at transaction price, less any impairment.

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements for the year ended 31 December 2016 (*continued*)

2 Accounting policies (*continued*)

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest rate method.

Foreign currency translation

Functional and presentational currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated into GBP using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

2 Accounting policies (continued)

Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Purchase of intangibles associated with trade and asset acquisitions which qualify for tax allowances do not give rise to permanent differences.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Related party transactions

The company is a wholly owned subsidiary of Seafox VFE1 Limited and has taken advantage of the exemption conferred by section 33.1A of FRS 102 not to disclose transactions with Seafox VFE1 Limited or other wholly owned subsidiaries.

3 Judgments in applying accounting policies and key sources of estimation uncertainty

The company makes certain estimates and assumptions regarding the future. These judgments and estimates affect the application of policies and reported amounts of assets, liabilities, income and expenses. Estimates are continually evaluated based on historical experience and expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. In preparing these financial statements, the directors have made the following key judgments and estimates:

Tangible fixed assets (note 11)

Tangible fixed assets are depreciated over their useful lives taking in account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on the number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

3 Judgments in applying accounting policies and key sources of estimation uncertainty (continued)

Goodwill and other intangible assets (note 12)

On recognition of intangible assets as a result of a business combination a fair value is established for any separately identifiable intangible assets. The fair value is determined based on a relief from royalty method which requires an estimation of future notional royalties that will be payable as well as an appropriate discount rate to be applied.

At each reporting date factors such as the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit are assessed to determine whether there are indicators of impairment of the company's tangible and intangible assets, including goodwill.

Trade debtors (note 14)

At each reporting date, trade debtors are assessed for recoverability. If there is any evidence of impairment, the carrying amount of the debtor is reduced to its recoverable amount. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

Stock (note 13)

At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the Statement of Comprehensive Income.

4 Analysis of turnover

The whole of the turnover is attributable to the principal activity of the company and can be analysed as follows:

Analysis by class of business

| | 2016 | 2015 |
|-----------------------|-------------------|------------------|
| | £ | £ |
| Sale of goods | 7,769,498 | 7,287,458 |
| Rendering of services | 3,852,623 | 2,707,795 |
| | <u>11,622,121</u> | <u>9,995,253</u> |

The analysis of turnover by geographical market has not been provided as, in the opinion of the directors, such disclosure would be seriously prejudicial to the interests of the company.

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

5 Employees

| | 2016 £ | 2015 £ |
|---|------------------|------------------|
| Staff costs consist of: | | |
| Wages and salaries | 3,299,461 | 2,275,692 |
| Social security costs | 340,576 | 275,906 |
| Other pension costs | 115,049 | 88,021 |
| | <u>3,755,086</u> | <u>2,639,619</u> |
| The average number of employees, including directors, during the year was as follows: | Number | Number |
| Administrative | 19 | 18 |
| Manufacturing, service and repair | 46 | 26 |
| | <u>65</u> | <u>44</u> |

6 Directors' remuneration

| | 2016 £ | 2015 £ |
|---|----------------|----------------|
| Directors' emoluments | 716,258 | 663,866 |
| Company contributions to defined contribution pension schemes | 19,725 | 5,350 |
| | <u>735,983</u> | <u>669,216</u> |

The highest paid director received remuneration of £180,000 (2015 - £195,000). No company pension contributions were made to a money purchase scheme on his behalf (2015 - None).

There were 4 directors in the company's defined contribution pension scheme (2015 - 1).

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

| | | |
|--|-----------------------------|-----------------------------|
| 7 Operating profit | 2016 | 2015 |
| | £ | £ |
| This has been arrived at after charging/(crediting): | | |
| Amortisation - intangible fixed assets | 31,856 | - |
| Depreciation of tangible fixed assets: | | |
| - owned assets | 103,124 | 43,227 |
| Fees payable to the company's auditor for the audit of the company's annual accounts | 10,500 | 16,000 |
| Exchange differences | 61,468 | 22,133 |
| Loss on disposal of fixed assets | - | 3,752 |
| Cost of inventory expensed | 6,074,998 | 5,419,544 |
| Operating lease expense | 248,722 | 211,759 |
| Defined contribution pension cost | 115,049 | 88,021 |
| Costs relating to acquisitions and restructuring activities | 154,867 | - |
| | <u> </u> | <u> </u> |

The audit fees in 2015 include amounts borne in respect of the intermediate holding companies.

| | | |
|---|-----------------------------|-----------------------------|
| 8 Interest receivable and similar income | 2016 | 2015 |
| | £ | £ |
| Other interest receivable | 2,746 | 1,658 |
| | <u> </u> | <u> </u> |

| | | |
|--|-----------------------------|-----------------------------|
| 9 Interest payable and similar charges | 2016 | 2015 |
| | £ | £ |
| Bank loans (including amortisation of issue costs) | 31,155 | - |
| | <u> </u> | <u> </u> |

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

10 Taxation on profit from ordinary activities

| | 2016 £ | 2015 £ |
|--|-----------------|-----------------|
| <i>Corporation tax</i> | | |
| Current tax on profits for the year | - | 77,270 |
| Adjustments in respect of previous years | (56,295) | (105,865) |
| | <u>(56,295)</u> | <u>(28,595)</u> |
| <i>Foreign tax</i> | | |
| Adjustments in respect of previous years | 4,454 | - |
| | <u>4,454</u> | <u>-</u> |
| Total current tax | <u>(51,841)</u> | <u>(28,595)</u> |
| <i>Deferred tax</i> | | |
| Origination and reversal of timing differences | (18,977) | (3,999) |
| Adjustments in respect of prior years | - | 1,193 |
| Effect of change in tax rate | (565) | (1,575) |
| | <u>(19,542)</u> | <u>(4,381)</u> |
| Total deferred tax | <u>(19,542)</u> | <u>(4,381)</u> |
| Taxation on profit on ordinary activities | <u>(71,383)</u> | <u>(32,976)</u> |

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 20% (2015 – 20.25%). The differences are explained below:

| | 2016 £ | 2015 £ |
|--|-----------------|-----------------|
| Profit on ordinary activities before tax | <u>218,054</u> | <u>755,607</u> |
| Profit on ordinary activities at the standard rate of corporation tax in the UK of 20% (2015 – 20.25%) | 43,611 | 153,010 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 31,041 | 5,903 |
| Transfer pricing adjustment | - | 2,414 |
| Group relief claimed | (93,629) | (88,056) |
| Prior year adjustments | (51,841) | (104,672) |
| Effect of change in tax rate | (565) | (1,575) |
| | <u>(71,383)</u> | <u>(32,976)</u> |
| Current tax charge for year | <u>(71,383)</u> | <u>(32,976)</u> |

Factors that may affect future tax charges

A number of changes in the UK corporation tax system were announced in the March 2016 Budget, including that the main rate of corporation tax would reduce to 17% with effect from 1 April 2020. These tax rate reductions have been substantively enacted and therefore have been reflected in the financial statements.

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

11 Tangible assets

| | Plant and machinery | Motor vehicles | Leasehold improvement s | Fixtures and fittings | Total |
|--|------------------------|-------------------|-------------------------------|--------------------------|------------------|
| | £ | £ | | £ | £ |
| <i>Cost</i> | | | | | |
| At 1 January 2016 | 106,363 | 94,567 | 36,407 | 332,222 | 569,559 |
| Additions | 11,943 | - | 35,697 | 171,389 | 219,029 |
| Acquired as part of a business combination | 115,001 | 20,540 | - | 93,200 | 228,741 |
| At 31 December 2016 | 233,307 | 115,107 | 72,104 | 596,811 | 1,017,329 |
| <i>Depreciation</i> | | | | | |
| At 1 January 2016 | 106,363 | 72,412 | 19,937 | 203,506 | 402,218 |
| Charge for the year | 8,076 | 17,594 | 10,316 | 67,138 | 103,124 |
| At 31 December 2016 | 114,439 | 90,006 | 30,253 | 270,644 | 505,342 |
| <i>Net book value</i> | | | | | |
| At 31 December 2016 | 118,868 | 25,101 | 41,851 | 326,167 | 511,987 |
| At 31 December 2015 | - | 22,155 | 16,470 | 128,716 | 167,341 |

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (*continued*)

12 Intangible assets

| | Goodwill £ | Intellectual property £ | Brand | Total £ |
|---|----------------|-------------------------------|----------------|------------------|
| <i>Cost</i> | | | | |
| At 1 January 2016 | - | - | - | - |
| Acquired as part of a business combination | 398,700 | 250,000 | 356,681 | 1,005,381 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2016 | 398,700 | 250,000 | 356,681 | 1,005,381 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <i>Amortisation</i> | | | | |
| At 1 January 2016 | - | - | - | - |
| Charge for the year | 15,730 | 2,054 | 14,072 | 31,856 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2016 | 15,730 | 2,054 | 14,072 | 31,856 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| <i>Net book value</i> | | | | |
| At 31 December 2016 | 382,970 | 247,946 | 342,609 | 973,525 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2015 | - | - | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

13 Stocks

| | 2016 £ | 2015 £ |
|-------------------------------|------------------|------------------|
| Raw materials and consumables | 542,505 | 365,544 |
| Work in progress | 1,152,392 | 1,027,983 |
| | <u>1,694,897</u> | <u>1,393,527</u> |

There is no material difference between the replacement cost of stock and the amounts stated above.

No impairment losses were recognised in cost of sales against stock during the current and prior year due to slow moving and obsolete stock.

14 Debtors

| | 2016 £ | 2015 £ |
|------------------------------------|------------------|------------------|
| Trade debtors | 4,252,539 | 2,436,647 |
| Amounts owed by group undertakings | 1,749,749 | 583,260 |
| Other debtors | 3,354 | 108,687 |
| Prepayments and accrued income | 204,586 | 140,996 |
| | <u>6,210,228</u> | <u>3,269,590</u> |

An impairment charge of £193,833 (2015 - £69,226) was recognised in the year in respect of bad and doubtful trade debtors.

The amounts due by group undertakings are unsecured, interest free and repayable on demand.

15 Creditors: amounts falling due within one year

| | 2016 £ | 2015 £ |
|------------------------------------|------------------|------------------|
| Trade creditors | 2,195,220 | 1,160,905 |
| Amounts owed to group undertakings | 530,393 | - |
| Corporation tax | - | 72,816 |
| Taxation and social security | 430,474 | 405,962 |
| Accruals | 666,727 | 611,831 |
| Deferred income | 1,928,107 | 1,542,310 |
| Deferred consideration | 52,500 | - |
| | <u>5,803,421</u> | <u>3,793,824</u> |

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

16 Creditors: amounts falling due after more than one year

| | 2016 £ | 2015 £ |
|------------------------|------------------|-----------|
| Bank loans | 1,482,000 | - |
| Deferred consideration | 97,500 | - |
| | <u>1,579,500</u> | <u>-</u> |

Bank loans are stated net of unamortised arrangement fees of £18,000 (2015 - £Nil).

The bank loan is in respect of a revolving credit facility and is secured by way of a fixed and floating charge over the assets of the company. Interest is payable at LIBOR plus a margin of 2.5% p.a.

Deferred consideration is payable in three instalments with the final payment due on 31 December 2018.

17 Deferred taxation

| | £ |
|----------------------------|---------------------|
| At 1 January 2016 | (10,176) |
| Movement in year | 19,542 |
| At 31 December 2016 | <u>9,366</u> |

The deferred taxation balances are made up as follows:

| | 2016 £ | 2015 £ |
|--|--------------|---------------|
| Trade expense adjustments | 46 | - |
| Capital allowances (including intangible assets) | 9,320 | 10,176 |
| | <u>9,366</u> | <u>10,176</u> |

18 Share capital

| | 2016 £ | 2015 £ |
|---|------------|------------|
| Allotted, called up and fully paid | | |
| 600 ordinary shares of £1 each | <u>600</u> | <u>600</u> |

Vacuum Furnace Engineering Limited

**Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)**

19 Capital and reserves

Share capital

Called up share capital represents the nominal value of the shares issued.

Capital redemption reserve

The capital redemption reserve contains the nominal value of own shares that have been acquired by the company and cancelled.

Profit and loss account

Profit and loss account represents cumulative profits or losses, net of dividends paid.

20 Pension commitments

A defined contribution scheme is operated by the Company on behalf of the employees. The assets of the scheme are held separately to those of the company in an independently administered fund. The pension charge represents contributions payable by the Company and amounted to £115,049 (2015 - £88,021). There were no outstanding contributions payable at the yearend (2015 – Nil).

21 Contingent liability

The company has provided a cross guarantee with its fellow group companies for group bank borrowings. At 31 December 2016 the total liabilities covered by this guarantee totalled £2,621,963 (2015 - £2,182,319) of which £1,500,000 (2015 - £Nil) are included in these financial statements.

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

22 Business combinations

Acquisition of Autoclave & Industrial Controls (AIC)

On 9 August 2016 the company acquired 100% of the trade, assets and liabilities for £740,000 paid in cash

In calculating the goodwill arising on acquisition, accounted for using the acquisition method, the fair value of the net assets of AIC have been assessed and adjustments from book value have been made where necessary.

| | Book value £ | Fair value adjustments £ | Fair value £ |
|---|-----------------|--------------------------------|-----------------|
| Fixed assets | | | |
| Tangible | 163,741 | - | 163,741 |
| Intangible - brand | - | 356,681 | 356,681 |
| | <u>163,741</u> | <u>356,681</u> | <u>520,422</u> |
| Current assets | | | |
| Stocks | 60,000 | - | 60,000 |
| Debtors | 234,828 | (144,559) | 90,269 |
| Cash at bank and in hand | 5,500 | - | 5,500 |
| | <u></u> | <u></u> | <u></u> |
| Total assets | 464,069 | 212,122 | 676,191 |
| Creditors | | | |
| Due within one year | (280,941) | - | (280,941) |
| | <u></u> | <u></u> | <u></u> |
| Net assets | 183,128 | 212,122 | 395,250 |
| | <u></u> | <u></u> | <u></u> |
| Goodwill (note 12) | | | 344,750 |
| | | | <u></u> |
| Total purchase consideration, paid in cash | | | 740,000 |
| | | | <u></u> |

The fair value adjustments reflect the recognition of the acquired brand and reductions in the trade debtors acquired to reflect actual experience with collections.

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (continued)

22 Business combinations (continued)

Acquisition of Advanced Manufacturing Systems and Services (AMS)

On 1 December 2016 the company acquired 100% of the trade and assets for a total consideration of £368,950 in cash with £150,000 being deferred over 2 years.

In calculating the goodwill arising on acquisition, accounted for using the acquisition method, the fair value of the net assets have been assessed and adjustments from book value have been made where necessary.

| | Book value £ | Fair value adjustments £ | Fair value £ |
|--|-----------------|--------------------------------|-----------------|
| Fixed assets | | | |
| Tangible | 65,000 | - | 65,000 |
| Intangible – intellectual property | - | 250,000 | 250,000 |
| Total assets | 65,000 | 250,000 | 315,000 |
| Goodwill (note 11) | | | 53,950 |
| Total purchase consideration | | | 368,950 |
| Purchase consideration settled in cash | | | 218,950 |
| Deferred consideration | | | 150,000 |

The useful economic life of goodwill and other intangible assets has been estimated to be 10 years.

There were no acquisitions in the year ended 31 December 2015.

The results of Autoclave & Industrial Controls since its acquisition are as follows:

| | Current period since acquisition £ |
|---------------------|---|
| Turnover | 733,091 |
| Profit for the year | 196,666 |

With the exception of depreciation and amortisation of the assets acquired, Advanced Manufacturing Systems and Services Limited contributed no other revenue or costs in the year ended 31 December 2016.

Vacuum Furnace Engineering Limited

Notes forming part of the financial statements
for the year ended 31 December 2016 (*continued*)

23 Commitments under operating leases

As at 31 December 2016, the company had total commitments under non-cancellable operating leases as set out below:

| | Land and buildings 2016 £'000 | Land and buildings 2015 £'000 | Other 2016 £'000 | Other 2015 £'000 |
|--|--|--|------------------------|------------------------|
| Not later than one year | 112,250 | 112,250 | 122,578 | 151,997 |
| Later than one year and before five years | 308,687 | 420,937 | 227,212 | 271,548 |
| | <u>420,937</u> | <u>533,187</u> | <u>349,790</u> | <u>423,545</u> |

24 Related party disclosures and controlling party

The Company is a wholly owned subsidiary of Seafox VFE 2 Limited, a company incorporated in the UK with a registered address at 1 Mercer Street, London, WC2H 9QJ.

Fox Investments Limited is regarded by the directors as being the company's ultimate controlling parent company with IH Abrahams being the ultimate controlling party.

The smallest group in which the results of the Company are consolidated is that headed by Seafox VFE LLP. The largest group in which the results of the Company are consolidated is that headed by Fox Investments Limited. The consolidated accounts of these companies are available to the public and may be obtained from Companies House. No other group accounts include the results of the Company.

Key management personnel include all directors and some of the senior managers across the company who together have authority and responsibility for planning, directing and controlling the activities of the company. The total compensation paid to key management personnel for services provided to the group was £767,983 (2015 - £672,921).