Truflo Air Movement Limited
Registered number: 05500950

Annual Report and Financial Statements
Truflo Air Movement Limited

For the year ended 30 September 2019

Company Information

Directors	W Pelenski I G J E Wharton J Sorboro T Moser
Company secretary	Vistra Cosec Limited
Registered number	05500950
Registered office	First Floor Templeback 10 Temple Back Bristol BS1 6FL
Independent auditors	PricewaterhouseCoopers LLP One Chamberlain Square Birmingham B3 3AX

Contents

Strategic report

For the year ended 30 September 2019

The directors present their Strategic Report on the group for the year ended 30 September 2019.

Business review

The acquisition of Carlor Engineering S.A on 3 January 2018 by the newly formed subsidiary Phillips and Temro Industries Europe Limited has now been successfully integrated into the Phillips and Temro group.

There was a loss for the year before taxation amounting to £236,000 (2018: £486,000 profit).

Group turnover for the year ended 30 September 2019 was £11,677,000 (2018: £11,719,000). World markets serviced by our products started the year on a strong note but hit headwinds as the year progressed. A slowdown in the world construction sector, especially in China held back growth, leaving turnover broadly flat with 2018. Product development and investment in new equipment during the year continued with additional capital spending of £446,000 (2018: £236,000).

The group operating profit for the year was £140,000 (2018: £756,000). An adverse shift in raw material prices and a full 12 month goodwill amortisation had a significant impact in 2019 compared to the prior year. The impact of increased raw material prices saw the gross profit percentage reduce from 35% in 2018 to 31% in 2019.

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. Continued pressure on cash collection saw an improvement in debtor days from 74 in 2018 to 56 in 2019.

Group operating cash flow within the business continued to be strong enabling the group to comfortably service its capital expenditure program and interest payments.

Key performance indicators	**Group 2019**	Group 2018
Gross profit (%)	**31**	35
Operating profit (%)	**8**	11
Stock days	**24**	20
Debtor days	**56**	74
Capital expenditure (£000)	**452**	236

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 2019

The group continues to be well positioned to support our customer base in the markets we serve in all regions. The establishment of Phillips and Temro Europe via by the acquisition of Carlor in 2018 by the group increased the breadth of the parent company (Phillips and Temro Industries Inc.) engine heating product offering, establishing a Phillips and Temro Industries presence on mainland Europe, and reinforcing Phillips and Temro Industries as the global leader of custom engineered thermal systems and solutions in a variety of markets.

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. The route to the European heating market through Phillips and Temro Europe for US manufactured products will continue to be expanded as well as the further development of the China market for products supplied by Phillips and Temro Europe.

Post balance sheet event

Beginning in January 2020, global markets have experienced and may continue to experience significant volatility resulting from the spread of a novel coronavirus known as COVID-19. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The extent and duration of the impact of COVID-19 on global economies, and on consumer demand in markets where the Group operates is uncertain at this point and has the potential to continue to adversely affect the global economies which may negatively impact the performance of the Group. Subsequent to year-end declines in demand for the Groups products in line with the downturn in our global market sectors have occurred for various reasons linked to the COVID-19 pandemic. These subsequent events are non-adjusting events in accordance with FRS 102. Whilst these events will adversely impact the company's future results of operations, due to the level of uncertainty surrounding these events, it is not possible to quantify the impact at this time.

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. The impact of Covid-19 has had a significant impact on our world markets with substantial reduction in demand from major customers. Demand is expected to improve in the final quarter of 2020, although resumption of pre Covid-19 levels may take some time.

Strategic report (continued)

For the year ended 30 September 2019

Interest rate risk

The group's exposure to market risk for changes in interest rates is limited as there are no external debts. The group's exposure to interest rate fluctuations on its borrowings is managed by the use of inter-group financing where the interest is fixed.

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. This risk is monitored by the group and is not considered to be significant as a result 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.

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 22 September 2020 and signed on its behalf.

W Pelenski
Director
Date: 22 September 2020

Directors' report

For the year ended 30 September 2019

The directors present their report and the audited consolidated financial statements for the year ended 30 September 2019.

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 loss for the year, before taxation, amounted to £236,000 (2018 - £486,000 profit).

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 (Resigned 6 April 2020)
J Sorboro (Resigned 17 April 2020)
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 (2018: 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 2019

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 group and company 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 group and company and of the profit or loss of the group and 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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and 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: 22 September 2020

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 group 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 2019 and of the group's loss 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 2019; the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statement 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the 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.

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.

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.

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

Reporting on other information (continued)

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 2019 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 in respect of the financial statements set out on page 5, 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.

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.

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

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.

Mark Kingsbury

Mark Kingsbury (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
22 September 2020

Consolidated statement of comprehensive income

For the year ended 30 September 2019

	Note	2019 £000	2018 £000
Turnover	5	**11,677**	11,719
Cost of sales		**(8,071)**	(7,609)
Gross profit		**3,606**	4,110
Distribution costs		**(485)**	(552)
Administrative expenses		**(2,986)**	(2,818)
Other operating income		**5**	16
Operating profit	6	**140**	756
Interest payable and similar expenses	9	**(376)**	(270)
(Loss)/Profit before taxation		**(236)**	486
Tax on (loss)/profit	10	84	(94)
(Loss)/Profit for the financial year		**(152)**	392
Other comprehensive (expense)/income			
Currency translation differences		(7)	-
Total comprehensive (expense)/income		**(159)**	392

All amounts relate to continuing operations.

The notes on pages 14 to 34 form an integral part of these financial statements.

Consolidated statement of financial position

As at 30 September 2019

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	11	**3,472**	3,899
Tangible assets	12	**3,436**	3,375
		6,908	7,274
Current assets			
Stocks	14	**763**	655
Debtors	15	**2,971**	3,264
Cash at bank and in hand		**1,251**	450
		4,985	4,369
Creditors: amounts falling due within one year	16	**(1,747)**	(1,798)
Net current assets		**3,238**	2,571
Total assets less current liabilities		**10,146**	9,845
Creditors: amounts falling due after more than one year	17	**(5,916)**	(5,495)
Provisions for liabilities	18	**(464)**	(425)
Net assets		**3,766**	3,925
Capital and reserves			
Called up share capital	20	**5,759**	5,759
Revaluation reserve		**19**	21
Accumulated losses		**(2,012)**	(1,855)
Total equity		3,766	3,925

The financial statements on pages 9 to 34 were approved by the Board of Directors on 22 September 2020 and signed on its behalf by:

W Pelenski
Director

The notes on pages 14 to 34 form an integral part of these financial statements.

Company statement of financial position

As at 30 September 2019

	Note	2019 £000	2018 £000
Fixed assets			
Intangible assets	11	-	-
Tangible assets	12	**3,290**	3,183
Investments	13	**825**	825
		4,115	4,008
Current assets			
Stocks	14	**365**	347
Debtors	15	**6,942**	7,158
Cash at bank and in hand		**1,092**	349
		8,399	7,854
Creditors: amounts falling due within one year	16	**(1,605)**	(1,670)
Net current assets		**6,794**	6,184
Total assets less current liabilities		**10,909**	10,192
Creditors: amounts falling due after more than one year	17	**(5,916)**	(5,495)
Provisions for liabilities	18	**(464)**	(425)
Net assets		**4,529**	4,272
Capital and reserves			
Called up share capital	20	**5,759**	5,759
Revaluation reserve		**19**	21
Accumulated losses		**(1,249)**	(1,508)
Total equity		**4,529**	4,272

The company's profit for the financial year was £257,000 (2018: £739,000).

The financial statements on pages 9 to 34 were approved by the Board of Directors on 22 September 2020 and signed on its behalf by:

W Pelenski
Director

The notes on pages 14 to 34 form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 30 September 2019

	Called up share capital £000	Revaluation reserve £000	Accumulated losses £000	Total equity £000
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**
At 1 October 2018	**5,759**	**21**	**(1,855)**	**3,925**
Loss for the financial year	-	-	(152)	(152)
Other comprehensive expense	-	-	(7)	(7)
Transfer between reserves	-	(2)	2	-
At 30 September 2019	**5,759**	**19**	**(2,012)**	**3,766**

Company statement of changes in equity

For the year ended 30 September 2019

	Called up share capital £000	Revaluation reserve £000	Accumulated losses £000	Total equity £000
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**
At 1 October 2018	**5,759**	**21**	**(1,508)**	**4,272**
Loss for the financial year	-	-	257	257
Transfer between reserves	-	(2)	2	-
At 30 September 2019	**5,759**	**19**	**(1,249)**	**4,529**

The notes on pages 14 to 34 form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 September 2019

	2019 £000	2018 £000
(Loss)/Profit before taxation	(236)	486
Depreciation of tangible assets	388	331
Amortisation of intangible assets	427	320
Loss on disposal of tangible assets	3	-
Interest expense	361	-
Increase in stocks	(108)	(67)
Decrease / (Increase) in debtors	416	(441)
Increase / (Decrease) in creditors	(51)	(764)
Currency translation differences	324	-
Net cash generated from / (used in) operating activities	1,524	(135)
Cash flow from investing activities		
Purchase of tangible assets	(452)	(236)
Acquisition of subsidiary (net of cash acquired)	-	(4,884)
Net cash used in investing activities	(452)	(5120)
Cash flow from financing activities		
Interest paid	(271)	-
Loan from parent company	-	5,495
Net cash generated from financing activities	(271)	5,495
Net increase in cash and cash equivalents	801	240
Cash and cash equivalents at the beginning of the year	450	210
Cash and cash equivalents at the end of the year	1,251	450
Cash and cash equivalents consist of		
Cash at bank and in hand	1,251	450
Cash and cash equivalents	1,251	450

The notes on pages 14 to 34 form an integral part of these financial statements.

Notes to the financial statements

For the year ended 30 September 2019

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, United Kingdom. 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 2019

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 2019

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

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

Customer intangibles	-	3 -5 years

Amortisation is included in 'administrative expenses' in the profit and loss account.

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 of 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.

Notes to the financial statements (continued)

For the year ended 30 September 2019

3. Accounting policies (continued)

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.

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.

Notes to the financial statements (continued)

For the year ended 30 September 2019

3. Accounting policies (continued)

3.14. Financial instruments (continued)

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.

3.15. Going concern

Profit after tax but before depreciation and amortisation for 2019 was £660K. On a similar basis, since the year end, the Group continues to return positive EBITDA and generate positive cash flows.

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 18 months 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 2019.

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 2019

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 2019

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.

- Deferred taxation - The company assesses whether it is appropriate to recognise, at the balance sheet date, deferred tax assets resulting from historical trading losses, timing differences and pension. The amount of deferred tax recognised is based on estimates of the timing and amount of future taxable profits of the company, which in turn relies upon estimates of future operating profits and the occurrence, timing and tax treatment of significant items of income and expenditure including contributions to pension schemes. Further disclosures relating to the effect on the profit and loss account of the recognition of deferred tax assets are included in note 10, and the amount of deferred tax asset recognised and other relevant disclosures are included in note 18.

5. Turnover

A geographical analysis of turnover is as follows:

	2019	2018
	£000	£000
United Kingdom	**2,393**	2,435
Rest of European Union	**3,367**	3,125
Rest of World	**5,917**	6,159
	11,677	11,719

Notes to the financial statements (continued)

For the year ended 30 September 2019

6. Operating profit

Operating profit is stated after charging:

	2019	2018
	£000	£000
Depreciation of tangible fixed assets:		
- owned by the company	388	331
Amortisation of intangible assets	427	320
Auditors' remuneration - audit	53	72
Auditors' remuneration - non-audit	6	6
Operating lease rentals:		
- plant and machinery	8	9
Foreign exchange gains	364	213
Research and development expenditure	6	10

7. Staff costs

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

	2019	2018
	£000	£000
Wages and salaries	2,438	2,420
Social security costs	260	249
Other pension costs	126	121
	2,824	2,790

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

	2019	2018
	No.	No.
Administration	25	25
Production	50	48
Directors	4	4
	79	77

Notes to the financial statements (continued)

For the year ended 30 September 2019

8. Directors' remuneration

	2019	2018
	£000	£000
Remuneration	**317**	327
Company pension contributions to defined contribution pension schemes	**28**	27

During the year retirement benefits were accruing to 2 directors (2018 – 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £213,000 (2018 - £224,000).

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 (2018 - £15,000).

The highest paid director exercised no share options in 2019 (2018: no options exercised) and received shares under a long-term incentive scheme in 2019 (2018: no shares received).

Key management has been determined to be the statutory directors.

9. Interest payable and similar expenses

	2019	2018
	£000	£000
On loans from group undertakings	**361**	255
Other charges and exchange differences	**15**	15
	376	270

Notes to the financial statements (continued)

For the year ended 30 September 2019

10. Tax on profit

	2019	2018
	£000	£000
Deferred tax (see note 18)		
Origination and reversal of timing differences	(45)	126
Effect of changes in tax rates	(39)	(47)
Adjustment in respect of prior years	-	15
Tax charge on profit	(84)	94

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:

	2019	2018
	£000	£000
Profit before taxation	(236)	486
Profit multiplied by standard rate of corporation tax in the UK of 19.0% (2018 – 19.0%)	(45)	92
Effects of:		
Expenses not deductible	-	24
Tax rate changes	(39)	(47)
Non-qualifying assets realised through use	-	10
Adjustment in respect of prior years	-	15
Tax charge for the year	(84)	94

Factors that may affect future tax charges

The company has unrelieved trading losses of £2,775,000 (2018: £2,312,000) available for offset against future trading profits.

Notes to the financial statements (continued)

For the year ended 30 September 2019

11. Intangible assets

Group

	Customer intangibles £000	Purchased goodwill £000	Total £000
Cost			
At 1 October 2018	4,524	8,371	12,895
Acquisitions	-	-	-
At 30 September 2019	4,524	8,371	12,895
Accumulated Amortisation			
At 1 October 2018	4,507	4,489	8,996
Amortisation	5	422	427
At 30 September 2019	4,512	4,911	9,423
Net book value			
At 30 September 2018	17	3,882	3,899
At 30 September 2019	12	3,460	3,472

Company

	Customer intangibles £000	Purchased goodwill £000	Total £000
Cost			
At 1 October 2018 and 30 September 2019	4,502	4,174	8,676
Accumulated Amortisation			
At 1 October 2018 and 30 September 2019	4,502	4,174	8,676
Net book value			
At 30 September 2018 and 30 September 2019	-	-	-

Notes to the financial statements (continued)

For the year ended 30 September 2019

12. Tangible assets

Group

	Freehold property £000	Plant & machinery £000	Assets under construction £000	Total £000
Cost or valuation				
At 1 October 2018	2,028	2,803	513	5,344
Additions	-	24	428	452
Disposals	-	(5)	-	(5)
Transfers	-	431	(431)	-
At 30 September 2019	2,028	3,253	510	5,791
Accumulated Depreciation				
At 1 October 2018	168	1,801	-	1,969
Disposals	-	(2)	-	(2)
Charge for the year	34	354	-	388
At 30 September 2019	202	2,153	-	2,355
Net book value				
At 30 September 2019	1,826	1,100	510	3,436
At 30 September 2018	1,860	1,002	513	3,375

Included within 'Freehold property' is land of £850,000 (2018: £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 2018	2,028	2,556	513	5,097
Additions	-	-	428	428
Transfers	-	431	(431)	-
At 30 September 2019	2,028	2,987	510	5,525
Accumulated Depreciation				
At 1 October 2018	168	1,746	-	1,914
Charge for the year	34	287	-	321
At 30 September 2018	202	2,033	-	2,235
Net book value				
At 30 September 2019	1,826	954	510	3,290
At 30 September 2018	1,860	810	513	3,183

Included within 'Freehold property' is land of £850,000 (2018: £850,000) which is not depreciated.

Notes to the financial statements (continued)

For the year ended 30 September 2019

13. Subsidiaries and related undertakings

Company

	£000
At 1 October 2018	825
Additions	-
At 30 September 2019	**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 discosunted cashflows of its subsidiary.

14. Stocks

Group

	2019	2018
	£000	£000
Raw materials and consumables	**550**	470
Work in progress	**97**	150
Finished goods and goods for resale	**116**	35
	763	655

Company

	2019	2018
	£000	£000
Raw materials and consumables	**152**	162
Work in progress	**97**	150
Finished goods and goods for resale	**116**	35
	365	347

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 2019

15. Debtors

Group

	2019	2018
	£000	£000
Trade debtors	1,800	2,379
Amounts owed by group undertakings	350	124
Other debtors	175	223
Deferred tax asset (see note 18)	554	431
Prepayments and accrued income	92	107
	2,971	3,264

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.

Company

	2019	2018
	£000	£000
Trade debtors	1,647	2,142
Amounts owed by group undertakings	4,763	4,394
Other debtors	144	205
Deferred tax asset (see note 18)	304	318
Prepayments and accrued income	84	99
	6,942	7,158

Trade debtors are stated after provisions for impairment.

Amounts owed by group undertakings includes £4,551,000 (2018: £ 4,285,000) falling due after more than one year. It is unsecured, earns interest at 6.5% and is receivable in August 2022. The remaining amounts owed by 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 2019

16. Creditors: amounts falling due within one year

Group

	2019	2018
	£000	£000
Trade creditors	**842**	1,062
Amounts owed to group undertakings	**567**	282
Other creditors	**70**	90
Taxation and social security	**69**	61
Accruals and deferred income	**199**	303
	1,747	1,798

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

Company

	2019	2018
	£000	£000
Trade creditors	**761**	1,001
Amounts owed to group undertakings	**567**	282
Other creditors	**53**	65
Taxation and social security	**66**	61
Accruals and deferred income	**158**	261
	1,605	1,670

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

	2019	2018
	£000	£000
Amounts owed to group undertakings	**5,916**	5,495
	5,916	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 2019

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

Company

	2019	2018
	£000	£000
Amounts owed to group undertakings	5,916	5,495
	5,916	5,495

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

18. Deferred tax asset / (liability)

Group

	2019	2018
	£000	£000
At beginning of year	6	100
Charge recognised in Statement of Comprehensive Income	84	(79)
Adjustment in respect of prior years	-	(15)
At end of year	90	6

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

	2019	2018
	£000	£000
Trading losses	554	431
Other timing differences	(464)	(425)
	90	6

Company

	2019	2018
	£000	£000
At beginning of year	(107)	100
Charge recognised in Statement of Comprehensive Income	(53)	(192)
Adjustment in respect of prior years	-	(15)
At end of year	(160)	(107)

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

	2019	2018
	£000	£000
Trading losses	304	318
Other timing differences	(464)	(425)
	(160)	(107)

Notes to the financial statements (continued)

For the year ended 30 September 2019

19. Financial Instruments

	Group 2019 £000	Group 2018 £000	Company 2019 £000	Company 2018 £000
Financial assets measured at amortised cost				
Trade debtors	**1,800**	2,379	**1,647**	2,142
Amounts owed by group undertakings	**350**	124	**4,763**	4,394
Other debtors	**175**	223	**144**	205
	2,325	2,726	**6,554**	6,741
Financial liabilities measured at amortised cost				
Trade creditors	**842**	1,062	**761**	1,001
Amounts owed to group undertakings	**6,483**	5,777	**6,483**	5,777
Other creditors	**70**	90	**53**	65
Accruals	**199**	303	**158**	261
	7,594	7,232	**7,455**	7,104

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	**2019** £	2018 £
Authorised		
6,000,000 Ordinary shares of £1 each (2018: 6,000,000)	**6,000,000**	6,000,000
Allotted, called up and fully paid		
5,758,578 Ordinary shares of £1 each (2018: 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 represent 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 2019

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 £125,894 (2018: £120,725).

The pension cost charge for the company represents contributions payable by the company to the personal pension plans of certain employees and amounted to £119,714 (2018: £96,336).

23. Contingent liabilities

There were no contingent liabilities for both the group and company at 30 September 2018 or 30 September 2019.

24. Capital commitments

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

	2019	2018
	£000	£000
Contracted for but not provided in these financial statements	**21**	58

25. Operating lease commitments

At 30 September 2019 the group and company had annual commitments under non-cancellable operating leases as follows:

	2019	2018
	£000	£000
Expiry date:		
Within 1 year	-	1
Between 2 and 5 years	**8**	8

Notes to the financial statements (continued)

For the year ended 30 September 2019

26. Related party transactions

Group 2019

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

	Sales to	Purchases from	Amounts owed to	Amounts owed by
	£000	£000	£000	£000
Name				
PTI Engineered Engine Components (Yizheng) Ltd China	686	-	-	326
Phillips and Temro Industries Inc.	231	406	6,483	24
	917	**406**	**6,483**	**350**

Company 2019

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

	Sales to	Purchases from	Amounts owed to	Amounts owed by
	£000	£000	£000	£000
Name				
PTI Engineered Engine Components (Yizheng) Ltd China	573	-	-	212
Phillips and Temro Industries Inc.	126	308	6,483	-
Phillips and Temro Industries Europe Limited	-	-	-	4,551
	699	**308**	**6,483**	**4,763**

Group 2018

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

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

Notes to the financial statements (continued)

For the year ended 30 September 2019

26. Related party transactions (continued)

Company 2018

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

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

27. Ultimate parent undertaking and controlling party

The directors consider that the company's immediate parent undertaking as at 30 September 2019 is PTI Silencing-Cooling Holdings LLC. as a result of its ownership of 100% of the issued share capital. On 23 December 2019 the ownership was transferred to Phillips & Temro Industries Inc. 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. 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.

Notes to the financial statements (continued)

For the year ended 30 September 2019

29. Subsequent event

Beginning in January 2020, global markets have experienced and may continue to experience significant volatility resulting from the spread of a novel coronavirus known as COVID-19. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The extent and duration of the impact of COVID-19 on global economies, and on consumer demand in markets where the Group operates is uncertain at this point and has the potential to continue to adversely affect the global economies which may negatively impact the performance of the Group. Subsequent to year-end declines in demand for the Groups products in line with the downturn in our global market sectors have occurred for various reasons linked to the COVID-19 pandemic. These subsequent events are non-adjusting events in accordance with FRS 102. Whilst these events will adversely impact the company's future results of operations, due to the level of uncertainty surrounding these events, it is not possible to quantify the impact at this time.