

Registered number: 07464159

THERMASYS CS UK HOLDING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017



THERMASYS CS UK HOLDING LIMITED

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THERMASYS CS UK HOLDING LIMITED

COMPANY INFORMATION

DIRECTORS

J M Laisure
T G Strauss

COMPANY SECRETARY

M W Bremmer

REGISTERED NUMBER

07464159

REGISTERED OFFICE

Sir Henry Parkes Road
Canley
Coventry
West Midlands
CV5 6BN

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

BANKERS

Barclays Bank Plc
PO Box 299
Birmingham
B1 3PF

SOLICITORS

Morgan, Lewis & Bockius
Condor House
5-10 St. Paul's Churchyard
London
EC4M 8AL

THERMASYS CS UK HOLDING LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present the Strategic Report of Thermasys CS UK Holding Limited group (the "group") for the year ended 31 December 2017.

BUSINESS REVIEW

The group, despite a turnaround in business volumes, mainly driven from the power generation sector, experienced lower gross margins. These challenging conditions have continued following post Brexit, where higher material costs have been difficult to pass onto customers, in certain instances. Despite this, management continues to believe that integration within the greater API group, will help stabilize the business and position it for future success.

PRINCIPAL RISKS AND UNCERTAINTIES

Our business, financial condition and results of operations will be influenced by a range of factors, many of which are beyond the control of the group. The risk factors set out below and other information in this report should be considered carefully.

CHANGES IN ECONOMIC CONDITION

The two operating companies within the group are historically affected by world economic conditions, more so than UK economic conditions, as the customer base is either international or their end customers are international. As previously stated, the vote to leave the EU impacted margins in both 2016 and 2017. The companies continue to closely monitor demand trends and have demonstrated the ability to adjust their cost base as appropriate.

KEY PERFORMANCE INDICATORS

Performance during the year and comparison with the previous year are detailed in the table below:

	2017	2016	
Growth/(Reduction) in sales % (all operations)	13.0%	(19.4)%	Year on year sales growth expressed as a percentage.
Gross profit %	8.9%	10.5%	Sales less cost of sales, before administration expenses, expressed as a percentage of sales.

FINANCE RISK MANAGEMENT

Price risk

Commodity price risk is mitigated by material price variation agreements with the major customers.

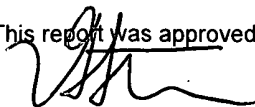
Credit risk

Credit risk is addressed on an individual customer basis with financial stability being reviewed for new customers and payment performance monitoring for established customers.

Liquidity risk

The companies within the group are working well within the banking facilities currently in place.

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



.....
T G Strauss
Director

Date: 9/21/2018

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017**

The directors present their annual report and the audited consolidated financial statements of Thermasys CS UK Holding Limited for the year ended 31 December 2017.

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising Financial Reporting Standard 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 the Group and of the profit or loss of the Group and company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

PRINCIPAL ACTIVITIES

The principal activity of the company and its subsidiaries is the design and manufacture of cooling equipment for the marine and industrial markets.

Covrad Heat Transfer Limited focuses primarily on the power generation market whilst Hallco 1516 Limited focuses on the marine and industrial markets.

RESULTS AND DIVIDENDS

The loss for the financial year amounted to £2,154,257 (2016: £1,785,028).

The directors do not recommend the payment of a dividend (2016: £nil).

DIRECTORS

The directors who served during the year and up to the date of signing the financial statements, unless otherwise stated, were:

J M Laisure
T G Strauss (appointed 1 January 2018)

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

FINANCIAL RISK MANAGEMENT

Price risk

Commodity price risk is mitigated by material price variation agreements with the major customers.

Credit risk

Credit risk is addressed on an individual customer basis with financial stability being accessed for new customers and payment performance monitoring for established customers.

Liquidity risk

The companies within the group are working well within the banking facilities currently in place.

FUTURE DEVELOPMENTS

The company will remain committed to ensuring quality in the design, manufacture and maintenance/service of all its products. To this end the company is committed to invest, implement and maintain the standards required to achieve the appropriate quality standards.

The directors are aware that the world economic situation has a direct influence on the business and, whilst they need to be aware of the possibilities of future uncertainties and uneven demand, they remain confident in the medium to long term prospects of the company.

The deficit on the closed defined benefit pension scheme increased during the year. However, the directors believe that this is a long term funding issue and these short term movements, even when significantly negative, are not reflective of the true situation. The company has agreed a revised funding schedule with the trustees based on the 2016 triennial review and will continue to implement this.

GOING CONCERN

The Thermasys CS UK Holding Limited group owes £12.2m to group undertakings, while Thermasys CS UK Holding company owes £10.5m to group undertakings as detailed in note 18. The group and the company would not have the ability to repay the group undertakings if repayment would be requested within one year. Therefore the ultimate parent company, API Heat Transfer Company, has provided the directors of the group and company with a written confirmation that they will ensure that none of the group companies will seek repayment of the amounts owed to group undertakings for at least 12 months from the approval of these financial statements. The ultimate parent company has an external revolving credit facility and term loan that mature on 3 May 2019. There is uncertainty over the outcome of negotiations between group management and the external lenders which may, should the facilities be called for repayment, impact the ultimate parent company's ability to provide its commitment in the written confirmation.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the group and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern. Having taken into account the parent company's historical record of renegotiating its external banking agreements and therefore being able to provide its commitment in the written confirmation, the Directors consider Thermasys CS UK Holding group and company, on a standalone basis, to be a going concern.

FINANCIAL INSTRUMENTS

During the year, the company did not have any abnormal exposure to price, liquidity and cash flow risks arising from its trading activities. In terms of currency risk, the company did not enter any hedging transactions and no trading in financial instruments were undertaken. In terms of commodities, the company entered into a number of fixing arrangements for copper as part of the API group in order to offer customers a stable price for a given volume of product for a limited time. Whilst there is some timing risk associated with these products, the company believes this to be relatively small and is closely monitoring the outcomes of these contracts.

THERMASYS CS UK HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

DIRECTORS' INTERESTS

During the year, no rights to subscribe for shares in the company were granted to or exercised by the directors.

DISCLOSURE OF INFORMATION TO AUDITORS

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

- so far as the directors are aware, there is no relevant audit information of which the Company and the Group's auditors are unaware; and
- they have taken all the steps that they ought to have been taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company and the Group's auditors are aware of that information.

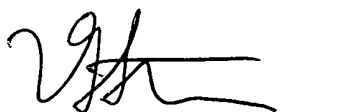
DIRECTORS' INDEMNITY

The company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors and officers of the company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the company.

INDEPENDENT AUDITORS

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

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



T G Strauss
Director

Date: 9/21/2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THERMASYS CS UK HOLDING LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Thermasys CS UK Holding 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 31 December 2017 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 balance sheets as at 31 December 2017; the consolidated statement of comprehensive income; the consolidated and company statements of changes in equity and the consolidated statement of cash flows 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.

Emphasis of matter - Group - recoverability of amounts owed by group undertakings

In forming our opinion on the financial statements, which is not modified, we note that Thermasys CS UK Holding Limited is owed £3.1m by group undertakings as detailed in note 16. Thermasys CS UK Holding's ultimate parent API Heat Transfer Company has an external revolving credit facility and term loan that mature on 3 May 2019. There is uncertainty over the outcome of negotiations between group management and the external lenders which may, should the facilities be called for repayment, impact the recoverability of the £3.1m owed.

Material uncertainty relating to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.5 to the financial statements concerning the group's and company's ability to continue as a going concern. The Thermasys CS UK Holding Limited group owes £12.2m (company £10.5m) to group undertakings as detailed in note 18. The ultimate parent company, API Heat Transfer Company, has provided the directors of the group with a written confirmation that they will not seek repayment of the amounts owed for at least 12 months from the approval of these financial statements. The ultimate parent company has an external revolving credit facility and term loan that mature on 3 May 2019. There is uncertainty over the outcome of negotiations between group management and the external lenders which may, should the facilities be called for repayment, impact the ultimate parent company's ability to provide its commitment in the written confirmation.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the group's and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THERMASYS CS UK HOLDING 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 31 December 2017 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 Directors' Responsibilities Statement set out on page 4, 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.

THERMASYS CS UK HOLDING LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THERMASYS CS UK HOLDING 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.

Matt Palmer

Matt Palmer (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

Date: 26 SEPTEMBER 2018

THERMASYS CS UK HOLDING LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £	2016 £
Turnover	3	28,398,694	25,132,970
Cost of sales		(25,872,738)	(22,490,219)
Gross profit		2,525,956	2,642,751
Distribution costs		(791,708)	(873,792)
Administrative expenses		(2,467,001)	(2,686,279)
Other operating income	4	-	82,085
Other operating charges		(182,280)	(43,051)
Operating loss	5	(915,033)	(878,286)
Interest payable and similar expenses	9	(970,002)	(850,098)
Other finance costs	10	(226,000)	(225,000)
Loss before taxation		(2,111,035)	(1,953,384)
Tax on loss	11	(43,222)	168,356
Loss for the financial year		(2,154,257)	(1,785,028)
Other comprehensive income for the year			
Actuarial gain/(loss) on defined benefit pension scheme		384,000	(2,580,000)
Current tax relating to the actuarial gain on the pension scheme		-	55,800
Movement of deferred tax attributable to actuarial gain/(loss) on the pension scheme		(65,280)	392,520
Other comprehensive income for the year		318,720	(2,131,680)
Total comprehensive income for the year		(1,835,537)	(3,916,708)

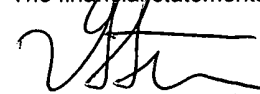
The notes on pages 15 to 37 form part of these financial statements.

THERMASYS CS UK HOLDING LIMITED
REGISTERED NUMBER: 07464159

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 £	2016 £
Fixed assets			
Intangible assets	12	2,088,967	2,785,290
Tangible assets	13	3,241,581	3,639,190
		<u>5,330,548</u>	<u>6,424,480</u>
Current assets			
Stocks	15	4,026,742	3,593,372
Debtors	16	11,895,645	11,593,443
Cash at bank and in hand	17	-	328,865
		<u>15,922,387</u>	<u>15,515,680</u>
Creditors: amounts falling due within one year	18	(16,990,166)	(15,112,854)
Net current (liabilities)/assets		<u>(1,067,779)</u>	<u>402,826</u>
Total assets less current liabilities		<u>4,262,769</u>	<u>6,827,306</u>
Pension liability	21	(7,654,000)	(8,383,000)
Net liabilities		<u>(3,391,231)</u>	<u>(1,555,694)</u>
Capital and reserves			
Called up share capital	23	2,210,829	2,210,829
Profit and loss account		(5,602,060)	(3,766,523)
Total shareholders' deficit		<u>(3,391,231)</u>	<u>(1,555,694)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



T G Strauss
 Director

Date: 9/21/2018

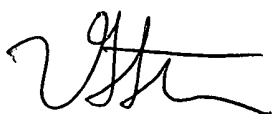
THERMASYS CS UK HOLDING LIMITED
REGISTERED NUMBER: 07464159

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 £	2016 £
Fixed assets			
Tangible assets	13	1,578,593	1,610,940
Investments	14	6,475,499	6,475,499
		<u>8,054,092</u>	<u>8,086,439</u>
Current assets			
Debtors	16	153,349	153,349
		<u>153,349</u>	<u>153,349</u>
Creditors: amounts falling due within one year	18	(10,541,804)	(9,711,226)
Net current liabilities		<u>(10,388,455)</u>	<u>(9,557,877)</u>
Total assets less current liabilities		<u>(2,334,363)</u>	<u>(1,471,438)</u>
Net liabilities		<u>(2,334,363)</u>	<u>(1,471,438)</u>
Capital and reserves			
Called up share capital	23	2,210,829	2,210,829
Profit and loss account brought forward		(3,682,267)	(2,963,770)
Loss for the financial year		(862,925)	(718,497)
Profit and loss account carried forward		<u>(4,545,192)</u>	<u>(3,682,267)</u>
Total shareholders' deficit		<u>(2,334,363)</u>	<u>(1,471,438)</u>

The company has taken advantage of section 408 of the Companies Act 2006 and has not included its own Statement of Comprehensive Income in these financial statements.

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:



.....
T G Strauss

Director

Date: 9/21/2018

THERMASYS CS UK HOLDING LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital £	Profit and loss account £	Total shareholders' funds/(deficit) £
At 1 January 2016	2,210,829	150,185	2,361,014
Comprehensive expense for the financial year			
Loss for the financial year	-	(1,785,028)	(1,785,028)
Actuarial loss on pension scheme net of tax	-	(2,131,680)	(2,131,680)
Other comprehensive expense for the financial year	-	(2,131,680)	(2,131,680)
Total comprehensive expense for the financial year	-	(3,916,708)	(3,916,708)
At 31 December 2016 and 1 January 2017	2,210,829	(3,766,523)	(1,555,694)
Comprehensive expense for the year			
Loss for the financial year	-	(2,154,257)	(2,154,257)
Actuarial gain on pension scheme net of tax	-	318,720	318,720
Other comprehensive income for the financial year	-	318,720	318,720
Total comprehensive expense for the financial year	-	(1,835,537)	(1,835,537)
At 31 December 2017	2,210,829	(5,602,060)	(3,391,231)

THERMASYS CS UK HOLDING LIMITED

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital	Profit and loss account	Total shareholders' deficit
	£	£	£
At 1 January 2016	2,210,829	(2,963,770)	(752,941)
Comprehensive expense for the financial year			
Loss for the financial year	-	(718,497)	(718,497)
Total comprehensive expense for the financial year	-	(718,497)	(718,497)
At 31 December 2016 and 1 January 2017	2,210,829	(3,682,267)	(1,471,438)
Comprehensive expense for the year			
Loss for the financial year	-	(862,925)	(862,925)
Total comprehensive expense for the financial year	-	(862,925)	(862,925)
At 31 December 2017	2,210,829	(4,545,192)	(2,334,363)

THERMASYS CS UK HOLDING LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017 £	2016 £
Cash flows from operating activities		
Loss for the financial year	(2,154,257)	(1,785,028)
Adjustments for:		
Amortisation of intangible assets	696,323	696,323
Depreciation of tangible assets	504,713	486,268
Interest paid	970,002	850,098
Taxation charge	43,222	(168,356)
Increase in stocks	(433,370)	(591,161)
Increase in debtors	(471,511)	(447,289)
Increase in creditors	1,852,528	3,507,014
Corporation tax received/(paid)	60,807	(131,400)
Defined benefits pension expense less payments	(345,000)	(279,000)
Net cash generated from operating activities	<u>723,457</u>	<u>2,137,469</u>
Cash flows from investing activities		
Purchase of tangible assets	(107,104)	(2,044,769)
Net cash used in investing activities	<u>(107,104)</u>	<u>(2,044,769)</u>
Cash flows from financing activities		
Movements on invoice discounting	(720,174)	720,174
Interest paid	(970,002)	(850,098)
Net cash used in financing activities	<u>(1,690,176)</u>	<u>(129,924)</u>
Net decrease in cash and cash equivalents	<u>(1,073,823)</u>	<u>(37,224)</u>
Cash and cash equivalents at beginning of year	328,865	366,089
Cash and cash equivalents at the end of year	<u><u>(744,958)</u></u>	<u><u>328,865</u></u>
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	-	328,865
Bank overdrafts	(744,958)	-
	<u><u>(744,958)</u></u>	<u><u>328,865</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1. ACCOUNTING POLICIES

1.1 GENERAL INFORMATION

Thermasys CS UK Holding Limited's (the "Company") and Thermasys CS UK Holding Limited group's (the "Group") principal activities are the design and manufacture of cooling equipment for power generation, marine and rail traction engine markets.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is: Sir Henry Parkes Road, Canley, Coventry, West Midlands, CV5 6BN.

1.2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2).

The following principal accounting policies have been applied:

1.3 BASIS OF CONSOLIDATION

The consolidated financial statements present the results of Group and its own subsidiaries ("the Group") as they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Balance Sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained. They are deconsolidated from the date control ceases.

1.4 EXEMPTIONS FOR QUALIFYING ENTITIES UNDER FRS 102

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

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in these consolidated financial statements.

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1. ACCOUNTING POLICIES (CONTINUED)

1.5 GOING CONCERN

The The Thermasys CS UK Holding Limited group owes £12.2m to group undertakings, while Thermasys CS UK Holding company owes £10.5m to group undertakings as detailed in note 18. The group and the company would not have the ability to repay the group undertakings if repayment would be requested within one year. Therefore the ultimate parent company, API Heat Transfer Company, has provided the directors of the group and company with a written confirmation that they will ensure that none of the group companies will seek repayment of the amounts owed to group undertakings for at least 12 months from the approval of these financial statements. The ultimate parent company has an external revolving credit facility and term loan that mature on 3 May 2019. There is uncertainty over the outcome of negotiations between group management and the external lenders which may, should the facilities be called for repayment, impact the ultimate parent company's ability to provide its commitment in the written confirmation.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the group and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern. Having taken into account the parent company's historical record of renegotiating its external banking agreements and therefore being able to provide its commitment in the written confirmation, the Directors consider Thermasys CS UK Holding group and company, on a standalone basis, to be a going concern.

1.6 TURNOVER

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

Sale of goods

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

- the Group has transferred the significant risks and rewards of ownership to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- it is probable that the Group will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1. ACCOUNTING POLICIES (CONTINUED)

1.7 INTANGIBLE ASSETS

GOODWILL

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the Group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, Goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Profit and loss account over its useful economic life.

OTHER INTANGIBLE ASSETS

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

The estimated useful lives range as follows:

Goodwill	- 10 years
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1.8 TANGIBLE ASSETS

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

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives range as follows:

Depreciation is provided on the following basis:

Property and leasehold improvements	- 20% straight line
Plant and machinery	- 10% to 25% straight line
Fixtures, fittings and equipment	- 10% to 33% straight line
Jigs & tools	- 10% to 25% straight line

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1. ACCOUNTING POLICIES (CONTINUED)

1.9 LEASING AND HIRE PURCHASE COMMITMENTS

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Consolidated Statement of Comprehensive Income so as to produce a constant periodic rate of charge on the net obligation outstanding in each period. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

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

1.10 VALUATION OF INVESTMENTS

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

1.11 STOCKS

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

At each balance sheet date, stocks are assessed for impairment. If stocks are impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

1.12 DEBTORS

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

1.13 CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Consolidated Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

1.14 FINANCIAL INSTRUMENTS

The Group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1. ACCOUNTING POLICIES (CONTINUED)

1.14 FINANCIAL INSTRUMENTS (CONTINUED)

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 amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, 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 amortised cost.

Financial assets that are measured at cost and amortised 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 recognised in the Consolidated Statement of Comprehensive Income.

For financial assets measured at amortised 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 of the recoverable amount, 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 Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.15 CREDITORS

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1. ACCOUNTING POLICIES (CONTINUED)

1.16 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

The company's functional and presentational currency is pound sterling.

Transactions and balances

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

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

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Consolidated Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Consolidated Statement of Comprehensive Income within 'other operating income'.

1.17 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. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

1.18 OPERATING LEASES: THE GROUP AS LESSEE

Rentals paid 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
FOR THE YEAR ENDED 31 DECEMBER 2017**

1. ACCOUNTING POLICIES (CONTINUED)

1.19 PENSIONS

DEFINED CONTRIBUTION PENSION PLAN

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

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

DEFINED BENEFIT PENSION SCHEME

The company operates a defined benefits pension scheme and the pension charge is based on a full actuarial valuation dated 6 April 2016 and updated to 31 December 2017 by an independent qualified actuary.

The pension costs charged against profits are based on actuarial methods and assumptions designed to spread the anticipated costs over the service lives of the employees in the scheme, so as to ensure that the regular costs of providing benefits represents a substantially level percentage of the current and future pensionable payroll. Variations from regular costs are spread over the average remaining service lives of current employees in the scheme.

Benefits have ceased to accrue with effect from 30 June 2003 and the final salary link for active members in respect of benefits accrued prior to that date has been broken. The scheme is now closed to new entrants.

1.20 INTEREST INCOME

Interest income is recognised in the Consolidated Statement of Comprehensive Income using the effective interest method.

1.21 BORROWING COSTS

All borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the year in which they are incurred.

1.22 PROVISIONS FOR LIABILITIES

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Consolidated Statement of Comprehensive Income in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1. ACCOUNTING POLICIES (CONTINUED)

1.23 CURRENT AND DEFERRED TAXATION

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

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date in the countries where the Company and the Group operate and generate income.

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

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

1.24 TOOLING

The company manufactures tooling which is used in production. The cost of such tooling is capitalised by the company as a fixed asset and depreciated in equal installments over a period of three years. The costs capitalised consist of the direct labour and overheads involved in the production of the tools and a relevant proportion of indirect production overheads.

1.25 WARRANTIES

The company provides warranties on large contracts. Costs to rectify claims made under these warranties are accrued in the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF 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.

(a) Judgements in applying accounting policies

There are not considered to be any judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(b) Key sources of estimation uncertainty

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 13 for the carrying amount of the property plant and equipment, and note 1(1.8) for the useful economic lives for each class of assets.

(ii) Stocks provisioning

The group designs and manufactures cooling equipment for power generation, off-highway vehicles and rail traction engine markets. As a result it is necessary to consider the recoverability of the cost of stocks and the associated provisioning required. When calculating the stocks provision, management considers the nature and condition of the stocks, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 15 for the net carrying amount of the stocks and associated provision.

(iii) Impairment of debtors

The group makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 16 for the net carrying amount of the debtors and associated impairment provision.

(iv) Defined benefit pension scheme

The group has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 21 for the disclosures relating to the defined benefit pension scheme.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

3. TURNOVER

An analysis of turnover by class of business is as follows:

	2017 £	2016 £
Power generation	17,327,000	15,093,000
Railway traction	22,359	8,000
Marine and industrial	9,123,542	842,453
Scrap sales	293,339	215,664
Other	1,632,454	8,973,853
	<u>28,398,694</u>	<u>25,132,970</u>

Analysis of turnover by country of destination:

	2017 £	2016 £
United Kingdom	16,595,547	14,056,077
Europe	3,692,816	3,912,456
Rest of the world	8,110,331	7,164,437
	<u>28,398,694</u>	<u>25,132,970</u>

4. OTHER OPERATING INCOME

	2017 £	2016 £
Gain on exchange rates	-	82,085
	<u>-</u>	<u>82,085</u>

5. OPERATING LOSS

The operating loss is stated after charging/(crediting):

	2017 £	2016 £
Depreciation of tangible assets	504,713	486,268
Amortisation of intangible assets	696,323	696,323
Operating lease rentals	90,687	118,236
Stocks recognised as an expense	19,378,099	16,362,496
Exchange differences	134,099	(24,621)
	<u>20,703,621</u>	<u>17,378,702</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

6. AUDITORS' REMUNERATION

	2017 £	2016 £
Fees payable to the Group's auditors for the audit of the Group's annual financial statements	20,995	20,995
Fees payable to the Group's auditors in respect of:		
The auditing of financial statements of associates of the Group pursuant to legislation	37,100	37,100
Taxation compliance services	9,500	9,500
All other services	7,880	7,880
	<u>54,480</u>	<u>54,480</u>

7. EMPLOYEES

Staff costs were as follows:

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Wages and salaries	4,945,110	4,547,581	-	-
Social security costs	478,905	443,457	-	-
Other pension costs	138,429	207,127	-	-
	<u>5,562,444</u>	<u>5,198,165</u>	<u>-</u>	<u>-</u>

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

	2017 Number	2016 Number
Production staff	134	121
Administrative staff	15	18
	<u>149</u>	<u>139</u>

The company has no employees except for the director who is not remunerated for his services to the group.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**
8. DIRECTORS' REMUNERATION

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable to services wholly attributable to Thermasys CS UK Holdings. No recharge is made to the Company.

The key management personnel are not considered to be different to the Directors of the Company.

9. INTEREST PAYABLE AND SIMILAR EXPENSES

	2017 £	2016 £
Other loan interest payable	921,744	837,204
Other interest payable	48,258	12,894
	<u>970,002</u>	<u>850,098</u>

10. OTHER FINANCE COSTS

	2017 £	2016 £
Net interest on net defined benefit liability	<u>(226,000)</u>	<u>(225,000)</u>

11. TAX ON LOSS

	2017 £	2016 £
CORPORATION TAX		
Current tax on loss for the year	-	55,800
Adjustments in respect of previous periods	<u>(148,142)</u>	<u>(53,272)</u>
	<u>(148,142)</u>	<u>2,528</u>
DEFERRED TAX		
Origination and reversal of timing differences	75,613	(285,970)
Changes to tax rates	(8,826)	99,084
Adjustments in respect of previous periods	<u>124,577</u>	<u>16,002</u>
TOTAL DEFERRED TAX	<u>191,364</u>	<u>(170,884)</u>
TAX ON LOSS	<u>43,222</u>	<u>(168,356)</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

11. TAX ON LOSS (CONTINUED)

FACTORS AFFECTING TAX (CREDIT)/CHARGE FOR THE YEAR

The tax assessed for the year is higher than (2016: higher than) the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%). The differences are explained below:

	2017 £	2016 £
Loss before taxation	<u>(2,111,035)</u>	<u>(1,953,384)</u>
Loss before taxation multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	<u>(406,302)</u>	<u>(390,677)</u>
EFFECTS OF:		
Non-tax deductible amortisation of goodwill and impairment	149,672	155,532
Expenses not deductible for tax purposes	11,507	4,975
Adjustments in respect of previous periods	(23,565)	(37,270)
Tax rate changes	(8,826)	99,084
Losses derecognised / not recognised	<u>320,736</u>	<u>-</u>
TOTAL TAX CHARGE/(CREDIT) FOR THE YEAR	<u>43,222</u>	<u>(168,356)</u>

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the Statement of Financial Position date have been measured using these enacted tax rates and reflected in these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

12. INTANGIBLE ASSETS

Group

	Goodwill £
COST	
At 1 January 2017	6,963,223
At 31 December 2017	<u>6,963,223</u>
ACCUMULATED AMORTISATION	
At 1 January 2017	4,177,933
Charge for the year	696,323
At 31 December 2017	<u>4,874,256</u>
NET BOOK VALUE	
At 31 December 2017	<u>2,088,967</u>
At 31 December 2016	<u>2,785,290</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

13. TANGIBLE ASSETS

Group

	Freehold improvements £	Plant and machinery £	Fixtures, fittings and equipment £	Jigs & tools £	Total £
COST					
At 1 January 2017	1,638,855	5,011,079	415,510	93,043	7,158,487
Additions	-	68,212	38,892	-	107,104
At 31 December 2017	<u>1,638,855</u>	<u>5,079,291</u>	<u>454,402</u>	<u>93,043</u>	<u>7,265,591</u>
ACCUMULATED DEPRECIATION					
At 1 January 2017	27,915	3,109,113	295,361	86,908	3,519,297
Charge for the year	32,347	390,269	75,962	6,135	504,713
At 31 December 2017	<u>60,262</u>	<u>3,499,382</u>	<u>371,323</u>	<u>93,043</u>	<u>4,024,010</u>
NET BOOK VALUE					
At 31 December 2017	<u>1,578,593</u>	<u>1,579,909</u>	<u>83,079</u>	<u>-</u>	<u>3,241,581</u>
At 31 December 2016	<u>1,610,940</u>	<u>1,901,966</u>	<u>120,149</u>	<u>6,135</u>	<u>3,639,190</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	2017 £	2016 £
Plant and machinery	<u>-</u>	<u>19,906</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

13. TANGIBLE ASSETS (CONTINUED)

Company

	Freehold improvements £
COST	
At 1 January 2017	1,610,940
At 31 December 2017	1,610,940
ACCUMULATED DEPRECIATION	
At 1 January 2017	-
Charge for the year	32,347
At 31 December 2017	32,347
NET BOOK VALUE	
At 31 December 2017	1,578,593
At 31 December 2016	1,610,940

14. INVESTMENTS

Company

	Investments in subsidiary companies £
COST	
At 1 January 2017	6,475,499
At 31 December 2017	6,475,499
NET BOOK VALUE	
At 31 December 2017	6,475,499
At 31 December 2016	6,475,499

The subsidiaries of the company are detailed in note 27.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

15. STOCKS

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Raw materials and consumables	2,889,588	2,720,270	-	-
Work in progress	1,103,153	860,376	-	-
Finished goods and goods for resale	34,001	12,726	-	-
	4,026,742	3,593,372	-	-

The difference between replacement value and historical cost of stocks is not significant.

Stocks include a provision for impairment of £299,056 (2016: £294,723).

16. DEBTORS

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Trade debtors	5,687,890	5,192,306	-	-
Amounts owed by group undertakings	3,138,913	3,424,633	-	-
Other debtors	1,494,212	1,238,285	-	-
Corporation tax	160,600	73,265	153,349	153,349
Deferred taxation	1,309,857	1,566,501	-	-
Prepayments and accrued income	104,173	98,453	-	-
	11,895,645	11,593,443	153,349	153,349

Trade debtors include a provision for impairment of £92,911 (2016: £46,795).

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

The ultimate parent API Heat Transfer Company has an external revolving credit facility and term loan that mature on 3 May 2019. There is uncertainty over the outcome of negotiations between group management and the external lenders which may, should the facilities be called for repayment, impact the recoverability of the £3.1m owed.

17. CASH AND CASH EQUIVALENTS

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Cash at bank and in hand	-	328,865	-	-
Less: bank overdrafts (note 18)	(744,958)	-	-	-
	(744,958)	328,865	-	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Bank overdrafts	744,958	-	-	-
Trade creditors	3,602,948	3,592,907	-	-
Amounts owed to group undertakings	12,168,071	10,369,733	10,541,804	9,711,226
Other taxation and social security	276,068	131,630	-	-
Proceeds of factored debts	-	720,174	-	-
Other creditors	52,040	95,308	-	-
Accruals and deferred income	146,081	203,102	-	-
	<u>16,990,166</u>	<u>15,112,854</u>	<u>10,541,804</u>	<u>9,711,226</u>

Amounts owed to group undertakings include trading balances that are unsecured, have no fixed date of repayment and are repayable on demand and a loan that attracts an interest rate of 10%. API Heat Transfer Company confirms that group companies will not seek repayment of the balance of £12,168,071 (2016: £10,369,733) for the foreseeable future being a period of not less than 12 months from the date of the approval of the statutory financial statements.

19. FINANCIAL INSTRUMENTS

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
FINANCIAL ASSETS				
Financial assets that are debt instruments measured at amortised cost	<u>10,321,015</u>	<u>9,855,224</u>	<u>-</u>	<u>-</u>
FINANCIAL LIABILITIES				
Financial liabilities measured at amortised cost	<u>(16,714,326)</u>	<u>(14,261,049)</u>	<u>(10,541,804)</u>	<u>(9,711,226)</u>

Financial assets that are debt instruments 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 companies, proceeds of factored debts, other creditors and accruals.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

20. DEFERRED TAXATION

Group

	2017 £
At beginning of year	1,566,501
Charged to profit or loss	(191,364)
Charged to other comprehensive income	(65,280)
AT END OF YEAR	<u>1,309,857</u>

The deferred tax asset is made up as follows:

	Group 2017 £	Group 2016 £
Accelerated capital allowances	(2,159)	(60,850)
Tax losses carried forward	-	185,550
Pension surplus	1,301,181	1,425,110
Short term timing differences	10,835	16,691
	<u>1,309,857</u>	<u>1,566,501</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

21. PENSION COMMITMENTS

Defined contribution

The group operates a defined contribution scheme for the benefit of its UK employees. The assets of the scheme are administered by trustees in funds independent from those of the company. Contributions payable by the group for the year totalled £81,429 (2016: £83,127).

Defined benefit

The Group operates a Defined benefit pension scheme.

The assets of the scheme are administered by trustees in funds independent from those of the company and invested directly on the advice of the independent professional investment managers.

Benefits do not accrue and the final salary link for active members in respect of benefits has been broken. The scheme is now closed to new entrants.

The treatment of pension costs in these financial statements is in accordance with the provisions of Financial Reporting Standard 102 (FRS102).

The last full actuarial valuation was carried out at 6 April 2016 and updated to 31 December 2017 by an independent qualified actuary.

During the year, the group made contributions of £628,000 (2016: £628,000) towards the accumulated deficit in the scheme.

Reconciliation of present value of plan liabilities:

	2017 £
RECONCILIATION OF PRESENT VALUE OF PLAN LIABILITIES	
At the beginning of the year	19,838,000
Interest cost	548,000
Actuarial gains/losses	323,000
Benefits paid	(563,000)
AT THE END OF THE YEAR	20,146,000

Reconciliation of present value of plan assets:

	2017 £
At the beginning of the year	11,455,000
Interest income	322,000
Actuarial gains/losses	707,000
Contributions	628,000
Benefits paid	(563,000)
Past service cost	(57,000)
AT THE END OF THE YEAR	12,492,000

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

21. PENSION COMMITMENTS (CONTINUED)

Composition of plan assets:

	2017 £	2016 £
Equities	7,416,000	6,960,000
Bonds	3,028,000	3,056,000
Other	2,048,000	1,439,000
TOTAL PLAN ASSETS	12,492,000	11,455,000

	2017 £	2016 £
Fair value of plan assets	12,492,000	11,455,000
Present value of plan liabilities	(20,146,000)	(19,838,000)
NET PENSION SCHEME LIABILITY	(7,654,000)	(8,383,000)

The amounts recognised in profit or loss are as follows:

	2017 £	2016 £
Net interest on net defined benefit liability	(226,000)	(225,000)
Administration expenses	(57,000)	(124,000)
TOTAL	(283,000)	(349,000)
Actual return on scheme assets	972,000	1,066,000

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

21. PENSION COMMITMENTS (CONTINUED)

Principal actuarial assumptions at the Balance sheet date (expressed as weighted averages):

	2017	2016
	%	%
Discount rate	2.40	2.80
Rate of increase in pensions payment	2.40	2.30
Inflation assumption	3.30	3.20
Mortality rates		
- for a male aged 65 now	86	87
- at 65 for a male aged 45 now	87	89
- for a female aged 65 now	88	89
- at 65 for a female member aged 45 now	89	91

22. COMMITMENTS UNDER OPERATING LEASES

At 31 December the Group had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2017 £	Group 2016 £
Not later than 1 year	38,352	35,509
Later than 1 year and not later than 5 years	68,513	25,370
	106,865	60,879

23. CALLED UP SHARE CAPITAL

	2017 £	2016 £
SHARES CLASSIFIED AS EQUITY		
ALLOTTED, CALLED UP AND FULLY PAID		
2,210,829 (2016: 2,210,829) ordinary shares of £1 (2016: £1) each	2,210,829	2,210,829

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

24. PROFIT AND LOSS ACCOUNT

Profit and loss account

Retained earnings represents all net gains and losses and transactions with owners (e.g. dividends) that are not recognised elsewhere.

25. RELATED PARTY TRANSACTIONS

During the year, the company made purchases of £12,424 (2016: £7,673) from General Thermodynamics, a fellow group company incorporated in the U.S.A. At 31 December 2017, the balance due to General Thermodynamics was £10,885 (2016: £6,317).

During the year, the company made sales of £71,324 (2016: £144,84) to General Thermodynamics, a fellow group company incorporated in the U.S.A. At 31 December 2017, the balance owed by General Thermodynamics was £39,742 (2016: £59,984).

During the year, the company received a loan of £Nil (2016: £Nil) from Thermasys Group Holding Company Inc. At 31 December 2017, the balance due to Thermasys Group Holding Company Inc. was £9,977,327 (2016: £9,055,583).

26. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate controlling party is Wellspring Capital Management LLC, a company incorporated in the USA. It purchased Thermasys CS UK Holding Limited on 31 January 2012.

The immediate parent company is Thermasys Group Holding Company Inc., a company incorporated in the USA, which is the smallest group to consolidate these financial statements.

27. SUBSIDIARY UNDERTAKINGS

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Covrad Holdings Limited	Ordinary	100 %	Holding company
Covrad Heat Transfer Limited*	Ordinary	100 %	Manufacturing of cooling equipment
Hallco 1516 Limited	Ordinary	100 %	Manufacturing of cooling equipment

* Indirectly owned through Covrad Holdings Limited

All subsidiaries have the registered address Sir Henry Parkes Road, Canley, Coventry, CV5 6BN.