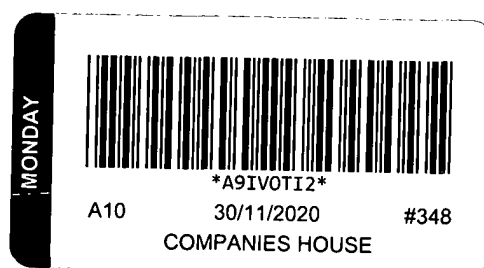


Registration number: 02455748

TBS ENGINEERING LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019



TBS ENGINEERING LIMITED

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TBS ENGINEERING LIMITED

COMPANY INFORMATION

Directors	D J Longney T Valvo
Registered office	Hurricane Road Gloucester Business Park Bröckworth Gloucester Gloucestershire GL3 4AQ
Bankers	Lloyds Banking Group plc 11-15 Monument Street London EC3V 9JA Fifth Third Bank 38 Fountain Square Plaza Cincinnati OH 45263 USA
Auditors	Hazlewoods LLP Staverton Court Staverton Cheltenham Gloucestershire GL51 0UX

TBS ENGINEERING LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their strategic report for the year ended 31 December 2019.

Principal activity

The principal activity of the company is the design and manufacture of a range of special purpose equipment for the lead acid battery industry, used primarily in the manufacture and assembly of car and truck batteries.

Fair review of the business

The company made a profit after tax of £4,440,982 (2018 - £5,787,121) from turnover of £34,124,467 (2018 - £34,328,432). The directors are pleased with the level of turnover and profits for the year. The company has net assets at 31 December 2019 of £29,953,346 (2018 - £28,565,364). Interim ordinary dividends of £1,275,000 have been paid in the year (2018 - £7,556,443).

Business environment:

Consolidation within the industry has resulted in fewer large group structured customers with a group managed approach to capital investment. Much of this consolidation has been driven by the need to provide optimum efficiency and cost reductions in a very competitive market place. We are proud to be part of a supply chain which results in the production of Lead Acid Batteries which are one of the most environmentally friendly & recyclable products on the planet.

Within this competitive environment the company has differentiated itself from its competitors by providing:

- a) a complete one stop source of assembly equipment through the acquisition of previous competition;
- b) strong investment in innovative design to provide industry savings;
- c) high quality machinery manufacture delivering the end user with a critical quality product; and
- d) worldwide product availability, customer service and technical support.

COVID-19:

With 99% of TBS' sales going to the global market, the global outbreak of COVID-19 has had a significant impact on the demand in 2020. With various large customers closed for periods of 2020 and capital budgets frozen, the 2020 financial year has been difficult. The business however is still set to be profitable and cash generative and is in a strong position once the market demand returns.

Strategy:

The company's overriding objective is to achieve sustainable volume and margin through the provision of world class quality design and manufacture which is at the forefront of industry expectations.

A broad product range covering the technical requirements and budgets of all customers is key to sustaining volume in a demanding and cyclical environment.

Customer service is paramount to our continued success and key areas have been identified to ensure that this remains at the centre of our quality objectives.

We are committed to ensure an efficient, cost effective manufacturing operation with an engaged workforce by adopting a culture of continuous improvement and using state of the art business systems thereby delivering maximum value to all stakeholders.

The company's key financial and other performance indicators during the year were as follows:

	Unit	2019	2018
Return on equity	%	15.18	19.81
Net profit margin before interest, investment income & tax	%	16.66	19.46
Current ratio (liquidity ratio representing current assets as a proportion of current liabilities)	Ratio	2.60	1.80
Employee retention (average service of permanent employees)	Years	9.94	9.50

Section 172(1) Statement

In 2018 the Companies (Miscellaneous Reporting) Regulations introduced a requirement for companies to publish a statement describing how the directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

Section 172(1)(a) to (f) requires each director to act in the way he or she considered would be most likely to promote the success of the company for the benefit of its members as a whole, with regard to the following matters:

(a) *The likely consequences of any decision in the long-term*
The company directors have set out a direction for the company designed to have a long-term beneficial impact on the company and to help drive success in delivering automated solutions to the lead acid battery industry.

(b) *The interests of the company's employees*
The employees are the key to the success of the organisation. We aim to be a responsible employer and the health and safety of all our employees is a primary consideration in the way we do business.

(c) *The need to foster the company's business relationships with suppliers, customers and others*
Interaction with key stakeholders is key to the success of our business, our aim is to partner with both customers and suppliers to help deliver automated solutions to the lead acid battery industry.

(d) *The impact of the company's operations on the community and environment*
As a significant employer in our local area, we support local employment and apprenticeship schemes. We collaborate with local educational institutes where possible and are actively reducing our environmental impact.

(e) *The desirability of the company maintaining a reputation for high standards of business conduct*
The company directors follow a strict code of conduct, both set by TBS and Berkshire Hathaway and use this as a guide to all business transactions.

(f) *The need to act fairly as between members of the company*
The directors believe they have acted in good faith to promote the goals of TBS for the benefit of its members, and in doing so have given regard to our key stakeholders.

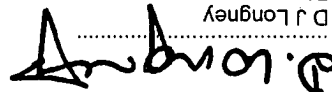
Principal risks and uncertainties
The management of the business and the execution of the company's strategy are subject to a number of risks. Risks are reviewed by the board and appropriate processes put in place to monitor and mitigate them. The key business risks affecting the company are set out below:

Competition:
The company operates in a competitive market. Pricing pressure is particularly prevalent which results in downward pressure to margins. Constant cost reduction re-evaluation by management is at the fore of remaining competitive as its innovative design protected and enforced by strong patent investment.

Employee:
The company's performance depends largely on its employees, managers and directors. A key element is retention of our highly skilled workforce and the company provides benefit packages which are linked to the company's results. Succession planning is also key in order to achieve minimal business interruption and focused employee development in our positive company culture.

Matters relating to the current COVID-19 pandemic are set out above in the Fair review of the business section.

Approved by the Board on 18 November 2020 and signed on its behalf by:


D J Longney
Director

TBS ENGINEERING LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the financial statements for the year ended 31 December 2019.

Directors of the company

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

D J Longney

L E Gardiner - Chairman (resigned 30 April 2019)

V F Empson (resigned 1 August 2020)

T Valvo

S W Minchin (resigned 21 June 2019)

Financial instruments

The company's financial instruments, other than derivatives, comprise cash and liquid resources, and various other items such as trade debtors, trade creditors, etc. that arise directly from its operations. The main purpose of these financial instruments is to finance the operations of the company. The company is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures and staged payments. The nature of these financial instruments means that they are not subject to price risk or liquidity risk.

The company is exposed to foreign currency risk through making overseas sales and purchases. To minimise this foreign currency risk, the company enters into derivative financial instruments, in the form of forward currency contracts. Although this gives a fair value risk in terms of exchange rate movements this is a risk the directors accept and keep under review to ensure that the company's exposure is kept to a minimum.

The company's business environment and risks, together with the details of mitigation and monitoring undertaken by the directors, are dealt with elsewhere in the Strategic Report. As a result, the directors believe the company is well placed to successfully manage risks despite the uncertain economic outlook. As set out in note 2 to the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, with a strong balance sheet and no external finance, and therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Future developments

The company continues to put considerable resource into the development of its products to maintain its position as the leader in the field of lead acid battery assembly equipment.

Matters relating to the current COVID-19 pandemic are set out in the Fair review of the business section of the Strategic Report.

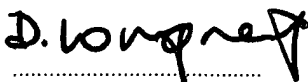
Disclosure of information to the auditors

Each director has taken the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

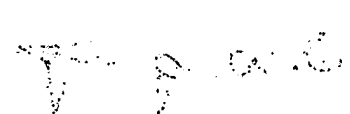
Reappointment of auditors

Hazlewoods LLP have expressed their willingness to continue in office.

Approved by the Board on 18 November 2020 and signed on its behalf by:



D J Longney
Director



TBS ENGINEERING LIMITED

STATEMENT OF 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 period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and 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; 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 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.

TBS ENGINEERING LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TBS ENGINEERING LIMITED

Opinion

We have audited the financial statements of TBS Engineering Limited (the 'company') for the year ended 31 December 2019, which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

TBS ENGINEERING LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TBS ENGINEERING LIMITED

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

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.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of this report

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.



Julian Gaskell (Senior Statutory Auditor)
For and on behalf of Hazlewoods LLP, Statutory Auditor

Staverton Court
Staverton
Cheltenham
Gloucestershire
GL51 0UX

Date: 25 November 2020

TBS ENGINEERING LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £	2018 £
Turnover	3	34,124,467	34,328,432
Changes in stocks of finished goods and work in progress		782,594	2,475,441
Other operating income		14,286	95,948
Raw materials and consumables used		(14,225,194)	(15,001,640)
Employee benefits expense	7	(9,555,283)	(9,555,055)
Depreciation and amortisation expense		(1,110,881)	(759,003)
Other expenses		<u>(4,345,546)</u>	<u>(4,903,920)</u>
Operating profit	4	5,684,443	6,680,203
Other interest receivable and similar income	5	40,455	68,689
Interest payable and similar charges	6	<u>(75,054)</u>	<u>(84,000)</u>
Profit before tax		5,649,844	6,664,892
Taxation	10	<u>(1,208,862)</u>	<u>(877,771)</u>
Profit for the year		<u><u>4,440,982</u></u>	<u><u>5,787,121</u></u>

The above results were derived from continuing operations.

TBS ENGINEERING LIMITED**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019**

	2019 £	2018 £
Profit for the year	4,440,982	5,787,121
Remeasurement gain/loss on defined benefit pension schemes	(2,146,000)	555,000
Deferred tax on remeasurement gain/loss on defined benefit pension scheme	337,790	(105,450)
Effect of deferred tax rate change	-	11,100
Current tax deductions allocated to actuarial losses	30,210	-
	<u>(1,778,000)</u>	<u>460,650</u>
Total comprehensive income for the year	<u>2,662,982</u>	<u>6,247,771</u>

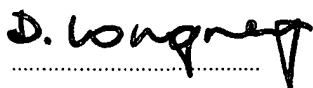
The notes on pages 12 to 25 form an integral part of these financial statements.

TBS ENGINEERING LIMITED

**(REGISTRATION NUMBER: 02455748)
BALANCE SHEET AS AT 31 DECEMBER 2019**

	Note	2019 £	2018 £
Fixed assets			
Tangible assets	11	17,181,810	17,814,030
Investments	12	<u>1,985,169</u>	<u>128,127</u>
		<u>19,166,979</u>	<u>17,942,157</u>
Current assets			
Stocks	13	10,790,078	11,193,877
Debtors	14	6,723,852	9,172,781
Cash at bank and in hand		<u>7,270,707</u>	<u>9,427,325</u>
		24,784,637	29,793,983
Creditors: Amounts falling due within one year	15	<u>(9,636,951)</u>	<u>(16,676,586)</u>
Net current assets		<u>15,147,686</u>	<u>13,117,397</u>
Total assets less current liabilities		34,314,665	31,059,554
Provisions	16	<u>(4,361,319)</u>	<u>(2,494,190)</u>
Net assets		<u>29,953,346</u>	<u>28,565,364</u>
Capital and reserves			
Called up share capital	17	1,229,002	1,229,002
Share premium reserve	18	296,923	296,923
Profit and loss account	18	<u>28,427,421</u>	<u>27,039,439</u>
Total equity		<u>29,953,346</u>	<u>28,565,364</u>

Approved and authorised by the Board on 18 November 2020 and signed on its behalf by:



D J Longney
Director

The notes on pages 12 to 25 form an integral part of these financial statements.

TBS ENGINEERING LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £	Share premium £	Profit and loss account £	Total £
At 1 January 2019	1,229,002	296,923	27,039,439	28,565,364
Profit for the year	-	-	4,440,982	4,440,982
Other comprehensive income	-	-	(1,778,000)	(1,778,000)
Total comprehensive income	-	-	2,662,982	2,662,982
Dividends	-	-	(1,275,000)	(1,275,000)
At 31 December 2019	1,229,002	296,923	28,427,421	29,953,346

	Share capital £	Share premium £	Profit and loss account £	Total £
At 1 January 2018	1,229,002	296,923	28,348,111	29,874,036
Profit for the year	-	-	5,787,121	5,787,121
Other comprehensive income	-	-	460,650	460,650
Total comprehensive income	-	-	6,247,771	6,247,771
Dividends	-	-	(7,556,443)	(7,556,443)
At 31 December 2018	1,229,002	296,923	27,039,439	28,565,364

The notes on pages 12 to 25 form an integral part of these financial statements.

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1 General information

The company is a private company limited by share capital, incorporated in England and Wales.

The address of its registered office is:

Hurricane Road
Gloucester Business Park
Brockworth
Gloucester
Gloucestershire
GL3 4AQ

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis of preparation

These financial statements have been prepared using the historical cost convention except for, where disclosed in these accounting policies, certain items that are shown at fair value.

The presentational currency of the financial statements is UK £, being the functional currency of the primary economic environment in which the company operates. Monetary amounts in these financial statements are rounded to the nearest £.

Summary of disclosure exemptions

TBS Engineering Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of disclosure exemptions made available to it in respect of its financial statements. Exemption has been taken in relation to financial instruments and the presentation of a statement of cash flows.

Going concern

The directors have prepared forecast information which has taken into account the current COVID-19 outbreak and its potential impact on the business. Based on these forecasts, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, with a strong balance sheet and no external finance, and therefore continue to adopt the going concern basis in preparing the financial statements.

Exemption from preparing group accounts

The financial statements contain information about TBS Engineering Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Berkshire Hathaway Inc., a company incorporated in the USA.

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2 Accounting policies (continued)

Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

No significant judgements have been made by management in preparing these financial statements.

Key sources of estimation uncertainty

Net pension liability:

Determining the value of the pension provisions included in the balance sheet requires estimation of a number of factors. These are set out in detail in note 19 to the financial statements.

Revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the company's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the company. The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and and specific criteria have been met for each of the company's activities.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except that a charge attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

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 operates and generates taxable income.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet date, except as required by FRS 102.

Deferred tax is measured at the rates that are expected to apply in the periods when the timing differences are expected to reverse, based on the tax rates and law enacted at the balance sheet date.

Tangible assets

Tangible assets are stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of tangible assets includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, as follows:

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2 Accounting policies (continued)

Asset class	Depreciation method and rate
Freehold buildings	3.33-10% on cost
Fixtures, fittings, tools and equipment	10-50% on cost
Plant and machinery	5-20% on cost

Investments

Investments in equity shares which are publicly traded or where the fair value can be measured reliably are initially measured at fair value, with changes in fair value recognised in profit or loss. Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

Trade debtors

Trade debtors are amounts due from customers for goods sold or services performed in the ordinary course of business.

Trade debtors are recognised initially at the transaction price. All trade debtors are repayable within one year and hence are included at the undiscounted cost of cash expected to be received. A provision for the impairment of trade debtors is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debtors.

Stocks

Stock and work in progress are valued at the lower of cost and net realisable value, after due regard for obsolete and slow moving stocks. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is based on selling price less anticipated costs to completion and selling costs. Costs include all direct costs and an appropriate portion of fixed and variable overheads.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if the company does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and all are repayable within one year and hence are included at the undiscounted amount of cash expected to be paid.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Dividends

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the reporting period in which the dividends are declared.

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2 Accounting policies (continued)

Financial instruments

The company enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities such as trade and other receivables and payables, loans from related parties and investments in non-puttable ordinary shares.

Financial instruments are classified and accounted for according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Where shares are issued, any component that creates a financial liability of the company is presented as a liability on the balance sheet. The corresponding dividends relating to the liability component are charged as interest expenses in the profit and loss account.

Debt instruments like loans and other debtors and creditors are initially measured at present value of the future payments and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of 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 outright short-term loan not at market rate, the financial asset or liability is measured, initially and subsequently, at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Investments in non-puttable ordinary shares are measured at cost less impairment for all other investments.

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 profit or loss. For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying value 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 the best estimate, which is an approximation, of the amount that the company 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 recognised 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.

At each reporting date non-financial assets not carried at fair value, such as property, plant and equipment are reviewed to determine whether there is an indication that an asset may be impaired. If there is an indication of possible impairment, the recoverable amount of any asset or group of related assets, which is the higher of value in use and the fair value less costs to sell, is estimated and compared with its carrying amount. If the recoverable amount is lower, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognised immediately in profit or loss.

Inventories are also assessed for impairment at each reporting date. The carrying amount of each item of inventory, or group of similar items, is compared with its selling price less costs to complete and sell. If an item is found to be impaired, its carrying amount is reduced to selling price less costs to complete and sell, and an impairment loss recognised immediately in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset or group of related assets is increased to the revised estimate of its recoverable amount, but not to exceed the amount that would have been determined had no impairment loss been recognised for the asset or group of related assets in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a pension fund and the company has no legal or constructive obligation to pay further contributions even if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions to defined contribution plans are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as a prepayment.

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2 Accounting policies (continued)

Defined benefit pension obligation

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit cost method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

3 Turnover

The analysis of the company's turnover for the year from continuing operations is as follows:

	2019	2018
	£	£
Sale of goods	34,082,948	34,222,989
Rendering of services	41,519	105,443
	<u>34,124,467</u>	<u>34,328,432</u>

The analysis of the company's revenue for the year by market is as follows:

	2019	2018
	£	£
United Kingdom	120,509	226,182
Europe	3,723,257	8,887,750
North America	20,533,073	9,776,004
South America	2,501,702	3,722,557
Africa	460,658	346,354
Asia	6,099,847	11,022,062
Other	685,421	347,523
	<u>34,124,467</u>	<u>34,328,432</u>

4 Operating profit

Arrived at after charging/(crediting)

	2019	2018
	£	£
Depreciation expense	1,110,881	759,003
Research and development cost	188,155	261,766
Foreign exchange (gains)/losses	143,316	(202,840)
Operating lease expense - property	16,644	288,881
Profit on disposal of property, plant and equipment	-	(5,550)

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

5 Other interest receivable and similar income

	2019 £	2018 £
Interest from group companies	984	-
Interest income on bank deposits	39,471	68,689
	<u>40,455</u>	<u>68,689</u>

6 Interest payable and similar expenses

	2019 £	2018 £
Interest on bank overdrafts and borrowings	54	-
Pension scheme finance costs	75,000	84,000
	<u>75,054</u>	<u>84,000</u>

7 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2019 £	2018 £
Wages and salaries	7,879,517	7,807,973
Social security costs	852,002	869,146
Pension costs	823,764	877,936
	<u>9,555,283</u>	<u>9,555,055</u>

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

	2019 No.	2018 No.
Production	93	90
Administration and support	87	84
	<u>180</u>	<u>174</u>

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2019 £	2018 £
Remuneration	741,205	1,042,692
Compensation for loss of office	32,521	-
	<u>773,726</u>	<u>1,042,692</u>

During the year the number of directors who were receiving benefits was as follows:

	2019 No.	2018 No.
Accruing benefits under defined benefit pension scheme	3	3

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

8 Directors' remuneration (continued)

In respect of the highest paid director:

	2019 £	2018 £
Remuneration	342,085	456,254
Defined benefit accrued pension entitlement at the end of the period	37,485	33,358

9 Auditors' remuneration

	2019 £	2018 £
Audit of the financial statements	17,000	17,250
Other fees to auditors		
All other tax advisory services	17,185	41,925
All other non-audit services	-	700
	17,185	42,625

10 Taxation

Tax charged/(credited) in the profit and loss account

	2019 £	2018 £
Current taxation		
UK corporation tax	1,108,311	1,114,811
UK corporation tax adjustment to prior periods	2,786	(495,381)
Double taxation relief	-	(2,032)
	1,111,097	617,398
Foreign tax	46,186	2,032
Total current income tax	1,157,283	619,430
Deferred taxation		
Arising from origination and reversal of timing differences	58,491	211,426
Arising from changes in tax rates and laws	(6,157)	(22,255)
Arising from adjustment to prior periods	(755)	69,170
Total deferred taxation	51,579	258,341
Tax expense in the profit and loss account	1,208,862	877,771

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

10 Taxation (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2018 - lower than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £	2018 £
Profit before tax	5,649,844	6,664,892
Corporation tax at standard rate	1,073,470	1,266,329
Effect of revenues exempt from taxation	-	(13,877)
Effect of expense not deductible in determining taxable profit	102,107	73,785
Deferred tax credit relating to changes in tax rates or laws	(6,157)	(22,255)
Increase arising from adjustment to prior periods	2,031	426,211
Tax increase arising from overseas tax suffered/expensed	37,411	-
Total tax charge	1,208,862	1,730,193

The reduction in the UK corporation tax rate from 19% to 17% from April 2020 was substantively enacted in September 2016, although was subsequently reversed as announced by the Chancellor of the Exchequer in the March 2020 Budget. The enacted rate at the balance sheet date has been appropriately reflected in the calculation of deferred tax in the company's financial statements.

Deferred tax

Deferred tax assets and liabilities

2019	Asset £
Deferred tax arising in relation to retirement benefit obligations	727,770
Differences between accumulated depreciation and amortisation and capital allowances	(296,530)
Other timing differences	12,790
	444,030

2018	Asset £
Deferred tax arising in relation to retirement benefit obligations	389,980
Differences between accumulated depreciation and amortisation and capital allowances	(250,710)
Other timing differences	18,549
	157,819

Tax relating to items recognised in other comprehensive income or equity

	2019 £	2018 £
Current tax related to items recognised as items of other comprehensive income	(30,210)	-
Deferred tax related to items recognised as items of other comprehensive income	(337,790)	94,350

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

11 Tangible assets

	Freehold land and buildings £	Fixtures, fittings, tools and equipment £	Plant and machinery £	Total £
Cost				
At 1 January 2019	15,617,719	1,419,162	3,584,850	20,621,731
Additions	-	432,001	46,660	478,661
At 31 December 2019	<u>15,617,719</u>	<u>1,851,163</u>	<u>3,631,510</u>	<u>21,100,392</u>
Depreciation				
At 1 January 2019	364,733	842,872	1,600,096	2,807,701
Charge for the year	559,219	258,205	293,457	1,110,881
At 31 December 2019	<u>923,952</u>	<u>1,101,077</u>	<u>1,893,553</u>	<u>3,918,582</u>
Carrying amount				
At 31 December 2019	<u>14,693,767</u>	<u>750,086</u>	<u>1,737,957</u>	<u>17,181,810</u>
At 31 December 2018	<u>15,252,986</u>	<u>576,290</u>	<u>1,984,754</u>	<u>17,814,030</u>

12 Investments in subsidiaries, joint ventures and associates

	2019 £	2018 £
Investments in subsidiaries	1,985,169	-
Investments in joint ventures	-	128,127
	<u>1,985,169</u>	<u>128,127</u>

Subsidiaries	£
Cost	
At 1 January 2019	-
Transfer	128,127
Additions	1,857,042
At 31 December 2019	<u>1,985,169</u>
Carrying amount	
At 31 December 2019	<u>1,985,169</u>
At 31 December 2018	<u>-</u>
Joint ventures	£
Cost	
At 1 January 2019	128,127
Transfer	(128,127)
31 December 2019	<u>-</u>
Carrying amount	
At 31 December 2019	<u>-</u>
As at 31 December 2018	<u>128,127</u>

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

12 Investments in subsidiaries, joint ventures and associates (continued)

Details of undertakings

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Undertaking	Country of incorporation	Holding	Proportion of voting rights and shares held	
			2019	2018
Subsidiary undertakings				
TBS Digatron Qingdao Co Ltd	China	Ordinary	100%	50%

The principal activity of TBS Digatron Qingdao Co Ltd is manufacture of special purpose equipment for the lead acid battery industry

The profit for the financial period of TBS Digatron Qingdao Co Ltd was £130,406 and the aggregate amount of capital and reserves at the end of the period was £2,133,957.

13 Stocks

	2019 £	2018 £
Raw materials and consumables	4,464,505	5,650,898
Work in progress	6,325,573	5,542,979
	<u>10,790,078</u>	<u>11,193,877</u>

14 Debtors

	2019 £	2018 £
Trade debtors	3,847,207	4,804,902
Receivables from related parties	1,888,666	2,932,979
Other receivables	188,181	495,103
Prepayments	355,768	251,706
Deferred tax assets	444,030	157,819
Corporation tax asset	-	530,272
Total current trade and other receivables	<u>6,723,852</u>	<u>9,172,781</u>

15 Creditors

	2019 £	2018 £
Due within one year		
Trade creditors	1,877,788	1,524,193
Amounts due to related parties	57,692	19,244
Social security and other taxes	278,004	253,230
Payments on account	6,142,709	10,445,348
Accrued expenses	692,485	3,321,792
Corporation tax liability	588,273	1,112,779
	<u>9,636,951</u>	<u>16,676,586</u>

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

16 Provisions

	Product warranty provisions £	Total excluding net defined benefit pension scheme deficit £
At 1 January 2019	200,190	200,190
Additional provisions	51,192	51,192
Increase (decrease) in existing provisions	(7,065)	(7,065)
Provisions used	<u>(163,998)</u>	<u>(163,998)</u>
At 31 December 2019	<u>80,319</u>	<u>80,319</u>
	2019	2018
	£	£
Total excluding net defined benefit pension scheme deficit	80,319	200,190
Provision for net defined benefit pension scheme deficit (note 20)	4,281,000	2,294,000
Total provisions	<u>4,361,319</u>	<u>2,494,190</u>

The product warranty provisions are expected to be utilised within one year and represent the company's best estimate of the likely cash outflow.

17 Share capital

Allotted, called up and fully paid shares

	2019		2018	
	No.	£	No.	£
Ordinary shares of £1 each	<u>1,229,002</u>	<u>1,229,002</u>	<u>1,229,002</u>	<u>1,229,002</u>

18 Reserves

Called up share capital

This represents the nominal value of the issued share capital of the company.

Share premium reserve

This represents the premium arising on the issue of share capital, net of issue expenses.

Retained earnings

This represents the cumulative profits or losses, net of dividends paid and other adjustments.

The changes to each component of equity resulting from items of other comprehensive income for the current year were as follows:

	Retained earnings £	Total £
Remeasurement gain/loss on defined benefit pension schemes	(2,146,000)	(2,146,000)
Current tax deductions allocated to actuarial losses	30,210	30,210
Deferred tax on remeasurement gain/loss on defined benefit pension scheme	<u>337,790</u>	<u>337,790</u>
	<u>(1,778,000)</u>	<u>(1,778,000)</u>

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

18 Reserves (continued)

The changes to each component of equity resulting from items of other comprehensive income for the prior year were as follows:

	Retained earnings £	Total £
Remeasurement gain/loss on defined benefit pension schemes	555,000	555,000
Deferred tax on remeasurement gain/loss on defined benefit pension scheme	(94,350)	(94,350)
	<u>460,650</u>	<u>460,650</u>

19 Obligations under leases and hire purchase contracts

Operating leases

The total of future minimum lease payments is as follows:

	2019 £	2018 £
Not later than one year	16,644	16,644
Later than one year and not later than five years	12,483	27,740
	<u>29,127</u>	<u>44,384</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £16,644 (2018 - £288,881).

20 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £217,117 (2018 - £209,961).

Defined benefit pension scheme

MiTek UK Retirement and Death Benefits Plan

The company participates in the MiTek UK Retirement and Death Benefits Plan ('the Plan'), which is the defined benefit scheme of a fellow subsidiary undertaking. The benefits provided for the TBS Engineering Limited members ('the TBS members') of the plan are on a "career average" rather than a final salary basis. Their benefits are calculated by reference to the rate of increase of inflation and not to the growth in earnings. The assets and liabilities relating to the TBS members are ring fenced within the Plan for the sole benefit of those members.

The contributions to the scheme are determined with the advice from an independent qualified actuary on the basis of triennial valuations using the projected unit method. The most recent full actuarial valuation was carried out as at 1 May 2016. The valuation showed that the market value of the scheme's assets at that date was £9,925,000 and that the actuarial value was sufficient to cover 79% of the value of the benefits that had accrued to members. During the year the company contributed at a rate of 20.8% of pensionable salaries. In addition, the company makes monthly deficit funding contributions of £21,400 which are payable until 31 July 2026 under the scheme's schedule of contributions and deficit funding plan.

For the purposes of FRS 102, a valuation has been performed as at 30 November 2019 (2018 - 30 November 2018).

The total cost relating to defined benefit schemes for the year recognised in profit or loss as an expense was £437,000 (2018 - £484,000).

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

20 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the balance sheet are as follows:

	2019 £	2018 £
Fair value of scheme assets	15,738,000	13,694,000
Present value of defined benefit obligation	<u>(20,019,000)</u>	<u>(15,988,000)</u>
Defined benefit pension scheme deficit	<u>(4,281,000)</u>	<u>(2,294,000)</u>

Defined benefit obligation

Changes in the defined benefit obligation are as follows:

	2019 £
Present value at start of year	15,988,000
Current service cost	362,000
Interest cost	507,000
Actuarial gains and losses	3,372,000
Benefits paid	(349,000)
Contributions by scheme participants	<u>139,000</u>
Present value at end of year	<u>20,019,000</u>

Fair value of scheme assets

Changes in the fair value of scheme assets are as follows:

	2019 £
Fair value at start of year	13,694,000
Interest income	432,000
Actuarial gains and losses	1,226,000
Employer contributions	596,000
Contributions by scheme participants	139,000
Benefits paid	<u>(349,000)</u>
Fair value at end of year	<u>15,738,000</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2019 %	2018 %
Cash and cash equivalents	2	-
Equity instruments	41	44
Bonds	53	50
Property	<u>4</u>	<u>6</u>
	<u>100</u>	<u>100</u>

Return on scheme assets

	2019 £	2018 £
Return on scheme assets	<u>1,658,000</u>	<u>(244,000)</u>

TBS ENGINEERING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

20 Pension and other schemes (continued)

The pension scheme has not invested in any of the company's own financial instruments or in properties or other assets used by the company.

Principal actuarial assumptions

The principal actuarial assumptions at the balance sheet date are as follows:

	2019 %	2018 %
Discount rate	1.93	3.10
Future salary increases	2.96	3.34
Future pension increases (service prior to 6 April 2012)	2.89	3.20
Future pension increases (service after 6 April 2012)	1.68	1.90
Inflation - RPI	2.96	3.34
Inflation - CPI	<u>2.06</u>	<u>2.44</u>

Post retirement mortality assumptions

	2019 Years	2018 Years
Current UK pensioners at retirement age - male	22.00	22.20
Current UK pensioners at retirement age - female	24.20	24.00
Future UK pensioners at retirement age - male	23.00	23.20
Future UK pensioners at retirement age - female	<u>25.40</u>	<u>25.30</u>

21 Dividends

	2019 £	2018 £
Current year interim dividends paid	<u>1,275,000</u>	<u>7,556,443</u>

22 Related party transactions

Summary of transactions with joint ventures

During the year sales were made to joint ventures of £512,365 (2018 - £2,164,855).

23 Parent and ultimate parent undertaking

The company is wholly owned by its immediate parent company, MiTek Inc, a company incorporated in the United States of America. The parent company of the smallest group for which group financial statements are prepared is MiTek Industries Inc, a company incorporated in the United States of America. Copies of group financial statements can be obtained from 16023 Swingley Ridge Rd, Chesterfield, Missouri 63017, USA. The ultimate parent company is Berkshire Hathaway Inc, a company incorporated in the United States of America, and copies of group financial statements can be obtained from 1440 Kiewit Plaza, Omaha, Nebraska, USA.