

Consolidated Financial Statements

Melett Limited

For the Year Ended 31 May 2017



Registered number: 4442787

Melett Limited

Company Information

Directors	I J Warhurst N G Warhurst J E Stones I Thompson M J Howorth A S Frodsham (appointed 1 March 2017) C Smith (appointed 1 March 2017)
Company secretary	N G Warhurst
Registered number	4442787
Registered office	Unit N Zenith Park Whaley Road Barnsley S75 1HT
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor No 1 Whitehall Riverside Leeds LS1 4BN
Bankers	Natwest 8 Market Place Huddersfield HD1 2AL

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Consolidated Strategic Report

For the Year Ended 31 May 2017

Principal activity

The principal activity of the group during the year is that of the development, manufacture and supply of replacement turbochargers and turbocharger parts.

Business review

The directors are pleased to report another positive year with group sales of £28.0 million (2016: £23.4 million).

Group operating profit was £5.3 million (2016: £2.8 million). Operating margin, a key performance indicator, was 19.1% (2016:11.8%). The group operating profit is stated after taking into account the movement in the fair value of unexpired forward foreign currency exchange contracts. The improvement in operating margin is a function of the significantly increased volume of business, cost saving initiatives across the group and the net benefits from the underlying foreign exchange rates during the year. In line with its long term strategy to support the professional turbocharger reconditioning industry with high quality products and services, the group has once again invested heavily in its overseas businesses, its manufacturing capacity and capability, its products and its people.

The directors remain confident in the group's well proven formula of providing quality replacement turbochargers and turbocharger parts to over 100 countries worldwide.

Future developments

In the next financial year the directors are looking to continue expanding the group and the Melett brand internationally.

Research and development activities

The group has a continuing commitment to research in order to expand the range of turbochargers and turbocharger repair parts available.

Principal risks and uncertainties

The directors consider that the principal risks affecting the group are currency risk and credit risk.

Currency risk

A significant proportion of the group's turnover and costs are denominated in foreign currencies. Where possible, currency payments and receipts are matched with each other. Where there is net exposure to currency fluctuations the group seeks to manage this risk using appropriate foreign currency hedging arrangements.

Credit risk

The group's principal financial assets are cash deposits and trade debtors.

The directors seek to minimise the group's risk arising from bank failure by spreading cash deposits.

The group operates robust internal controls in order to manage credit risk.

Melett Limited

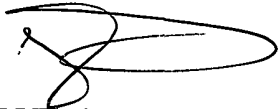
Consolidated Strategic Report (continued)

For the Year Ended 31 May 2017

Financial key performance indicators

The directors consider Turnover, Operating Profit and Operating Margin to be the key performance indicators for the group.

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



I J Warhurst

Director

Date: 24 November 2017

Melett Limited

Directors' Report

For the Year Ended 31 May 2017

The directors present their report and the consolidated financial statements for the year ended 31 May 2017.

Results and dividends

The profit for the year, after taxation, amounted to £4,100,000 (2016: £1,961,000).

Dividends of £123,000 (2016: £4,351,000) were paid during the year.

Directors

The directors who served during the year were:

I J Warhurst
N G Warhurst
J E Stones
I Thompson
M J Howorth
A S Frodsham (appointed 1 March 2017)
C Smith (appointed 1 March 2017)

Directors' responsibilities statement

The directors are responsible for preparing the Consolidated strategic report, the Directors' report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 for that period.

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

- select suitable accounting policies for the Group's financial statements and then apply them consistently;
- make judgements and accounting 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;
- 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's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Qualifying third party indemnity provisions

During the financial year, qualifying third party indemnity provision for the benefit of all directors was in force.

Melett Limited

Directors' Report (continued)

For the Year Ended 31 May 2017

Disclosure of information to auditor

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

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

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

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



I J Warhurst

Director

Date: 24 November 2017



Independent Auditor's Report to the Members of Melett Limited

We have audited the financial statements of Melett Limited for the year ended 31 May 2017, which comprise the Consolidated Statement of comprehensive income, the Consolidated and Company Statements of financial position, the Consolidated Statement of cash flows, the Consolidated and Company Statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is the applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' responsibilities statement on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 May 2017 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.



Independent Auditor's Report to the Members of Melett Limited (continued)

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Consolidated strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with those financial statements; and
- the Consolidated strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Consolidated strategic report and the Directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company 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.

Grant Thornton UK LLP

Richard Hobson
Senior statutory auditor
for and on behalf of Grant Thornton UK LLP
Chartered Accountants, Statutory Auditor
Leeds

24 November 2017

Consolidated Statement of Comprehensive Income

For the Year Ended 31 May 2017

	Note	2017 £000	2016 £000
Turnover	4	27,998	23,352
Cost of sales		(16,416)	(15,019)
Gross profit		11,582	8,333
Administrative expenses		(6,240)	(5,578)
Operating profit	5	5,342	2,755
Interest receivable	9	8	4
Interest payable and similar charges	10	(76)	-
Profit on ordinary activities before taxation		5,274	2,759
Tax on profit on ordinary activities	11	(1,174)	(798)
Profit for the financial year		4,100	1,961
Currency translation differences on foreign currency investments recognised in foreign exchange reserve		(32)	(23)
Other comprehensive income for the year		(32)	(23)
Total comprehensive income for the year and profit attributable to the owners of the parent company		4,068	1,938

There were no recognised gains and losses for 2017 or 2016 other than those included in the consolidated statement of comprehensive income.

The notes on pages 13 to 32 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 May 2017

	Note	2017 £000	2016 £000
Fixed assets			
Intangible assets	13	92	142
Tangible assets	14	4,125	3,243
		<u>4,217</u>	<u>3,385</u>
Current assets			
Stocks	16	11,177	11,330
Debtors: amounts falling due within one year	17	5,130	3,713
Cash at bank and in hand	18	3,370	2,078
		<u>19,677</u>	<u>17,121</u>
Creditors: amounts falling due within one year	19	(4,498)	(5,027)
		<u>15,179</u>	<u>12,094</u>
Net current assets		<u>15,179</u>	<u>12,094</u>
Total assets less current liabilities		<u>19,396</u>	<u>15,479</u>
Provisions for liabilities			
Deferred taxation	21	(220)	(248)
		<u>(220)</u>	<u>(248)</u>
Net assets		<u><u>19,176</u></u>	<u><u>15,231</u></u>
Capital and reserves			
Called up share capital	22	1	1
Share premium account	23	57	57
Foreign exchange reserve	23	(80)	(48)
Profit and loss account	23	19,198	15,221
Equity attributable to owners of the parent Company		<u><u>19,176</u></u>	<u><u>15,231</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 24 November 2017.

I J Washurst
Director

The notes on pages 13 to 32 form part of these financial statements.

Company Statement of Financial Position

As at 31 May 2017

	Note	2017 £000	2016 £000
Fixed assets			
Tangible assets	14	699	746
Investments	15	3,136	2,771
		<u>3,835</u>	<u>3,517</u>
Current assets			
Stocks	16	9,713	10,300
Debtors: amounts falling due within one year	17	11,823	8,264
Cash at bank and in hand	18	2,784	1,508
		<u>24,320</u>	<u>20,072</u>
Creditors: amounts falling due within one year	19	(4,332)	(4,688)
Net current assets		<u>19,988</u>	<u>15,384</u>
Total assets less current liabilities		<u>23,823</u>	<u>18,901</u>
Provisions for liabilities			
Deferred taxation	21	(220)	(248)
		<u>(220)</u>	<u>(248)</u>
Net assets		<u><u>23,603</u></u>	<u><u>18,653</u></u>
Capital and reserves			
Called up share capital	22	1	1
Share premium account	23	57	57
Profit and loss account	23	23,545	18,595
		<u>23,603</u>	<u>18,653</u>

The profit after tax of the Company was £5,073,000 (2016:£3,298,000).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 24 November 2017.



I J Warhurst
 Director

The notes on pages 13 to 32 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 May 2017

	Called up share capital	Share premium account	Foreign exchange reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 June 2016	1	57	(48)	15,221	15,231
Comprehensive income for the year					
Profit for the year	-	-	-	4,100	4,100
Currency translation differences	-	-	(32)	-	(32)
Total comprehensive income for the year	-	-	(32)	4,100	4,068
Dividends: Equity capital	-	-	-	(123)	(123)
Total transactions with owners	-	-	-	(123)	(123)
At 31 May 2017	1	57	(80)	19,198	19,176

Consolidated Statement of Changes in Equity

For the Year Ended 31 May 2016

	Called up share capital	Share premium account	Foreign exchange reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 June 2015	1	57	(25)	17,611	17,644
Comprehensive income for the year					
Profit for the year	-	-	-	1,961	1,961
Currency translation differences	-	-	(23)	-	(23)
Total comprehensive income for the year	-	-	(23)	1,961	1,938
Dividends: Equity capital	-	-	-	(4,351)	(4,351)
Total transactions with owners	-	-	-	(4,351)	(4,351)
At 31 May 2016	1	57	(48)	15,221	15,231

The notes on pages 13 to 32 form part of these financial statements.

Company Statement of Changes in Equity

For the Year Ended 31 May 2017

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
At 1 June 2016	1	57	18,595	18,653
Comprehensive income for the year				
Profit for the year	-	-	5,073	5,073
Total comprehensive income for the year	-	-	5,073	5,073
Contributions by and distributions to owners				
Dividends: Equity capital	-	-	(123)	(123)
Total transactions with owners	-	-	(123)	(123)
At 31 May 2017	1	57	23,545	23,603

Company Statement of Changes in Equity

For the Year Ended 31 May 2016

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
At 1 June 2015	1	57	19,648	19,706
Comprehensive income for the year				
Profit for the year	-	-	3,298	3,298
Total comprehensive income for the year	-	-	3,298	3,298
Contributions by and distributions to owners				
Dividends: Equity capital	-	-	(4,351)	(4,351)
Total transactions with owners	-	-	(4,351)	(4,351)
At 31 May 2016	1	57	18,595	18,653

The notes on pages 13 to 32 form part of these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 31 May 2017

	2017 £000	2016 £000
Cash flows from operating activities		
Profit for the financial year	4,100	1,961
Adjustments for:		
Amortisation of intangible fixed assets	66	63
Depreciation of tangible fixed assets	479	421
(Profit)/loss on disposal of tangible fixed assets	(2)	23
Interest paid	76	-
Interest received	(8)	(4)
Taxation charge	1,174	798
Decrease/(increase) in stocks	431	(4,143)
(Increase)/decrease in debtors	(1,266)	144
(Decrease)/increase in creditors	(3,016)	3,266
Net fair value losses recognised	1,393	1,357
Corporation tax (paid)	(846)	(1,072)
Net cash generated from operating activities	<u>2,581</u>	<u>2,814</u>
Cash flows from investing activities		
Purchase of tangible fixed assets	(1,105)	(1,392)
Sale of tangible fixed assets	7	6
Interest received	8	4
Net cash from investing activities	<u>(1,090)</u>	<u>(1,382)</u>
Cash flows from financing activities		
Dividends paid	(123)	(4,351)
Interest paid	(76)	-
Net cash used in financing activities	<u>(199)</u>	<u>(4,351)</u>
Net increase/(decrease) in cash and cash equivalents	<u>1,292</u>	<u>(2,919)</u>
Cash and cash equivalents at beginning of year	<u>2,078</u>	<u>4,997</u>
Cash and cash equivalents at the end of year	<u><u>3,370</u></u>	<u><u>2,078</u></u>
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	<u><u>3,370</u></u>	<u><u>2,078</u></u>

The notes on pages 13 to 32 form part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 May 2017

1. General information

Melett Limited is a limited liability company registered in England and Wales. Its registered head office is located at Unit N, Zenith Park, Whaley Road, Barnsley, S75 1HT.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention except for the inclusion of derivative financial instruments at their fair value and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK 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 Group management to exercise judgement in applying the Group's accounting policies (see note 3).

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 the Republic of Ireland":

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

This information is included in these consolidated financial statements.

2.2 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Company") as if they form 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 Statement of financial position, 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.

2.3 Going concern

The group has considered its financial resources and diversified customer and supplier base. As a consequence, the directors believe the group and company have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Notes to the Financial Statements

For the Year Ended 31 May 2017

2. Accounting policies (continued)

2.4 Revenue

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

Sale of goods

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

- the 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 revenue 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.

2.5 Intangible assets

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 Income statement over its useful economic life.

Notes to the Financial Statements

For the Year Ended 31 May 2017

2. Accounting policies (continued)

2.6 Tangible fixed assets

Tangible fixed 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.

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

Depreciation is provided on the following basis:

Freehold land	- not depreciated
Leasehold property	- straight line over the length of the lease
Freehold property	- 2.5% - 4.5% straight line
Plant & machinery	- 25% reducing balance
Motor vehicles	- 25% reducing balance
Fixtures & fittings	- 25% reducing balance

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated statement of comprehensive income.

2.7 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.8 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 weighted average basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is 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.

2.9 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.

Notes to the Financial Statements

For the Year Ended 31 May 2017

2. Accounting policies (continued)

2.10 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.

2.11 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.

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 reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position 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.

Derivatives, including forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in cost of sales. The Group does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Notes to the Financial Statements

For the Year Ended 31 May 2017

2. Accounting policies (continued)

2.12 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.

2.13 Finance costs

Finance costs are charged to the Income statement 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.

2.14 Dividends

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

2.15 Operating leases

Rentals paid under operating leases are charged to the Consolidated statement of comprehensive income on a straight line basis over the lease term.

2.16 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 Statement of financial position. The assets of the plan are held separately from the Group in independently administered funds.

2.17 Interest income

Interest income is recognised in the Consolidated statement of comprehensive income using the effective interest method.

Notes to the Financial Statements

For the Year Ended 31 May 2017

2. Accounting policies (continued)

2.18 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 Statement of financial position 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 Statement of financial position.

2.19 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 reporting 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 Statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- 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 reporting date.

2.20 Research and development

The expenditure is written off as it is incurred.

Notes to the Financial Statements

For the Year Ended 31 May 2017

3. Judgements in applying accounting policies and key sources of estimation uncertainty

Preparation of the financial statements requires management to make significant judgements and estimates.

The items in the financial statements where these judgements and estimates have been made include the useful lives of fixed assets, the carrying value of stocks and recoverability of debts. Although these estimates and associated assumptions are based on historical experience and management's best knowledge of current events and actions, the actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

4. Turnover

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

	2017 £000	2016 £000
Sale of goods	27,998	23,352

Analysis of turnover by country of destination:

	2017 £000	2016 £000
United Kingdom	2,808	2,587
Western Europe	11,187	9,481
Rest of the World	14,003	11,284
	<u>27,998</u>	<u>23,352</u>

5. Operating profit

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

	2017 £000	2016 £000
Research & development charged as an expense	180	202
Depreciation of tangible fixed assets	479	421
Amortisation of intangible fixed assets	66	61
Operating lease rentals - land and buildings	315	351
Difference on foreign exchange	(447)	(1,208)
Movements in derivative financial instruments recognised in cost of sales	1,393	1,357
	<u>1,393</u>	<u>1,357</u>

Notes to the Financial Statements

For the Year Ended 31 May 2017

6. Auditor's remuneration

	2017 £000	2016 £000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	14	15
Fees payable to the Group's auditor in respect of:		
Taxation compliance services	3	3
All other services	-	2
	<u>3</u>	<u>5</u>

7. Employees

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

	2017 £000	2016 £000
Wages and salaries	4,306	3,716
Social security costs	464	423
Cost of defined contribution scheme	110	94
	<u>4,880</u>	<u>4,233</u>

Staff costs for the parent company were wages and salaries £3,107,000 (2016:£2,753,000), social security costs £285,000 (2016:£245,000) and cost of defined contribution scheme £110,000 (2016:£94,000).

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

	2017 No.	2016 No.
Sales and distribution	59	52
Administrative	18	16
Engineering and production	128	114
	<u>205</u>	<u>182</u>

Notes to the Financial Statements

For the Year Ended 31 May 2017

8. Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	518	446
Company contributions to defined contribution pension schemes	28	23
	<u>546</u>	<u>469</u>

During the year retirement benefits were accruing to 5 directors (2016 - 3) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £184,000 (2016: £180,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £6,000 (2016 - £6,000).

9. Interest receivable

	2017 £000	2016 £000
Other interest receivable	<u>8</u>	<u>4</u>

10. Interest payable and similar charges

	2017 £000	2016 £000
Other loan interest payable	<u>76</u>	<u>-</u>

11. Taxation

	2017 £000	2016 £000
Corporation tax		
Current tax on profits for the year	1,222	832
Adjustments in respect of previous periods	(23)	(4)
	<u>1,199</u>	<u>828</u>
Foreign tax		
Foreign tax on income for the year	3	4
Deferred tax		
Origination and reversal of timing differences (note 21)	(28)	(34)
Taxation on profit on ordinary activities	<u>1,174</u>	<u>798</u>

Notes to the Financial Statements

For the Year Ended 31 May 2017

11. Taxation (continued)

Factors affecting tax 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 19.83% (2016 - 20%). The differences are explained below:

	2017 £000	2016 £000
Profit on ordinary activities before tax	5,274	2,759
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.83% (2016 - 20%)	1,046	552
Effects of:		
Expenses not deductible for tax purposes	37	106
Adjustments to tax charge in respect of prior periods	(3)	(4)
Rate difference	(25)	1
Adjustment in research and development tax credit leading to a decrease in the tax charge	(46)	(40)
Unrelieved loss on foreign subsidiaries	165	183
Total tax charge for the year	1,174	798

12. Dividends

	2017 £000	2016 £000
Dividends paid on A ordinary shares	123	4,241
Dividends paid on B ordinary shares	-	110
	123	4,351

Notes to the Financial Statements

For the Year Ended 31 May 2017

13. Intangible assets

Group

	Goodwill £000
Cost	
At 1 June 2016	315
Foreign exchange movement	41
	<hr/>
At 31 May 2017	356
	<hr/>
Amortisation	
At 1 June 2016	173
Charge for the year	66
Foreign exchange movement	25
	<hr/>
At 31 May 2017	264
	<hr/>
Net book value	
At 31 May 2017	92
	<hr/> <hr/>
At 31 May 2016	142
	<hr/> <hr/>

Company

	Goodwill £000
Cost	
At 1 June 2016	10
	<hr/>
At 31 May 2017	10
	<hr/>
Amortisation	
At 1 June 2016	10
	<hr/>
At 31 May 2017	10
	<hr/>
Net book value	
At 31 May 2017	-
	<hr/> <hr/>
At 31 May 2016	-
	<hr/> <hr/>

Notes to the Financial Statements

For the Year Ended 31 May 2017

14. Tangible fixed assets

Group

	Freehold property £000	Leasehold property £000	Plant & machinery £000	Motor vehicles £000	Fixtures & fittings £000	Total £000
Cost						
At 1 June 2016	208	985	3,064	68	149	4,474
Additions	856	45	141	3	60	1,105
Disposals	-	-	(10)	-	-	(10)
Transfers between classes	110	(110)	-	-	-	-
Exchange adjustments	40	32	224	7	6	309
At 31 May 2017	<u>1,214</u>	<u>952</u>	<u>3,419</u>	<u>78</u>	<u>215</u>	<u>5,878</u>
Depreciation						
At 1 June 2016	-	414	712	28	77	1,231
Charge for the year	13	105	321	12	28	479
Disposals	-	-	(5)	-	-	(5)
Exchange adjustments	1	11	30	4	2	48
At 31 May 2017	<u>14</u>	<u>530</u>	<u>1,058</u>	<u>44</u>	<u>107</u>	<u>1,753</u>
Net book value						
At 31 May 2017	<u>1,200</u>	<u>422</u>	<u>2,361</u>	<u>34</u>	<u>108</u>	<u>4,125</u>
At 31 May 2016	<u>208</u>	<u>571</u>	<u>2,352</u>	<u>40</u>	<u>72</u>	<u>3,243</u>

Notes to the Financial Statements

For the Year Ended 31 May 2017

14. Tangible fixed assets (continued)

Company

	Leasehold property £000	Plant & machinery £000	Motor vehicles £000	Fixtures & fittings £000	Total £000
Cost					
At 1 June 2016	734	628	27	106	1,495
Additions	43	39	-	38	120
Disposals	-	(10)	-	-	(10)
At 31 May 2017	<u>777</u>	<u>657</u>	<u>27</u>	<u>144</u>	<u>1,605</u>
Depreciation					
At 1 June 2016	293	379	15	62	749
Charge for the year	76	68	3	16	163
Disposals	-	(6)	-	-	(6)
At 31 May 2017	<u>369</u>	<u>441</u>	<u>18</u>	<u>78</u>	<u>906</u>
Net book value					
At 31 May 2017	<u>408</u>	<u>216</u>	<u>9</u>	<u>66</u>	<u>699</u>
At 31 May 2016	<u>441</u>	<u>249</u>	<u>12</u>	<u>44</u>	<u>746</u>

Notes to the Financial Statements

For the Year Ended 31 May 2017

15. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the Company. The Company held ordinary share capital in each undertaking:

Name	Country of incorporation	Holding	Principal activity
Melett North America, Inc.	United States of America	100%	Supplier of turbocharger repair parts
Melett (Changzhou) Precision Machinery Co. Limited	China	100%	Developer and manufacturer of turbocharger repair parts
Melett Polska Sp. z.o.o.	Poland	100%	Supplier of turbocharger repair parts

Company

	Investments in subsidiary companies £000
Cost and net book value	
At 1 June 2016	2,771
Additions	365
At 31 May 2017	<u>3,136</u>

16. Stocks

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Raw materials and consumables	11,071	11,083	9,607	10,053
Work in progress	106	247	106	247
	<u>11,177</u>	<u>11,330</u>	<u>9,713</u>	<u>10,300</u>

The difference between the purchase price or production cost of stocks and their replacement cost is not material.

Stock recognised in cost of sales during the year as an expense was £14,393,000 (2016: £13,172,000).

Notes to the Financial Statements

For the Year Ended 31 May 2017

17. Debtors

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade debtors	3,484	2,520	3,030	2,233
Amounts owed by group undertakings	-	-	7,457	5,265
Other debtors	1,472	820	1,330	531
Prepayments and accrued income	174	373	6	235
	<u>5,130</u>	<u>3,713</u>	<u>11,823</u>	<u>8,264</u>

18. Cash and cash equivalents

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Cash at bank and in hand	<u>3,370</u>	<u>2,078</u>	<u>2,784</u>	<u>1,508</u>

19. Creditors: Amounts falling due within one year

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade creditors	1,980	1,838	1,244	1,056
Amounts owed to group undertakings	-	-	589	464
Corporation tax	593	238	590	234
Other taxation and social security	198	165	182	165
Other creditors	-	1,968	-	1,951
Accruals and deferred income	103	587	103	587
Financial instruments	1,624	231	1,624	231
	<u>4,498</u>	<u>5,027</u>	<u>4,332</u>	<u>4,688</u>

Notes to the Financial Statements

For the Year Ended 31 May 2017

20. Financial instruments

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Financial assets				
Financial assets measured at amortised cost	8,326	5,418	14,601	9,537
Financial liabilities				
Derivative financial instruments measured at fair value	(1,624)	(231)	(1,624)	(231)
Financial liabilities measured at amortised cost	(2,083)	(4,393)	(1,936)	(4,058)
	<u>(3,707)</u>	<u>(4,624)</u>	<u>(3,560)</u>	<u>(4,289)</u>

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

Derivative financial liabilities measured at fair value through profit or loss comprise foreign currency contracts.

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

Notes to the Financial Statements

For the Year Ended 31 May 2017

21. Deferred taxation

Group

	2017 £000	2016 £000
At beginning of year	248	282
Charged to profit or loss (note 11)	(28)	(34)
At end of year	<u>220</u>	<u>248</u>

Company

	2017 £000	2016 £000
At beginning of year	248	282
Charged to profit or loss	(28)	(34)
At end of year	<u>220</u>	<u>248</u>

The provision for deferred taxation is made up as follows:

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Accelerated capital allowances	69	57	69	57
Other short term timing differences	151	191	151	191
	<u>220</u>	<u>248</u>	<u>220</u>	<u>248</u>

Notes to the Financial Statements

For the Year Ended 31 May 2017

22. Share capital

	2017 £	2016 £
Shares classified as equity		
Allotted, called up and fully paid		
1,000 A Ordinary shares of £1 each	1,000	1,000
27 B Ordinary shares of £1 each	27	27
	<u>1,027</u>	<u>1,027</u>

The 'A' ordinary shares and 'B' ordinary shares rank pari passu but on a return of capital of the company, or on liquidation, the surplus assets and retained profits of the company available for distribution among the members will be applied:

- Firstly to the holders of 'A' ordinary shares to the extent of the amounts paid on all issued 'A' ordinary shares, together with an amount equal to all arrears and accruals of unpaid dividends on the 'A' ordinary shares, whether earned or declared or not;
- Secondly to the holders of the ordinary shares to the extent of the amounts paid on all issued 'B' ordinary shares, together with an amount equal to all arrears and accruals of unpaid dividends on the 'B' ordinary shares;
- Thirdly any balance of such surplus assets and retained profits to the holders of the 'A' ordinary shares and the 'B' ordinary shares (as if one class).

23. Reserves

Share premium account

This reserve records the additional amounts received from the issue of share capital.

Foreign exchange reserve

This reserve relates to the exchange differences arising on the retranslation of overseas subsidiaries' capital and reserves.

Profit & loss account

This reserve records retained earnings and accumulated losses.

24. Capital commitments

At 31 May 2017 the Group and Company had capital commitments as follows:

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Contracted for but not provided in these financial statements	99	755	29	27

Notes to the Financial Statements

For the Year Ended 31 May 2017

25. Pension commitments

The Group operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £110,000 (2016 £94,000). Contributions totalling £37,000 (2016 £8,000) were payable to the fund at the reporting date.

26. Commitments under operating leases

At 31 May 2017 the Group and the Company had future minimum lease payments under non-cancellable operating lease in respect of land and buildings as follows:

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Not later than 1 year	186	176	186	176
Later than 1 year and not later than 5 years	218	188	218	188
	<u>404</u>	<u>364</u>	<u>404</u>	<u>364</u>

27. Related party transactions

The company has taken advantage of the FRS 102 exemption not to disclose related party transactions between group undertakings.

The following transactions with directors occurred in the year:

The company made payments for the rental of properties of £80,000 (2016: £80,000) to Mr I J Warhurst and Mrs N G Warhurst.

During the year, the company made dividend payments to Mr I J Warhurst and Mrs N G Warhurst of £69,000 (2016: £2,396,000) and £54,000 (2016: £1,845,000) respectively. At the year end an amount of £nil (2016: £1,951,000) was owed to these directors. The maximum outstanding in the year was £2,352,000 (2016: £1,951,000). Interest of £76,000 (2016: £nil) was paid on these loans in the year.

Notes to the Financial Statements

For the Year Ended 31 May 2017

28. Controlling related party

The company was under the control of Mr I J Warhurst throughout the current and previous year. Mr I J Warhurst is the managing director and majority shareholder.

29. Share options

The company has an equity-settled Enterprise Management Incentive plan for certain employees of the company. On 20 December 2013, an option was granted to acquire 55 C Ordinary Shares of £1 each at a market value of £1 (deemed fair value at the grant date).

The option is exercisable at a price of £1, permitted only upon the earliest to occur of;

- the second anniversary of the date of the grant
- at the discretion of the board of directors at an earlier time
- upon completion of an agreement to purchase equity share capital of the company which results in the transfer of control of the company.

No options have been exercised during the year.