

Truflo Air Movement Limited
Registered number: 05500950

Annual Report and Financial Statements

Truflo Air Movement Limited

For the year ended 30 September 2018



Truflo Air Movement Limited
Registered number: 05500950

Company Information

Directors	W Pelenski I G J E Wharton J Sorboro T Moser
Company secretary	Vistra Cossec Limited
Registered number	05500950
Registered office	First Floor Templeback 10 Temple Back Bristol BS1 6FL
Independent auditors	PricewaterhouseCoopers LLP Cornwall Court 19 Cornwall Street Birmingham B3 2DT

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Directors' report

For the year ended 30 September 2018

The directors present their report and the audited financial statements for the year ended 30 September 2018.

Principal activities

The principal activity of the group during the year was the manufacture of impellers, engine cooling fans and the manufacture and supply of engine heating products through its recently acquired subsidiary.

Results

The group profit for the year, before taxation, amounted to £486,000 (2017 - £766,000).

Matters covered in the Strategic report

The business review, key performance indicators and the principal risks and uncertainties are included in the Strategic report along with the dividend recommendation and future company developments.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

W Pelenski
I G J E Wharton
J Sorboro
T Moser

None of the directors have qualifying third party indemnity insurance, either during the period or at the date of approval of the financial statements (2017: None).

Employees

The group maintains its commitment to proactive programmes for involving its employees in group affairs. This is achieved in a variety of ways, including regular publication of newsletters and staff briefings and by consultations with staff committees.

It is the group's policy to give full and fair consideration to suitable applicants for employment by disabled persons having regard to their particular aptitudes and abilities. Disabled employees are eligible to participate in all training, career development and promotion opportunities available to staff. Opportunities also exist for employees of the group who become disabled to continue their employment or to be trained in other positions in the group.

Research and development

The activities of the group are all dedicated towards the design and development of impellers and engine cooling fans for the off-highway, power generation and other applications. The directors consider the investment in research and development to be integral to the continued success of the group.

Directors' report (continued)

For the year ended 30 September 2018

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements 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 group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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



W. Pelenski

Director

Date: 14 June 2019

Strategic report

For the year ended 30 September 2018

The directors present their Strategic Report on the group for the year ended 30 September 2018.

Business review

On 3 January 2018, the Group acquired the assets of Carlor Engineering S.A. ("Carlor") through a newly formed subsidiary Phillips and Temro Industries Europe Limited.

There was a profit for the year before taxation amounting to £486,000 (2017: £766,000).

Group turnover for the year ended 30 September 2018 was £11,719,000 (2017: £8,594,000). World markets serviced by our products continued to improve throughout 2018. We are anticipating continued improvement in our markets going forward especially since the acquisition of Carlor into the group. Product development during the year continued with additional capital spending of £236,000 supporting our positive view of the future.

The group operating profit for the year was £756,000 (2017: £779,000). The adverse shift in the US Dollar exchange rate against Sterling and goodwill amortisation had a significant impact in 2018 compared to the prior year.

Working capital levels were very much in line with the prior year taking into account the nature of the newly acquired business, which requires a higher level of inventory.

Group operating cash flow within the business continued to be strong enabling the group to comfortably service its capital expenditure program. The acquisition of Carlor was financed by a loan from the parent company, Phillips and Temro Industries Inc.

Key performance indicators

	Group 2018	Group 2017
Gross profit (%)	35	34
Operating profit (%)	11	10
Stock days	20	14
Debtor days	74	74
Capital expenditure (£000)	236	543

Method of calculation

- Gross profit – Ratio of gross profit to revenue expressed as a percentage.
- Operating profit – Ratio of operating profit before amortisation of intangible assets and exchange gains and losses to revenue expressed as a percentage.
- Stock days – The average number of days' worth of sales that is held in stock during the year.
- Debtor days – The average number of days' worth of sales held as debtors during the year.
- Capital expenditure – Investment made in respect of capital items during the year.

Strategic report (continued)

For the year ended 30 September 2018

The group continues to be well positioned to support our customer base in the markets we serve in all regions. The acquisition of Carlor by the group increases the breadth of the parent company (Phillips and Temro Industries Inc.) engine heating product offering, establishes a Phillips and Temro Industries presence on mainland Europe, and reinforces Phillips and Temro Industries as the global leader of custom engineered thermal systems and solutions in a variety of markets. Carlor has an excellent reputation in the power generation heating market, built over 17 years whilst designing and manufacturing preheating systems.

The acquisition is consistent with our vision of becoming a global market leader through innovation, diversification of end markets and customer focus while building a culture of continuous improvement. The integration of Carlor into Phillips and Temro Industries Inc. provides combined strength, facilitates improved service to our global customers and gives the opportunity to accelerate growth.

The directors do not recommend payment of a dividend.

Future developments

The group will continue to develop its existing activities in accordance with the requirements of Phillips and Temro Industries.

Principal risks and uncertainties

The group's principal financial instruments comprise intra group trading balances and cash and short-term deposits. The main purpose of these financial instruments is to finance the group's operations. The group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. The group does not enter into derivative transactions.

It is, and has been through the period under review, the group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the group's financial instruments are interest rate risk, liquidity risk, foreign currency risk, and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Brexit continues to create a climate of uncertainty within the business environment. Without any agreed trade arrangements between the UK and Europe there is a possibility that import duties and tariffs may well be imposed on input prices. As such, a risk to increasing raw material prices purchased from Europe exists.

Interest rate risk

The group's exposure to market risk for changes in interest rates relates primarily to the group's debt obligations, which are managed through inter-group financing. The group's exposure to interest rate fluctuations on its borrowings is managed by the use of inter-group financing.

Foreign currency risk

As a result of sales to customers outside the United Kingdom and bank borrowings denominated in US dollars, the group's profits and losses can be affected by movements in Euro and US dollar exchange rates. The group does not seek to hedge this exposure.

Commodity price risk

The group's exposure to the price of steel is high, therefore selling prices are monitored regularly to reduce the impact of such risk.

Strategic report (continued)

For the year ended 30 September 2018

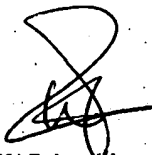
Credit risk

The group trades with only recognised, creditworthy third parties. It is the group's policy that all customers who wish to trade on credit terms are subject to credit vetting procedure. In addition, recoverable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant.

Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts and inter-group financing.

This report was approved by the board on 14 June 2019 and signed on its behalf.



W Pelenski
Director
Date: 14 June 2019

Independent auditors' report to the members of Truflo Air Movement Limited

Report on the audit of the financial statements

Opinion

In our opinion, Truflo Air Movement Limited's consolidated financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 30 September 2018 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 30 September 2018; the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Independent auditors' report to the members of Truflo Air Movement Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent auditors' report to the members of Truflo Air Movement Limited (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.


Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Richard Kay (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
17 June 2019

Consolidated statement of comprehensive income

For the year ended 30 September 2018

	Note	2018 £000	2017 £000
Turnover	5	11,719	8,594
Cost of sales		(7,609)	(5,649)
Gross profit		4,110	2,945
Distribution costs		(552)	(495)
Administrative expenses		(2,818)	(1,692)
Other operating income		16	21
Operating profit	6	756	779
Interest payable and similar expenses	9	(270)	(13)
Profit before taxation		486	766
Tax on profit	10	(94)	(129)
Profit for the financial year and total comprehensive income		392	637

All amounts relate to continuing operations.

The notes on pages 14 to 33 form an integral part of these financial statements.

Consolidated statement of financial position

As at 30 September 2018

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	11	3,899	-
Tangible assets	12	3,375	3,226
		7,274	3,226
Current assets			
Stocks	14	655	317
Debtors	15	3,264	2,623
Cash at bank and in hand		450	210
		4,369	3,150
Creditors: amounts falling due within one year	16	(1,798)	(2,517)
Net current assets		2,571	633
Total assets less current liabilities		9,845	3,859
Creditors - amounts falling due after more than one year	17	(5,495)	-
Provisions for liabilities	18	(425)	(326)
Net assets		3,925	3,533
Capital and reserves			
Called up share capital	20	5,759	5,759
Revaluation reserve		21	23
Accumulated losses		(1,855)	(2,249)
Total equity		3,925	3,533

The financial statements on pages 9 to 33 were approved by the Board of Directors on 14 June 2019 and signed on its behalf by:



I G J E Wharton
Director

The notes on pages 14 to 33 form an integral part of these financial statements.

Company statement of financial position

As at 30 September 2018

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	11	-	-
Tangible assets	12	3,183	3,226
Investment	13	825	-
		4,008	3,226
Current assets			
Stocks	14	347	317
Debtors	15	7,158	2,623
Cash at bank and in hand		349	210
		7,854	3,150
Creditors: amounts falling due within one year	16	(1,670)	(2,517)
Net current assets		6,184	633
Total assets less current liabilities		10,192	3,859
Creditors - amounts falling due after more than one year	17	(5,495)	-
Provisions for liabilities	18	(425)	(326)
Net assets		4,272	3,533
Capital and reserves			
Called up share capital	20	5,759	5,759
Revaluation reserve		21	23
Accumulated losses		(1,508)	(2,249)
Total equity		4,272	3,533

The company's profit for the financial year was £739,000 (2017: £637,000).

The financial statements on pages 9 to 33 were approved by the Board of Directors on 14 June 2019 and signed on its behalf by:



I G J E Wharton
Director

The notes on pages 14 to 33 form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 30 September 2018

	Called up share capital £000	Revaluation reserve £000	Accumulated losses £000	Total equity £000
At 1 October 2016	5,759	34	(2,897)	2,896
Profit for the financial year	-	-	637	637
Transfer between reserves	-	(11)	11	-
At 30 September 2017	5,759	23	(2,249)	3,533
At 1 October 2017	5,759	23	(2,249)	3,533
Profit for the financial year	-	-	392	392
Transfer between reserves	-	(2)	2	-
At 30 September 2018	5,759	21	(1,855)	3,925

Company statement of changes in equity

For the year ended 30 September 2018

	Called up share capital £000	Revaluation reserve £000	Accumulated losses £000	Total equity £000
At 1 October 2016	5,759	34	(2,897)	2,896
Profit for the financial year	-	-	637	637
Transfer between reserves	-	(11)	11	-
At 30 September 2017	5,759	23	(2,249)	3,533
At 1 October 2017	5,759	23	(2,249)	3,533
Profit for the financial year	-	-	739	739
Transfer between reserves	-	(2)	2	-
At 30 September 2018	5,759	21	(1,508)	4,272

The notes on pages 14 to 33 form an integral part of these financial statements.

Consolidated Statement of cash flows

For the year ended 30 September 2018

	2018	2017
	£000	£000
Profit before taxation	486	766
Depreciation of tangible assets	331	232
Amortisation of intangible assets	320	-
Increase in stocks	(67)	(12)
Increase in debtors	(441)	(399)
Decrease in creditors	(764)	(1,585)
Taxation paid	-	-
Net cash used in operating activities	(135)	(998)
Cash flow from investing activities		
Purchase of tangible assets	(236)	(543)
Acquisition of subsidiary (net of cash acquired)	(4,884)	-
Net cash used in investing activities	(5,120)	(543)
Cash flow from financing activities		
Loan from parent company	5,495	-
Net cash generated from financing activities	5,495	-
Net increase/(decrease) in cash and cash equivalents	240	(1,541)
Cash and cash equivalents at the beginning of the year	210	1,751
Cash and cash equivalents at the end of the year	450	210
Cash and cash equivalents consists of		
Cash at bank and in hand	450	210
Cash and cash equivalents	450	210

The notes on pages 14 to 33 form an integral part of these financial statements.

Notes to the financial statements

For the year ended 30 September 2018

1. General information

Truflo Air Movement Limited ('the Company') and its subsidiary (together 'the Group') principal activities are the design and manufacture of impellers and engine cooling fans.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is First Floor Templeback, 10 Temple Back, Bristol, BS1 6FL.

2. Statement of Compliance

The Group and individual financial statements of Truflo Air Movement Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

3. Accounting policies

3.1. Basis of preparation of financial statements

The financial statements have been prepared on the going concern basis under the historical cost basis of accounting, as modified by the revaluation of freehold property, and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the group's accounting policies (see note 4).

The Company has taken advantage of the exemption in section 408 of the Companies Act from presenting its individual profit and loss account.

The Group has early adopted the Triennial Review 2017 amendments to FRS 102 published in December 2017. The early adoption limits the number of intangible assets recognised on acquisition of subsidiaries to Goodwill. The other amendments to FRS 102 do not materially impact the Group's financial statements.

The following principal accounting policies have been applied consistently:

3.2. Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts.

Turnover is recognised upon despatch of goods supplied.

Notes to the financial statements (continued)

For the year ended 30 September 2018

3. Accounting policies (continued)

3.3. Finance costs

Finance costs are charged to the Consolidated Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount.

3.4. Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Deferred tax

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

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

3.5. Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Consolidated Statement of Comprehensive Income. The trading results of Group undertakings are translated into sterling at the average exchange rates for the year. The assets and liabilities of overseas undertakings are retranslated at the exchange rates ruling at the year-end.

Notes to the financial statements (continued)

For the year ended 30 September 2018

3. Accounting policies (continued)

3.6. Pensions

The Group operates two defined contribution pension schemes for employees, one in the United Kingdom and one in Belgium. The assets of the schemes are held separately from those of the Group. The annual contributions payable are charged to the Consolidated Statement of Comprehensive Income.

The Belgium pension scheme is accounted for as a defined contribution pension scheme. Management has determined that the fair value of the minimum guaranteed return equates to the book value.

3.7. Intangible assets and amortisation

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the statement of comprehensive income over its estimated economic life of 10 years.

3.8. Tangible assets and depreciation

Tangible assets are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold property	-	50 years
Plant and machinery	-	4 – 10 years straight line

Capital assets under construction and land are not depreciated.

3.9. Investments

Investments in a subsidiary company are held at cost less accumulated impairment loss.

3.10. Operating leases

Rentals under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the lease term.

3.11. Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Costs include all direct costs and an appropriate proportion of fixed and variable overheads.

Notes to the financial statements (continued)

For the year ended 30 September 2018

3. Accounting policies (continued)

3.12. Debtors

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

3.13. Creditors

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

3.14. Financial instruments

The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable and loans to/from related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortized cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortized cost.

Financial assets that are measured at cost and amortized cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognized in the Consolidated Statement of Comprehensive Income.

For financial assets measured at amortized cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the Group would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position when there is an enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

Notes to the financial statements (continued)

For the year ended 30 September 2018

3. Accounting policies (continued)

3.15. Going concern

Since the year end, the Group has continued to trade profitably and generates cash.

The immediate holding company has confirmed its intention to provide such support as the company enquires for its continued operations for a period of not less than one year from the date the financial statements were approved. Based on this factor, the financial statements have been prepared on a going concern basis.

3.16. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 30 September 2018.

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

Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary financial statements to apply the Group's accounting policies when preparing the consolidated financial statements.

Subsidiary undertakings or associates sold or acquired during the year are included up to, or from, the dates of change of control or change of significant influence respectively.

Notes to the financial statements (continued)

For the year ended 30 September 2018

3.17. Business Combinations

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

Contingent consideration is initially recognised at estimated amount where the consideration is probable and can be measured reliably. Where (i) the contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable and measurable or (ii) contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

On acquisition, goodwill is allocated to cash-generating units ('CGU's') that are expected to benefit from the combination.

Goodwill is amortised over its expected useful life which is estimated to be ten years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the Statement of Comprehensive Income.

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key accounting estimates and assumptions

Group management and the board of directors make estimates and assumptions about the future.

These estimates and assumptions impact recognised assets and liabilities, as well as revenue and expenses and other disclosures. These estimates are based on historical experience and on various assumptions considered reasonable under the prevailing conditions. The actual outcome may diverge from these estimates if other assumptions are made, or other conditions arise.

Notes to the financial statements (continued)

For the year ended 30 September 2018

4. Critical accounting judgements and estimation uncertainty (continued)

The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within financial period include:

- Tangible and intangible assets are recognised at cost, less accumulated depreciation, amortisation and any impairments. Amortisation and depreciation take place over the estimated useful life, down to the assessed residual value. The carrying amount of the company's fixed assets is tested as soon as changed conditions show that a need for impairment has arisen.
- The Group considers whether intangible assets including goodwill are impaired. Where an indication of impairment is identified the estimation of recoverable amount requires estimation of the recoverable value of the cash generating units (CGUs). This requires estimation of the future cash flows from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows.

5. Turnover

A geographical analysis of turnover is as follows:

	2018 £000	2017 £000
United Kingdom	2,435	2,173
Rest of European Union	3,125	1,406
Rest of World	6,159	5,015
	11,719	8,594

6. Operating profit

Operating profit is stated after charging:

	2018 £000	2017 £000
Depreciation of tangible fixed assets:		
- owned by the company	331	232
Amortisation of intangible assets	320	-
Auditors' remuneration	72	34
Auditors' remuneration - non-audit	6	8
Operating lease rentals:		
- plant and machinery	9	17
Difference on foreign exchange	213	68
Research and development expenditure	10	10

Notes to the financial statements (continued)

For the year ended 30 September 2018

7. Staff costs

Staff costs, including directors' remuneration, were as follows:

	2018 £000	2017 £000
Wages and salaries	2,420	2,039
Social security costs	249	189
Other pension costs	121	79
	2,790	2,307

The average monthly number of employees, including the directors, during the year was as follows:

	2018 No.	2017 No.
Administration	25	20
Production	48	38
Directors	4	4
	77	62

8. Directors' remuneration

	2018 £000	2017 £000
Remuneration	327	328
Company pension contributions to defined contribution pension schemes	27	26

During the year retirement benefits were accruing to 2 directors (2017 – 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £224,000 (2017 - £227,000).

The value of the company's contribution paid out a defined contribution pension scheme in respect of the highest paid director amounted to £15,000 (2017 - £14,000).

The highest paid director exercised no share options in 2018 (2017: exercised options) and received no shares under a long-term incentive scheme in 2018 (2017: received shares).

Key management has been determined to be the statutory directors.

Notes to the financial statements (continued)

For the year ended 30 September 2018

9. Interest payable and similar expenses

	2018	2017
	£000	£000
On loans from group undertakings	255	-
Other charges and exchange differences	15	13
	270	13

10. Tax on profit

	2018	2017
	£000	£000
Deferred tax (see note 18)		
Origination and reversal of timing differences	126	149
Effect of changes in tax rates	(47)	(19)
Adjustment in respect of prior years	15	(1)
Tax charge on profit	94	129

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2017 – lower than) the standard rate for corporation tax in the UK of 19.0% (2017 – 19.5%). The differences are explained below:

	2018	2017
	£000	£000
Profit before taxation	486	766
Profit multiplied by standard rate of corporation tax in the UK of 19.0% (2017 – 19.5%)	92	149
Effects of:		
Expenses not deductible	24	-
Tax rate changes	(47)	(19)
Non-qualifying assets realised through use	10	-
Adjustment in respect of prior years	15	(1)
Tax charge for the year	94	129

Factors that may affect future tax charges

The company has unrelieved trading losses of £2,312,000 (2017: £2,505,000) available for offset against future trading profits.

Notes to the financial statements (continued)

For the year ended 30 September 2018

11. Intangible assets

Group	Customer intangibles £000	Purchased goodwill £000	Total £000
Cost			
At 1 October 2017	4,502	4,174	8,676
Acquisitions	22	4,197	4,219
At 30 September 2018	4,524	8,371	12,895
Accumulated Amortisation			
At 1 October 2017	4,502	4,174	8,676
Amortisation	5	315	320
At 30 September 2018	4,507	4,489	8,996
Net book value			
At 30 September 2018	17	3,882	3,899
At 30 September 2017	-	-	-

Company	Customer intangibles £000	Purchased goodwill £000	Total £000
Cost			
At 1 October 2017 and 30 September 2018	4,502	4,174	8,676
Accumulated Amortisation			
At 1 October 2017 and 30 September 2018	4,502	4,174	8,676
Net book value			
At 30 September 2017 and 30 September 2018	-	-	-

Notes to the financial statements (continued)

For the year ended 30 September 2018

12. Tangible assets

Group	Freehold property £000	Plant & machinery £000	Assets under construction £000	Total £000
Cost or valuation				
At 1 October 2017	1,883	2,501	480	4,864
Additions	145	58	33	236
Acquisition	-	244	-	244
At 30 September 2018	2,028	2,803	513	5,344
Accumulated Depreciation				
At 1 October 2017	141	1,497	-	1,638
Charge for the year	27	304	-	331
At 30 September 2018	168	1,801	-	1,969
Net book value				
At 30 September 2018	1,860	1,002	513	3,375
At 30 September 2017	1,742	1,004	480	3,226

Included within 'Freehold property' is land of £850,000 (2017: £850,000) which is not depreciated.

Company	Freehold property £000	Plant & machinery £000	Assets under construction £000	Total £000
Cost or valuation				
At 1 October 2017	1,883	2,501	480	4,864
Additions	145	55	33	233
At 30 September 2018	2,028	2,556	513	5,097
Accumulated Depreciation				
At 1 October 2017	141	1,497	-	1,638
Charge for the year	27	249	-	276
At 30 September 2018	168	1,746	-	1,914
Net book value				
At 30 September 2018	1,860	810	513	3,183
At 30 September 2017	1,742	1,004	480	3,226

Included within 'Freehold property' is land of £850,000 (2017: £850,000) which is not depreciated.

Notes to the financial statements (continued)

For the year ended 30 September 2018

13. Subsidiaries and related undertakings

Company	£000
At 1 October 2018	-
Additions	825
At 30 September 2018	825

The list of subsidiaries and other related undertakings is as follows:

Name	Address of the registered office	Nature of business	Interest
Philips and Temro Industries Europe Limited	Rue du Roua, 70 4140, Sprimont, Belgium	Manufacturing	100% ordinary shares

The directors believe that the carrying value of investments is supported by the net assets of each subsidiary.

14. Stocks

Group	2018	2017
	£000	£000
Raw materials and consumables	470	144
Work in progress	150	124
Finished goods and goods for resale	35	49
	655	317

Company	2018	2017
	£000	£000
Raw materials and consumables	162	144
Work in progress	150	124
Finished goods and goods for resale	35	49
	347	317

There is no significant difference between the replacement cost of work in progress and finished goods and goods for resale and their carrying amounts. Stocks are stated after provisions for obsolete and slow moving stock.

Notes to the financial statements (continued)

For the year ended 30 September 2018

15. Debtors

Group	2018	2017
	£000	£000
Trade debtors	2,379	1,746
Amounts owed by group undertakings	124	227
Other debtors	223	153
Deferred tax asset (see note 18)	431	426
Prepayments and accrued income	107	71
	3,264	2,623

Company	2018	2017
	£000	£000
Trade debtors	2,142	1,746
Amounts owed by group undertakings	4,394	227
Other debtors	205	153
Deferred tax asset (see note 18)	318	426
Prepayments and accrued income	99	71
	7,158	2,623

Trade debtors are stated after provisions for impairment.

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

16. Creditors: amounts falling due within one year

Group	2018	2017
	£000	£000
Trade creditors	1,062	961
Amounts owed to group undertakings	282	1,236
Other creditors	90	36
Taxation and social security	61	65
Accruals and deferred income	303	219
	1,798	2,517

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the financial statements (continued)

For the year ended 30 September 2018

16. Creditors: amounts falling due within one year (continued)

Company	2018	2017
	£000	£000
Trade creditors	1,001	961
Amounts owed to group undertakings	282	1,236
Other creditors	65	36
Taxation and social security	61	65
Accruals and deferred income	261	219
	1,670	2,517

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

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

Group	2018	2017
	£000	£000
Amounts owed to group undertakings	5,495	-
	5,495	-

Company	2018	2017
	£000	£000
Amounts owed to group undertakings	5,495	-
	5,495	-

Amounts owed to group undertakings are unsecured, interest bearing at 6.5% and are repayable in August 2022.

Notes to the financial statements (continued)

For the year ended 30 September 2018

18. Deferred tax asset / (liability)

Group	2018	2017
	£000	£000
At beginning of year	100	229
Charge recognised in Statement of Comprehensive Income	(79)	(130)
Adjustment in respect of prior years	(15)	1
At end of year	6	100

The deferred tax asset/(liability) is made up as follows:

	2018	2017
	£000	£000
Trading losses	431	426
Other timing differences	(425)	(326)
	6	100

Company	2018	2017
	£000	£000
At beginning of year	100	229
Charge recognised in Statement of Comprehensive Income	(192)	(130)
Adjustment in respect of prior years	(15)	1
At end of year	(107)	100

The deferred tax (liability)/asset is made up as follows:

	2018	2017
	£000	£000
Trading losses	318	426
Other timing differences	(425)	(326)
	(107)	100

Notes to the financial statements (continued)

For the year ended 30 September 2018

19. Financial Instruments

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Financial assets measured at amortised cost				
Trade debtors	2,379	1,746	2,142	1,746
Amounts owed by group undertakings	124	227	4,394	227
Other debtors	223	153	205	153
	2,726	2,126	6,741	2,126
Financial liabilities measured at amortised cost				
Trade creditors	1,062	961	1,001	961
Amounts owed to group undertakings	5,777	1,236	5,777	1,236
Other creditors	90	36	65	36
Accruals	303	219	261	219
	7,232	2,452	7,104	2,452

Financial assets measured at amortised cost comprise trade debtors, amounts owed by group undertakings and other debtors.

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to group undertakings, other creditors and accruals.

20. Called up Share capital

Group and Company	2018 £	2017 £
Authorised		
6,000,000 Ordinary shares of £1 each (2017: 6,000,000)	6,000,000	6,000,000
Allotted, called up and fully paid		
5,758,578 Ordinary shares of £1 each (2017: 5,758,578)	5,758,578	5,758,578

21. Reserves

Revaluation reserve

Revaluation reserve represents accumulated revaluation gains and losses for the year and prior years.

Accumulated losses

The accumulated losses represents accumulated comprehensive income for the year and losses in prior years less dividends paid.

Notes to the financial statements (continued)

For the year ended 30 September 2018

22. Pension commitments

The pension cost charge for the group represents contributions payable by the group to the personal pension plans of certain employees and amounted to £120,725 (2017: £79,282).

The pension cost charge for the company represents contributions payable by the company to the personal pension plans of certain employees and amounted to £96,336 (2017: £79,282).

23. Contingent liabilities

There were no contingent liabilities for both the group and company at 30 September 2018 or 30 September 2017.

24. Capital commitments

At 30 September the group and company had capital commitments as follows:

	2018 £000	2017 £000
Contracted for but not provided in these financial statements	58	190

25. Operating lease commitments

At 30 September 2018 the group and company had annual commitments under non-cancellable operating leases as follows:

	2018 £000	2017 £000
Expiry date:		
Within 1 year	1	3
Between 2 and 5 years	8	8

Notes to the financial statements (continued)

For the year ended 30 September 2018

26. Related party transactions

Group

During the year the company undertook the related party transactions as listed below:

	Sales to	Purchases from	Amounts owed to	Amounts owed by
Name	£000	£000	£000	£000
PTI Engineered Engine Components (Yizheng) Ltd China	444	-	-	124
Phillips & Temro Industries Inc.	39	316	5,777	-
	483	316	5,777	124

Company

During the year the company undertook the related party transactions as listed below:

	Sales to	Purchases from	Amounts owed to	Amounts owed by
Name	£000	£000	£000	£000
PTI Engineered Engine Components (Yizheng) Ltd China	429	-	-	109
Phillips & Temro Industries Inc.	39	316	5,777	-
Phillips & Temro Industries Europe Limited	-	-	-	4,285
	468	316	5,777	4,394

The above are all related parties by virtue of being fellow companies of the ultimate shareholders of the company. The transactions are all at arms' length and relate to the provision of goods and services between the parties associated with the company's principal activity.

See note 8 for disclosure of the directors' remuneration and key management compensation.

Notes to the financial statements (continued)

For the year ended 30 September 2018

27. Ultimate parent undertaking and controlling party

The directors consider that the company's immediate parent undertaking is PTI Silencing-Cooling Holdings LLC. as a result of its ownership of 100% of the issued share capital. The directors consider that the controlling party of the group is Harbour Group.

The ultimate parent undertaking, controlling party and the smallest and largest group to consolidate is Harbour Group, a privately owned company registered in the United States of America, by virtue of their acquisition on 12 March 2015 of the 100% shareholding in Phillips & Temro Industries, Inc. Copies of the Harbour Group consolidated financial statements can be obtained from 7701 Forsyth Blvd, Suite 600, Saint Louis, Missouri 63105, United States of America.

28. Business combination

Group

On 3 January 2018, the Group acquired the assets of Carlor Engineering S.A. through a newly formed subsidiary Phillips and Temro Industries Europe Limited for total consideration of £4,884,000. Carlor has an excellent reputation in the power generation heating market, built over 17 years whilst designing and manufacturing preheating systems.

Carlor manufactures and supplies engine heating products establishing a Phillips and Temro presence on mainland Europe and reinforcing Phillips and Temro as the global leader of custom engineered thermal systems and solutions in a variety of world markets.

The goodwill of £4,197,000 arises from the acquired customer base and brand. Management have estimated the useful life of the goodwill to be 10 years. The acquisition has a track record of growth and the amortisation period is mitigated by substantial future synergies with existing Phillips and Temro products and the newly opened European market for them.

The following table summarises the consideration paid by the Group, the fair value of assets acquired, liabilities assumed and the non-controlling interest at the acquisition date. Management has determined that the fair value of assets acquired and liabilities assumed equates to the book value.

The revenue from Phillips and Temro Europe Limited included in the consolidated income statement for 2018 was £1,076,000. EBITDA contribution was £104,000 for the same period.

Consideration at 3 January 2018

	£
Cash	4,884
Total consideration	4,884

For cash flow disclosure purposes the amounts are disclosed as follows

	£
Cash consideration	4,884
Net cash outflow	4,884

Notes to the financial statements (continued)

For the year ended 30 September 2018

28. Business combination (continued)

Recognised amounts of identifiable assets acquired and liabilities assumed

	Provisional fair values
	£000
Intangible assets	22
Tangible assets	244
Stocks	271
Debtors	195
Creditors	(45)
Total identifiable net assets	687
	£000
Non-controlling interest	-
Goodwill	4,197
Total	4,884

29. Non-controlling interest

There is a non-controlling interest of Phillips and Temro Europe Limited of 1 share, the equivalent of 0.0001%. The total of profit attributable to this share is less than £100 and is deemed immaterial for further disclosure.