Heatrod Elements Limited

Directors' report and financial statements

Registered number 00766637

31 December 2017

Contents

Company information

Directors	H T Hansson U C Fredriksson T G Lindquist S Ellam
Company Secretary	Southampton Row Secretaries Ltd
Registered Number	00766637
Registered Office	65 Carter Lane London EC4V 5HF
Trading Address	Unit 50 Wardley Industrial Estate Worsley Manchester M28 2DP
Independent Auditor	KPMG LLP 1 St Peter's Square Manchester M2 3AE

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2017.

Principal activities

The company's principle activity during the year continued to be that of manufacturing electric heating components and finished products.

Business Review

During 2017 the business has continued to consolidate its position in both industrial and consumer markets and has built a solid and stable platform for growth over coming years. More robust processes and system based work methods are increasing transparency and progress tracking for all staff. Increased sales activity remains a priority along with the resources required to achieve this goal.

The performance of the business in 2017 remained challenging due to the effects of major exchange rate changes against the Hong Kong Dollar impacting both businesses but predominantly the volume business after the EU referendum. This created losses in margin that required increased prices to customers that have only fully been achieved towards the end of the financial year. Combined with a substantial provision made for a potential new product recall, these events impacted an otherwise progressive year.

The acquisition of the unincorporated business of Ormandy Electrical Ormandy at the start of the year is expected to give further strength to Heatrod's industrial markets which remain a key focus in delivering stable, high margin growth to the business.

The key performance indicators for the company are revenue and operating profit.

In the year ended 31 December 2017, the company has reported revenues of £6,190,268 *(2016: £6,192,964)*. This has led to an operating profit of £28,701 in 2017 *(2016 loss: £97,602)*.

The profit for the year, after taxation, amounted to £1,989 *(2016 loss : £115,094)*.

Principal risks and uncertainties

Competition in the UK market remains intense with competitors from both UK and global markets continuing to operate in the local market. Large, volume original equipment manufacturer accounts remain a risk with competitors investing in lower cost manufacturing techniques and pushing prices down. Uncertainty remains over the decision to leave the EU which is already creating price inflation and unstable exchange rates. A continuing focus on developing the industrial business and industrial customers is key to the future success of Heatrod in the UK.

Going concern

The directors have a reasonable expectation that whilst the company is currently in a net liability position, with the financial support of its parent company, Backer BHV AB, that there are adequate resources to continue in operational existence for the foreseeable future. For further information regarding the directors' assessment of the going concern status of the company, refer to the accounting policies note on page 10.

Directors

The directors who held office during the year were as follows:

H T Hansson
U C Fredriksson
T G Lindquist
S Ellam

Political donations

The company made no political donations during the year *(2016: £nil)*.

Proposed dividend

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

Directors' report *(continued)*

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Other Information

The company has taken advantage of the exemption under section 414B of the Companies Act 2006 not to present a strategic report.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

S Ellam
Director

Unit 50
Wardley Industrial Estate
Worsley
Manchester
M28 2DP
19 November 2017

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG LLP

1 St Peter's Square
Manchester
M2 3Ae
United Kingdom

Independent auditor's report to the members of Heatrod Elements Limited

Opinion

We have audited the financial statements of Heatrod Elements Limited ("the company") for the year ended 31 December 2017 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Directors' report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Heatrod Elements Limited *(continued)*

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Roger Nixon

Roger Nixon
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

20 November 2018

Profit and Loss Account and Other Comprehensive Income
for the year ended 31 December 2017

	Note	**2017** **£**	2016 £
Turnover	*3*	**6,190,268**	6,192,964
Cost of sales		**(4,568,293)**	(4,428,960)
Gross profit		**1,621,975**	1,764,004
Administrative expenses		**(1,626,770)**	(1,892,621)
Other operating income	*4*	**33,496**	31,015
Operating profit/(loss)	*5*	**28,701**	(97,602)
Interest payable and similar charges	*8*	**(26,712)**	(17,492)
Profit/(loss) on ordinary activities before taxation		**1,989**	(115,094)
Tax on profit on ordinary activities	*9*	**-**	-
Profit/(loss) for the financial year		**1,989**	(115,094)
Other comprehensive income			
Other comprehensive income for the year, net of income tax		**-**	-
Total comprehensive income for the year		**1,989**	(115,094)

Balance Sheet
at 31 December 2017

	Note	2017	2017	2016	2016
		£	£	£	£
Fixed assets					
Tangible assets	*10*		275,022		255,482
Investments	*11*		639,328		643,594
Intangible assets	*12*		483,820		-
Current assets					
Stocks	*13*	1,515,400		1,474,192	
Debtors	*14*	1,602,641		1,279,451	
Cash at bank and in hand		134,289		23,940	
		3,252,330		2,777,583	
Creditors: amounts falling due within one year	*15*	(3,607,132)		(3,128,114)	
Net current (liabilities)			(354,802)		(350,531)
Total assets less current liabilities			1,043,368		548,545
Creditors: amounts falling due after more than one year	*16*		(1,167,684)		(767,684)
Provision for liabilities	*18*		(216,730)		(123,896)
Net liabilities			(341,046)		(343,035)
Capital and reserves					
Called up share capital	*20*		50,000		50,000
Profit and loss account			(391,046)		(393,035)
Shareholders' deficit			(341,046)		(343,035)

These financial statements were approved by the board of directors on the 19th November 2018 and were signed on its behalf by:

S Ellam
Director

Company registered number: 00766637

Statement of Changes in Equity

	Called up share capital	Profit and loss account	Total equity
	£	£	£
Balance at 1 January 2016	50,000	(277,941)	(227,941)
Total comprehensive income for the period			
Loss	-	(115,094)	(115,094)
Balance at 31 December 2016	50,000	(393,035)	(343,035)
Balance at 1 January 2017	50,000	(393,035)	(343,035)
Total comprehensive income for the period			
Profit	-	1,989	1,989
Balance at 31 December 2017	**50,000**	**(391,046)**	**(341,046)**

Notes
(forming part of the financial statements)

1 Accounting policies

Heatrod Elements Limited (the "Company") is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework ("FRS 101")*.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking Nibe Industrier AB includes the Company in its consolidated financial statements. The consolidated financial statements of Nibe Industrier AB are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Nibe Industrier AB, Hannabadsvagen 5, Markaryd, Sweden (visitors address), Box 14, SE 285 21, Markaryd, Sweden (postal address).

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital and tangible fixed assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Nibe Industrier AB include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 22.

Measurement convention

The financial statements are prepared on the historical cost basis.

Notes *(continued)*

Accounting policies *(continued)*

Going concern

Notwithstanding net liabilities of £341,046 as at 31 December 2017, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company's overdraft facility and loans totalling £1,717,332 at 31 December 2017 are provided by Danske Bank under a bilateral facility agreement with the Company's ultimate parent, NIBE Industrier AB. This facility expires in December 2018 and NIBE Industrier has indicated its intention to extend or replace this facility, and in any case to continue to make available such funds as are needed by the Company to enable it to meet its liabilities as and when they fall due.

The directors have prepared cash flow forecasts for a period of 15 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through its overdraft facility and in downside cases, through additional funding from its intermediate parent company, Backer BHV AB, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on the continued provision of facilities via NIBE Industrier AB, and Backer BHV AB not seeking repayment of the amounts currently due to them, which at 31 December 2017 amounted to £1,181,683. Backer BHV AB has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and consequently have prepared the financial statements on a going concern basis.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Notes *(continued)*

Accounting policies *(continued)*

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in debt and equity securities

Investments in subsidiaries are carried at cost less impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- plant and machinery 1 – 10 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Notes *(continued)*

Accounting policies *(continued)*

Intangible assets, goodwill and negative goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units. It is not amortised but is tested annually for impairment. This is not in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 which requires that all goodwill be amortised. The directors consider that this would fail to give a true and fair view of the profit for the year and that the economic measure of performance in any period is properly made by reference only to any impairment that may have arisen. It is not practicable to quantify the effect on the financial statements of this departure

Other intangible assets

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

Amortisation

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- customer relationships 7 years

Heatrod Elements Limited adopts IAS 38 and IFRS 3 in recognising intangible assets and ensuring that they criteria of identification, control and future economic benefits have been met. Intangible assets are amortised over their useful life and useful life is reassessed annually. Customer relationships are amortised over their estimated useful life of 7 years on a straight line basis.

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Impairment excluding stocks, and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes *(continued)*

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probably that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Turnover

The whole of the turnover is attributable to the company's principal activity being the sales of electric heating components and finished products. Revenue comprises the fair value of the consideration received, or receivable, for the sale of goods by the Company, in the ordinary course of business, to external customers for goods supplied. Sales of goods are recognised when the Company has delivered the products, the significant risks and rewards of ownership have passed to the customer and the collectability of the related receivable is reasonably assured.

Expenses

Operating lease payments

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Other interest receivable and similar income includes interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Notes *(continued)*

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in debt and equity securities

Investments are stated at amortised cost less impairment.

Notes *(continued)*

2 Acquisitions

On 23 January 2017, the Company acquired the unincorporated business of Ormandy Electrical for £550,000. The Company is a manufacturer of industrial electric heating products and systems. In the 11 months to 31 December 2017 the business contributed revenue of £425k and net profit of £73k to the revenue and net profit of the year.

The business combination is expected to give further strength to Heatrod's industrial markets which remain a key focus in delivering stable, high margin growth to the business.

Effect of acquisition

The acquisition had the following effect on the company's assets and liabilities.

	Book Value	Measurement adjustments	Recognised values on acquisition
	£	£	£
Acquiree's net asset at acquisition date:			
Tangible fixed assets	24,770	-	24,770
Stocks	98,557	(57,147)	41,410
Customer Relationships	-	37,000	37,000
Net identifiable assets and liabilities	**123,327**	**(20,147)**	103,180
Consideration paid:			
Total consideration paid:			550,000
Goodwill on acquisition			446,820

During the period since acquisition and following the receipt of the assets obtained as part of the acquisition, Heatrod Elements Limited have inspected the stock, and made an adjustment of £57,147 as they do not believe that the full value acquired will be recoverable.

3 Turnover

	2017	2016
	£	£
Sale of goods	**6,190,268**	6,192,964

	2017	2016
	£	£
By geographical market		
United Kingdom	**5,758,448**	5,955,254
Other countries	**431,820**	237,710
	6,190,268	6,192,964

The whole of the turnover is attributable to the company's principal activity.

Notes *(continued)*

4 Other operating income

	2017 £	2016 £
Transport costs recovered from customers	**33,496**	31,015
	33,496	31,015

5 Expenses and auditor's remuneration

Included in profit/loss are the following:

	2017 £	2016 £
Difference on foreign exchange	**(89,859)**	215,402
Depreciation of property, plant and equipment	**91,410**	87,971
Operating lease rentals	**97,500**	97,500

Auditor's remuneration:

	2017 £	2016 £
Audit of these financial statements	**17,454**	15,000

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Nibe Industrier AB.

6 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees 2017	2016
Administration	**4**	3
Production	**39**	34
Selling and distribution	**11**	11
	54	48

The aggregate payroll costs of these persons were as follows:

	2017 £	2016 £
Wages and salaries	**1,307,246**	1,178,475
Social security costs	**126,805**	121,330
Contributions to defined contribution plans	**22,000**	24,796
	1,456,051	1,324,601

Notes *(continued)*

7 Directors' remuneration

	2017 £	2016 £
Directors' remuneration	**96,862**	108,000
Company contributions to defined contribution pension schemes	**8,424**	8,350

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £96,862 *(2016: £108,000)*, and company pension contributions of £ 8,424 *(2016: £8,350)* were made to a defined contribution scheme on his behalf.

Three directors are not paid directly by Heatrod Elements Limited. Instead they are remunerated by the ultimate parent company which is disclosed in note 23. They did not perform any material qualifying services for the Company and as such no allocation of their remuneration has been made in these financial statements.

	Number of directors 2017	2016
Retirement benefits are accruing to the following number of directors under:		
Defined contribution pension scheme	**1**	1

8 Interest payable and similar charges

	2017 £	2016 £
On overdraft	**7,025**	5,493
On loans from group undertakings	**19,687**	11,999
Total other interest payable and similar charges	**26,712**	17,492

Interest payable and similar charges includes interest payable and similar charges on bank loans and overdrafts of £ 7,025 *(2016: £5,493)* and on all other loans of £ 19,687 *(2016: £11,999)*. Of the above amount £19,687 *(2016: £11,999)* was payable to group undertakings.

Notes *(continued)*

9 Taxation

Recognised in the profit and loss account

	2017	2016
	£	£
UK corporation tax		
Tax on profit on ordinary activities	-	-

Reconciliation of effective tax rate

	2017	2016
	£	£
Profit/(loss) for the year	1,989	(115,094)
Total tax expense	-	-
Profit/(loss) excluding taxation	**1,989**	(115,094)
Tax using the UK corporation tax rate of 19.26% *(2016: 20%)*	**383**	(23,019)
Non-deductible expenses	**3,939**	2,305
Recognition of previously unrecognised tax losses	-	-
Current year losses for which no deferred tax asset was recognised	**(4,322)**	20,714
Total tax expense	-	-

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2016) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2016, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2017. This will reduce the company's future current tax charge accordingly. The deferred tax at 31 December 2017 has been calculated based on these rates.

The company has unused tax losses of approximately £7,634,651 *(2016: £7,688,418)* available to carry forward against future trading profits. A potential deferred tax asset of £1,331,700 *(2016: £1,307,031)* relating to tax losses, has not been recognised in these financial statements due to uncertainty as to its recoverability.

Notes *(continued)*

10 Tangible fixed assets

	Plant and machinery £
Cost	
Balance at 1 January 2017	893,679
Additions	110,950
Balance at 31 December 2017	1,004,629
Depreciation and impairment	
Balance at 1 January 2017	638,197
Depreciation charge for the year	91,410
Balance at 31 December 2017	729,607
Net book value	
At 1 January 2017	255,482
At 31 December 2017	**275,022**

11 Fixed Asset Investments

	Investments £
Cost	
Balance at 1 January 2017 and at 31 December 2017	643,594
Provision	
Balance at 1 January 2017	-
Impairment	4,266
Balance at 31 December 2017	4,266
Net book value	
At 1 January 2017	643,594
At 31 December 2017	**639,328**

	Registered office address	Class of shares held	Ownership 2017	Ownership 2016
E. Braude Ltd	Liberta House, Sandhurst, Berks, GU4 8R	Ordinary	100%	100%

Notes *(continued)*

12 Intangible assets

	Goodwill £	Customer Relationships £	Total £
Cost			
Balance at 1 January 2016 and 31 December 2016	-	-	-
Balance at 1 January 2017			
Acquisitions through business combinations	446,820	37,000	483,820
Balance at 31 December 2017	446,820	37,000	483,820
Amortisation and impairment			
Balance at 1 January 2016 and 31 December 2016	-	-	-
Balance at 1 January 2017 and 31 December 2017	-	-	-
Net book value			
At 1 January 2016	-	-	-
At 1 January 2017	0	0	0
At 31 December 2017	**446,820**	**37,000**	**483,820**

The newly recognised intangible asset and goodwill are the result of the acquisition made during the year. See note 2 for further details.

The Company tests goodwill annually for impairment or more frequently if there are indications that it may be impaired. The other intangible assets recognised are to be amortised over 7 years from 1 January 2018. The key assumptions for the value in use calculations, used to value the intangibles are those regarding discount rates, growth rates and expected changes to selling prices and direct costs during the period. Discount rates of 10% are a prudent increase on the rates used by NIBE A.B. The Company prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next 12 months and extrapolates cash flows for 6 years, which reflects the product life cycle. An average growth rate of 3.5% is used by the Company. Net Present Value is calculated based on 7 years (actual 2017 and 6 years forecast) cash flows and a terminal value calculation is also made.

Notes *(continued)*

13 Stocks

	2017	2016
	£	£
Raw materials and consumables	**731,200**	483,164
Work in progress	**12,700**	14,800
Finished goods	**771,500**	976,228
	1,515,400	1,474,192

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to £ 3,933,000 *(2016: £3,894,088)*. The write-down of stocks to net realisable value amounted to £50,000 *(2016: £30,000)*.

14 Debtors

	2017	2016
	£	£
Trade debtors	**1,363,838**	1,152,935
Amounts owed by group undertakings	**141,092**	28,490
Prepayments and accrued income	**97,711**	98,026
	1,602,641	1,279,451
Due within one year	**1,602,641**	1,279,451

15 Creditors: amounts falling due within one year

	2017	2016
	£	£
Bank loans and overdrafts (see note 17)	**1,717,332**	1,038,058
Trade creditors	**421,759**	281,850
Amounts owed to group undertakings	**1,201,322**	1,521,181
Taxation and social security	**137,315**	69,306
Other creditors	**12,900**	9,017
Accruals and deferred income	**116,504**	208,702
	3,607,132	3,128,114

16 Creditors: amounts falling after more than one year

	2017	2016
	£	£
Amounts owed to group undertakings	**1,167,684**	767,684
	1,167,684	767,684

Notes *(continued)*

17 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	2017	2016
	£	£
Creditors falling due more than one year		
Amounts owed to Group undertakings	**1,167,684**	767,684
	1,167,684	767,684

	2017	2016
	£	£
Creditors falling due within less than one year		
Unsecured bank loan	**1,717,332**	1,038,058
	1,717,332	1,038,058

Terms and Repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2017 £	Carrying amount 2017 £	Face value 2016 £	Carrying amount 2016 £
Loan 1 from Parent	GBP	Libor 3 month +1%	2021	27,683	27,683	27,683	27,683
Loan 2 from Parent	GBP	Libor 3 month +1%	2022	700,000	700,000	700,000	700,000
Loan 3 from Parent	GBP	Libor 3 month +1%	2022	40,000	40,000	40,000	40,000
Loan 4 from Parent	GBP	Libor 3 month +1%	2022	400,000	400,000	-	-
Unsecured bank loan	GBP	1.2%	no set expiry date	532,332	532,332	338,058	338,058
Unsecured bank loan	GBP	Libor 3 month +0.475%	2018	630,000	630,000	700,000	700,000
Unsecured bank loan	GBP	Libor 3 month +0.475%	2018	555,000	555,000	-	-

Notes *(continued)*

18 Provisions

	Hearing loss	Product liability	Legal provision	Total
	£	£	£	£
Balance at 1 January 2017	18,000	15,895	90,000	123,895
Provisions made during the year	-	3,000	197,635	200,635
Provisions used during the year	-		(107,800)	(107,800)
Balance at 31 December 2017	18,000	18,895	179,835	216,730

A legal provision for loss of hearing claims is recognised in respect of proceedings brought against the company during 2013. The case is still ongoing and the provision will be utilised or released in future periods based on the outcome of those proceedings.

A provision for product liability relating to sales in 2015 was recognised in the prior year. A further £3,000 have been provided for relating to sales in 2017. This will be utilised in future periods based on the claims received related to those sales.

A provision for a legal claim with a large OEM customer has been made as this is linked to a batch of products supplied in 2016. Whilst this has not been finalised it is expected to cost a minimum of the insurance deductible plus the cost to contract installers to change out up to 1,000 units fitted into domestic locations. Discussions are ongoing with regard to the legal claim and payments have been made to successful claimants. The Directors have made a provision for their best estimate of the future costs required to settle the Company's obligations under this claim.

19 Employee benefits

Defined contribution plans

The Company operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £22,000 *(2016: £24,796)*.

20 Capital and reserves

Share capital

Ordinary shares

	2017 Number	2016 Number
On issue at 1 January and 31 December – fully paid	**50,000**	50,000

	2017 £	2016 £
Allotted, called up and fully paid		
Ordinary shares of £1 each	**50,000**	50,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Notes *(continued)*

21 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2017	2016
	£	£
Less than one year	**97,500**	97,500
Between one and five years	-	97,500
	97,500	195,000

The Company leases a warehouse and factory facilities under operating lease.

During the year £97,500 was recognised as an expense in the profit and loss account in respect of operating leases *(2016: £97,500).*

22 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Nibe Industrier AB which is the ultimate parent company incorporated in Sweden. The ultimate controlling party is Nibe Industrier AB.

The largest and smallest group in which the results of the Company are consolidated is that headed by Nibe Industrier AB. No other group financial statements include the results of the Company. The consolidated financial statements of these groups are available to the public and may be obtained from Nibe Industrier AB, Hannabadsvägen 5, Markaryd, Sweden (visitors address), Box 14, SE 285 21, Markaryd, Sweden (postal address).

23 Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, relate primarily to the impairment of property, plant and equipment and valuation of inventory.

Impairment of property, plant and equipment

In accordance with IAS 36 "Impairment of Assets", the carrying value of items of property, plant and equipment are reviewed for impairment at each reporting date and are subject to impairment testing events or changes in circumstances indicate that the carrying values may not be recoverable. Impairment is determined by reference to the higher of fair value less costs to sell and value in use, measured by assessing future cash flows discounted using appropriate interest rates. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse effect on the future results of the Company.

Valuation of inventory

The company values its manufactured finished goods and work in progress at the lower of cost or net realisable value. If necessary, the Company impairs its inventory for discontinued and slow moving products, based upon assumptions about future demand, market conditions and disposal costs. Determining these assumptions requires estimation of the outcome of future certain events. If actual events are more or less favourable than these projected by management, adjustments to inventory impairments may be required.

Impairment of goodwill

The Company tests goodwill annually for impairment or more frequently if there are indications that it may be impaired. The key assumptions for the value in use calculations, used to assess the carrying value of goodwill are those regarding discount rates, growth rates and expected changes to selling prices and direct costs in the future. These future cash flows are based on business forecasts and are therefore inherently judgemental. Future events could cause the assumptions used in these impairment reviews to change with a consequent adverse effect on the future results of the Company.