ET ENVIRONMENTAL LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

REGISTERED NUMBER 00759625

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2013

Principal activity

With over 50 years in the heating and ventilation industry ("HVAC"), ET Environmental Limited trading as Diffusion Heating and Cooling ("Diffusion") is one of the oldest and most established manufacturers of HVAC products in the UK Diffusion is a market leader in the manufacture of premium quality fan coils and commercial heating products Diffusion and Energy Technique are brand names recognised as highly engineered, quality products providing leading edge performance and energy efficiency

The Company's products are installed into hotels, commercial offices, retail outlets, schools, hospitals and, more recently, high-end residential Diffusion has excellent relationships with many blue chip clients including Land Securities, Marks & Spencer, Boots, City Inn Hotels and Stanhope Properties All products are designed, developed and manufactured at Diffusion's 30,000 sq ft manufacturing facility in West Molesey, Surrey, offering premium quality products, designed specifically to meet customers' bespoke requirements

Results and business review

Sales in the year ended 31 March 2013 increased by 6 per cent to £7 55 million *(2012 £7 09 million)* with fan coils growing by 8 per cent and commercial heating by 5 per cent Sales growth resulted from a reorganisation of the sales and marketing functions which were strengthened during the year producing extra sales to more than counteract the market led marginal softening of selling margins The increased sales and relatively fixed cost base resulted in Diffusion's operating profit (before parent company management charges) increasing by 19 per cent to £405,625 *(2012 £341,488)* This is the third successive year of sales and profit growth for the Company and the operating profit margin of 5 4 per cent represents a high return on capital employed ("ROCE") of 28 per cent

Fan coils had a particularly strong year and were installed into a number of landmark developments including the Shard Building, Cheesegrater, Google HQ Dublin, Abu Dhabi Investment Bank, John Lewis and Jaynes Harbour Barbados After the year end, Diffusion also won the first phase to supply fan coils into the Walkie-Talkie building This means that Diffusion has supplied fan coils into all three of the current London skyline developments

Following on from the success of installing fan coils into the high-end residential development at No 1 Hyde Park in London, Diffusion has now supplied fan coils into other high-end residential developments including 375 Kensington High Street, DeVere Gardens and the Battersea redevelopment scheme The Board expects further sales growth from this high-end residential sector

Commercial heating enjoys the same reputation for engineering quality as Diffusion's fan coils and customers like the short lead times, combined with a specialist bespoke service The growth in commercial heating sales was a commendable effort achieved in weak retail market conditions Diffusion's commercial heating products were installed into many prestigious projects including Broadgate Tower, 2 Waterhouse Square, Serpentine Gallery (London), Starbucks (Canary Wharf) and MTV Studios (London)

A number of new sales initiatives have recently been launched, including the appointment of a seasoned HVAC industry professional as Business Development Director The new eco-friendly 270 range of fan coils was launched in April 2013 offering energy savings of up to 25 per cent over existing fan coils and a new CRM database system for tracking order prospects goes live in July 2013 All of these initiatives are expected to contribute to Diffusion's future growth strategy

DIRECTORS' REPORT
continued

Current trading and prospects

Trading in the current year ending 31 March 2014 has started very well, with sales in April and May 2013 in line with management's expectations In addition, enquiry levels for quality projects are encouraging and the order book is at very acceptable levels, recently bolstered by winning the first phase of fan coils for the Walkie-Talkie development

The Company has high expectations for its new eco-friendly 270 range of fan coils launched in April 2013 Whilst the Company's markets are not expected to change materially in the coming financial year, the Board looks forward to another year of successful growth

Dividends

The directors do not recommend the payment of a final dividend *(2012 £Nil)*

Directors

The directors who served during the year were as follows

Mr L A Stimpson
Mr M M Reid
Mr G S Winter
Mr R M Unsworth

Payment policy to suppliers

It is the Company's policy to settle terms of payment with suppliers when agreeing the terms of each transaction, to ensure suppliers are aware of those terms and to pay suppliers in accordance with the agreed terms of settlement, provided they have complied with their obligations

Financial risk management objectives and policies

The Company's operations expose it to a variety of financial risks that include the effects of changes in market prices and credit risk The exposure of the Company to liquidity risk and cash flow risk is not material for the assessment of the assets, liabilities, financial position and profit of the Company

Price risk

The Company is exposed to commodity price risk as a result of its operations However, given the size of the Company's operations, the cost of managing this exposure to commodity price risk exceeds any potential benefits The directors regularly revisit the appropriateness of this policy The Company has no exposure to equity securities price risk

Credit risk

The Company has implemented policies requiring appropriate credit checks on significant customers before sales are made and it seeks to obtain credit insurance on all the major trade receivable

Research and development

The Company is heavily committed to research and development activities During the year the Company incurred expenditure of £185,419 *(2012 £191,251)* on research and development activities

DIRECTORS' REPORT

continued

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year In preparing those 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 United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Audit information

So far as the directors are aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware The directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

By order of the board

Mr G S Winter
Director

47 Central Avenue
West Molesey
Surrey
KT8 2QZ

Dated 21 June 2013

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ET ENVIRONMENTAL LIMITED

We have audited the financial statements of ET Environmental Limited for the year ended 31 March 2013, which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Reconciliation of Movements in Shareholders' Funds and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 auditors' 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 auditors

As explained more fully in the Directors' responsibilities statement set out 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2013 and of its profits 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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ET ENVIRONMENTAL LIMITED

continued

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, 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

Milsted Langdon LLP

Dated 21 June 2013

Nigel Fry (Senior Statutory Auditor)
For and on behalf of Milsted Langdon LLP
Chartered Accountants and Statutory Auditors
Winchester House
Deane Gate Avenue
Taunton
TA1 2UH

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2013

	Note	2013 £	2012 £
Turnover	2	**7,550,265**	7,092,974
Cost of sales		**(5,506,244)**	(5,101,773)
Gross profit		**2,044,021**	1,991,201
Distribution costs		**(1,380,818)**	(1,383,046)
Administrative expenses		**(257,578)**	(266,667)
Operating profit before management charges		**405,625**	341,488
Administrative expenses – management charges		**(250,000)**	(150,000)
Operating profit after management charges	3	**155,625**	191,488
Interest payable	6	**(41,508)**	(40,463)
Profit on ordinary activities before taxation		**114,117**	151,025
Tax on profit on ordinary activities	7	**(39,248)**	(24,927)
Profit on ordinary activities after taxation	16	**74,869**	126,098

Turnover and operating profit derive wholly from continuing operations

The movement on reserves is shown in note 16

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 March 2013

	Note	2013 £	2012 £
Profit on ordinary activities after taxation	16	**74,869**	126,098
Prior period adjustment	14	-	(111,928)
Total recognised gains since last annual report		**74,869**	14,170

BALANCE SHEET
at 31 March 2013

	Note	2013 £	2013 £	2012 £	2012 £
Fixed assets					
Intangible assets	*8*		**15,833**		18,333
Tangible assets	*9*		**283,519**		334,680
			299,352		353,013
Current assets					
Stocks	*10*	**787,129**		672,857	
Debtors	*11*	**1,764,871**		1,660,289	
Cash at bank and in hand		**589,449**		393,323	
		3,141,449		2,726,469	
Creditors amounts falling due within one year	*12*	**(2,237,131)**		(1,939,278)	
Net current assets			**904,318**		787,191
Total assets less current liabilities			**1,203,670**		1,140,204
Creditors amounts falling due after more than one year	*13*		**(10,008)**		(21,589)
Provisions	*14*		**(110,921)**		(110,743)
Total assets less liabilities			**1,082,741**		1,007,872
Capital and reserves					
Called up share capital	*15*		**1,987,002**		1,987,002
Capital contribution reserve	*16*		**323,000**		323,000
Profit and loss account	*16*		**(1,227,261)**		(1,302,130)
Shareholders' funds – equity			**1,082,741**		1,007,872

These financial statements were approved by the board of directors on 21 June 2013 and were signed on its behalf by

Mr G S Winter
Director

Other primary statements for the year ended 31 March 2013

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2013 £	2012 £
Profit for the financial year	**74,869**	126,098
Movements in shareholders' funds	**74,869**	126,098
Shareholders' funds at beginning of year	**1,007,872**	881,774
Shareholders' funds at end of year	**1,082,741**	1,007,872

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards

Turnover

Turnover represents the amount receivable in respect of goods delivered to customers during the year, net of value added tax

Depreciation

Depreciation is provided on the cost of fixed assets on a straight line basis in order to write them down to estimated realisable value over their estimated useful lives as follows

Plant and equipment - 10% to 33 3% per annum

Goodwill

Goodwill represents the excess of the cost of acquisitions over the fair value of the identifiable assets acquired (including intangible assets) of the acquired business at the date of acquisition Goodwill is recognised as an asset and amortised systematically on a straight line basis through the profit and loss account The Directors consider that goodwill has a useful life of 10 years Goodwill will be reviewed for impairment at the end of the first full financial year following the acquisition

Research and development

Research and development expenditure is written off as incurred

Hire purchase and leased assets

Fixed assets acquired under hire purchase agreements are recorded in the balance sheet as tangible fixed assets at their equivalent capital value and are depreciated over the useful life of the asset and the corresponding liability is recorded as a creditor Interest is charged to the profit and loss account so as to produce constant periodic rates of charge on the net obligations outstanding in each period

Payments under operating leases are charged to the profit and loss account in the year to which payments relate

Stocks

Stocks have been valued consistently at the lower of cost and net realisable value, with due allowance being made for obsolete and slow moving items In the case of work in progress and finished stocks, cost consists of direct materials, labour and appropriate overheads

Deferred taxation

Full provision is made for deferred taxation using the liability method without discounting to take account of the temporary differences between the incidence of income and expenditure for taxation and accounting purposes

Deferred tax assets are recognised to the extent that these are considered recoverable in the foreseeable future

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the closing rate of exchange Transactions in foreign currencies are recorded at the rate of exchange at the date of the transactions with differences being taken to the profit and loss account

Pensions

A number of the Company's permanent employees are members of Energy Technique's Group Personal Pension Scheme, which is a defined contribution (money purchase) scheme The Company also makes pension contributions into the Personal Private Pension Plan of certain employees Contributions to these schemes are charged to profits as incurred The scheme and its assets are held by independent managers

NOTES TO THE FINANCIAL STATEMENTS
Continued

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in market prices and credit risk The exposure of the Company to liquidity risk and cash flow risk is not material for the assessment of the assets, liabilities, financial position and profit of the Company

Price risk

The Company is exposed to commodity price risk as a result of its operations However, given the size of the Company's operations, the cost of managing this exposure to commodity price risk exceeds any potential benefits The directors regularly revisit the appropriateness of this policy The Company has no exposure to equity securities price risk

Credit risk

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made

Provisions

A provision has been made to cover the onerous liabilities of employers' national insurance and pension contributions on annual payments to be made under a permanent health insurance policy

The provision is measured at the present value of the expenditures expected to settle the obligation using pre-tax rates that reflects current market assessments of the time value of money and the risks specific to the obligations

2 Turnover

The analysis of turnover by geographical market is as follows

	2013	2012
	£	£
UK	**7,056,505**	6,247,998
Rest of Europe	**371,121**	791,830
Rest of World	**122,639**	53,146
	7,550,265	7,092,974

3 Operating profit

	2013	2012
	£	£
Operating profit is stated after charging/(crediting)		
Amortisation of intangible fixed assets	**2,500**	2,500
Depreciation of tangible fixed assets	**78,540**	72,681
Profit on disposal of tangible fixed assets	**-**	(1,500)
Hire of plant and machinery	**5,213**	11,500
Research and development – current expenditure	**185,419**	191,251
Operating leases		
Land and buildings	**191,100**	191,100
Plant and vehicles	**122,394**	117,612
Auditors' remuneration	**13,300**	15,000

Remuneration paid to the auditors for non-audit services, comprising of tax compliance services, amounted to £2,150 *(2012 £1,650)*

NOTES TO THE FINANCIAL STATEMENTS

Continued

4 Employees

The average number of persons (including directors) employed by the Company, by category, was

	2013	2012
	No.	No
Manufacture	43	38
Sales and service	21	20
Administration	3	2
	67	60

Employee costs

	£	£
Wages and salaries	1,883,223	1,716,306
Social security charges	212,932	194,868
Pension contributions	44,430	40,719
	2,140,585	1,951,893

5 Directors' emoluments

	2013	2012
	£	£
Emoluments	313,526	295,492
Pension contributions	26,429	23,772
	339,955	319,264
The highest paid director's emoluments for executive services were		
Emoluments	135,150	126,794
Pension contributions	11,875	11,250
	147,025	138,044
Number of directors who were members of money purchase schemes	3	3

NOTES TO THE FINANCIAL STATEMENTS

Continued

6 Interest payable

	2013	2012
	£	£
Hire purchase interest	**1,210**	3,586
Invoice discounting interest	**24,298**	22,431
Notional interest on provisions	**16,000**	14,446
	41,508	40,463

7 Tax on profit on ordinary activities

	2013	2012
	£	£
Analysis of tax charge for the year		
Current tax		
- UK corporation tax on profit for the year	-	-
Deferred tax		
- Charge in relation to utilisation of tax losses	**39,248**	24,927
Total tax charge for the year	**39,248**	24,927

Factors affecting the tax charge for the year

The tax assessed for the year is lower than the 24% *(2012 26%)* standard rate of corporation tax in the UK The differences are explained below

	2013	2012
	£	£
Profit on ordinary activities before tax	**114,117**	151,025
UK corporation tax at 24% (2012 26%)	**27,388**	39,267
Adjusted for		
(Income)/expenses not (taxable)/deductible for tax purposes	**(10,413)**	2,370
Tax losses utilised	**(21,521)**	(26,001)
Capital allowances in excess of depreciation	**4,144**	(15,145)
Movement in other short term timing differences	**402**	(491)
Current tax charge for the year	-	-

NOTES TO THE FINANCIAL STATEMENTS

Continued

Deferred tax asset recognised

	2013	2012
	£	£
Accelerated capital allowances	**(27,114)**	(33,669)
Short-term timing differences	**24,250**	26,175
Tax losses carried forward	**243,797**	287,675
Undiscounted provision for deferred tax asset	**240,933**	280,181

The Company has tax losses of £1 16 million *(2012 £1 25 million)* that are available indefinitely for offset against future taxable profits of the Company
A deferred tax asset of £0 24 million *(2012 £0 28 million)* has been recognised because recovery is considered reasonably certain

8 Intangible fixed assets

	Goodwill
	£
Cost	
At 1 April 2012 and 31 March 2013	**25,000**
Amortisation	
At 1 April 2012	**6,667**
Charge for the year	**2,500**
At 31 March 2013	**9,167**
Net book value	
At 31 March 2013	**15,833**
At 1 April 2012	18,333

NOTES TO THE FINANCIAL STATEMENTS
Continued

9 Tangible fixed assets

	Plant and equipment £
Cost	
At 1 April 2012	764,696
Additions	27,379
At 31 March 2013	**792,075**
Depreciation	
At 1 April 2012	430,016
Charge for the year	78,540
At 31 March 2013	**508,556**
Net book value	
At 31 March 2013	**283,519**
At 1 April 2012	334,680

Included in the total net book value of tangible fixed assets is £26,210 *(2012 £254,325)* of assets held under hire purchase agreements on which depreciation of £9,531 *(2012 £32,883)* has been charged in the year

10 Stocks

	2013 £	2012 £
Raw materials and consumables	**664,492**	532,688
Work in progress	**5,878**	5,169
Finished goods and bought in components	**116,759**	135,000
	787,129	672,857

11 Debtors

	2013 £	2012 £
Trade debtors	**1,430,589**	1,269,572
Prepayments and accrued income	**93,349**	110,536
Deferred tax asset (see Note 7)	**240,933**	280,181
	1,764,871	1,660,289

The deferred tax asset is due after more than one year

NOTES TO THE FINANCIAL STATEMENTS

Continued

12 Creditors amounts falling due within one year

	2013	2012
	£	£
Invoice discounting	-	156,089
Trade creditors	1,418,684	1,079,007
Amounts owed to group undertakings	471,765	412,786
Tax and social security	217,339	161,898
Hire purchase agreements	11,581	27,482
Other creditors and accruals	117,578	101,832
Corporation tax	184	184
	2,237,131	1,939,278

The Company, together with its immediate parent company, has provided Lloyds TSB Bank Plc with fixed and floating charges over all of the Company's assets, including cross guarantees, as security for the invoice discounting facilities provided

Hire purchase agreements are secured on the related assets

13 Creditors amounts falling due after more than one year

	2013	2012
	£	£
Hire purchase agreements due		
Between one and five years	10,008	21,589

Hire purchase agreements are secured on the related assets

14 Provisions

	2013	2012
	£	£
At beginning of year	110,743	111,928
Notional interest	16,000	14,446
Payments	(15,822)	(15,631)
At end of year	110,921	110,743

The provision relates to the onerous liabilities of employers' national insurance and pension contributions on annual payments to be made under a permanent health insurance policy

The annual payments include a provision for an increase under RPI which has been estimated at 2% The pre-tax discount rate applied to the amounts payable is 15%

NOTES TO THE FINANCIAL STATEMENTS
Continued

15 Called up share capital

	2013	2012
	£	£
Allotted, called up and fully paid		
1,987,002 *(2012 1,987,002)* ordinary shares of £1 each	**1,987,002**	1,987,002

16 Reserves

	Capital contribution reserve	Profit and loss account
	£	£
At 1 April 2012	323,000	(1,302,130)
Profit for the year	-	74,869
At 31 March 2013	**323,000**	**(1,227,261)**

The capital contribution reserve is distributable

17 Operating leases

The Company had future annual commitments for payments under operating leases as follows

	Land and buildings		Other	
	2013	2012	**2013**	2012
	£	£	**£**	£
Within one year	**-**	-	**11,513**	9,640
In two to five years inclusive	**191,100**	191,100	**35,796**	24,680
	191,100	191,100	**47,309**	34,320

18 Pensions

The total pension charge of £44,430 *(2012 £40,719)* shown in Note 4 comprises contributions to money purchase schemes only Amounts due to money purchase schemes at the year end, included in other creditors and accruals, amounted to £4,555 *(2012 £3,060)*

19 Cash flow statement

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking

NOTES TO THE FINANCIAL STATEMENTS

Continued

20 Related party transactions

Under Financial Reporting Standard 8, the Company is exempt from the requirement to disclose any related party transactions within the Group on the grounds that it is a wholly owned subsidiary undertaking, whose transactions are detailed in the consolidated accounts of its immediate parent company

21 Immediate parent company

The immediate parent company and largest parent which has prepared consolidated financial statements is Energy Technique Plc, a company incorporated in Great Britain and registered in England and Wales

Copies of the Energy Technique Plc consolidated financial statements can be obtained from

Energy Technique Plc
47 Central Avenue
West Molesey
Surrey
KT8 2QZ

22 Ultimate controlling party

In the directors' opinion, there is no longer a controlling party of the Company