

Generation Two Limited

Registered number: 08008574

Directors' report and financial statements

For the year ended 31 December 2017

GENERATION TWO LIMITED

COMPANY INFORMATION

Directors	J Otterson H Sharratt A Garstang N Gibbard M Garstang S Valentine
Registered number	08008574
Registered office	Coolair House Globe Lane Dukinfield Cheshire SK16 4UJ
Independent auditor	Mazars LLP Chartered Accountants & Statutory Auditor One St Peter's Square Manchester M2 3DE
Bankers	National Westminster Bank plc 1 Spinningfields Square Deansgate Manchester M3 3AP

GENERATION TWO LIMITED

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GENERATION TWO LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

The Directors present their Strategic Report for Generation Two Limited and subsidiary companies ("The Group") for the year ended 31 December 2017.

Business review

Incorporated in March 2012 the company is the non-trading ultimate parent company of Coolair Equipment Limited. There remain no plans for the company to trade in the future.

The focus of the Group remains the supply and installation of air conditioning systems and commercial heating products.

2017 was a more difficult trading year for the Group. After an extremely buoyant three year spell a downturn in the UK market was noticed this year, leading to a small (7%) fall in turnover across the three regional offices. The pressures on gross margin experienced last year continued, due to the ongoing uncertainty within the construction industry and within the UK's political situation. Overheads have remained generally steady and controlled, meaning that the reported fall in pre-tax profit is a direct consequence of the reduction in turnover and gross margin. As the company continues to trade very healthily with no reliance on bank finance this had no significant impact on cash flow or trading.

Once again most of 2017's turnover came from our traditional air conditioning market. Our emphasis within the business on standardisation and improvement of internal procedures and staff development has brought two additional accreditations. Cyber Essential Plus certification was awarded in October 2017, which ensured our early and comprehensive compliance with GDPR regulations in force from May 2018. In the same month we also achieved the Investors in People standard which as a company dedicated to looking after our staff we are extremely proud of.

Principal risks and uncertainties

The Group operates in a highly competitive market but the quality and breadth of the product ranges offered minimise the risk of losing sales to its key competitors. The company manages this risk by providing the best selection of market-leading, established products to its customers, and by investing in, training and retaining outstanding sales, technical and support staff. The Group's commitment to training and promoting exceptional personnel has enabled it to maintain strong relationships with its customers over many years, and has been the true key to the company's long term success.

GENERATION TWO LIMITED

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Financial key performance indicators

In addition to the universal KPIs of turnover and gross margin the group considers its specific KPIs to be:-

- Order levels
- Sales generated per salesman
- Average cash levels

Levels of secured orders are crucial to short-term planning of labour requirements and purchasing levels but more importantly provide the key indication of upturn or downturn in future workload, enabling management to react quickly and make appropriate changes on a strategic level. Average monthly order levels over the last 5 years have been £7.0m (2016: £6.8m) and levels at each of the last two year ends were:-

	December 2017	December 2016
Secured orders	£5,807,096	£7,344,794

The Group firmly believe that our sales force is our best asset. Average sales per salesman is an indicator of the state of the market plus when this figure drops it also indicates that there may be problems with individual performance which need to be rectified. We would not expect this figure to drop below £1m without good reason, and at each of the last two year ends the levels were:-

	December 2017	December 2016
Average sales per salesman	£1.23m	£1.47m

The Group trades with no reliance on external finance. Average monthly cash levels are the key indicator not just of trading conditions but of the strength and durability of our customer base. Average cash holdings (measured on a monthly basis) over the last 5 years have been £333,668 (down from £522,922 last year) and holdings at each of the last two year ends were:-

	December 2017	December 2016
Average monthly cash balance	£30,817	£184,082

The Board have concerns over the future strength of the UK economy and expect the next two years to be challenging in the construction sector. 2018 will see a strengthening and expansion of our service and maintenance division which is seen as a key growth strand for the Group's long term future success and to further improving the service levels offered to our clients.

This report was approved by the board on *19th September 2018* and signed on its behalf.



H Sharratt
Director

GENERATION TWO LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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

Directors' responsibilities statement

The Directors are responsible for preparing the Group 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 judgments and accounting estimates that are reasonable and prudent;
- 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 Company'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.

Results and dividends

The loss for the year, after taxation, amounted to £113,351 (2016 - profit £482,896).

The Directors proposed that no dividends shall be paid in 2017 (2016: £nil)

Directors

The Directors who served during the year were:

J Otterson
H Sharratt
A Garstang
N Gibbard
M Garstang
S Valentine

GENERATION TWO LIMITED

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

Future developments

The Board are optimistic about the long term future growth and direction of Coolair and have developed a Mission Statement: "To create the ideal indoor environment for people to live, work and play, now and always." This emphasises our commitments to:-

- partnering with our customers and suppliers to provide the best solutions for their needs;
- quality installation and after care of both cooling and heating products in the commercial environment; and
- sustainability of both the environment and of Coolair as a company long into the future.

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 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 and the Group's auditor is aware of that information.

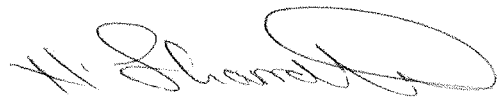
Post balance sheet events

There have been no significant events affecting the Group since the year end.

Auditor

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

This report was approved by the board on *19th September 2018* and signed on its behalf.



H Sharratt
Director

GENERATION TWO LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GENERATION TWO LIMITED

Opinion

We have audited the financial statements of Generation Two Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the Group Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group Statement of Cash Flows, the Group and Company Statements 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 FRS 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 Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's loss 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 Group's or Parent 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.

GENERATION TWO LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GENERATION TWO LIMITED

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.

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which 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.

GENERATION TWO LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GENERATION TWO LIMITED

Responsibilities of Directors

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, 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 Group's and Parent 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 intend to liquidate the Group or the Parent 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 the audit 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.



Neil Barton (Senior statutory auditor)

for and on behalf of

Mazars LLP
Chartered Accountants and Statutory Auditor
One St Peter's Square

Manchester
M2 3DE

Date: 20 September 2018

GENERATION TWO LIMITED

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

	Note	2017 £	2016 £
Turnover	4	25,993,812	27,921,543
Cost of sales		(21,343,043)	(22,439,010)
Gross profit		<u>4,650,769</u>	<u>5,482,533</u>
Administrative expenses		(4,681,336)	(4,779,708)
Operating (loss)/profit	5	(30,567)	702,825
Interest receivable and similar income	9	1,484	1,636
Interest payable and expenses	10	(766)	(3,271)
(Loss)/profit before taxation		<u>(29,849)</u>	<u>701,190</u>
Tax on (loss)/profit	11	(83,502)	(218,294)
(Loss)/profit for the financial year		<u>(113,351)</u>	<u>482,896</u>

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

There was no other comprehensive income for 2017 (2016:£NIL).

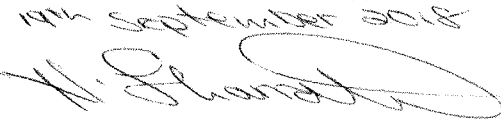
The notes on pages 14 to 34 form part of these financial statements.

GENERATION TWO LIMITED
REGISTERED NUMBER: 08008574

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 £	2016 £
Fixed assets			
Intangible assets	12	2,768,392	2,961,536
Tangible assets	13	1,060,727	634,687
Investment property	15	-	193,925
		<u>3,829,119</u>	<u>3,790,148</u>
Current assets			
Stocks	16	45,784	52,557
Debtors: amounts falling due after more than one year	17	926,962	1,042,779
Debtors: amounts falling due within one year	17	7,806,485	7,118,185
Cash at bank and in hand	18	226,190	1,176,951
		<u>9,005,421</u>	<u>9,390,472</u>
Creditors: amounts falling due within one year	19	(5,367,161)	(5,559,023)
Net current assets		<u>3,638,260</u>	<u>3,831,449</u>
Total assets less current liabilities		<u>7,467,379</u>	<u>7,621,597</u>
Creditors: amounts falling due after more than one year	20	(110,000)	(145,000)
Provisions for liabilities			
Deferred taxation	22	-	(5,867)
		<u>-</u>	<u>(5,867)</u>
Net assets		<u><u>7,357,379</u></u>	<u><u>7,470,730</u></u>
Capital and reserves			
Called up share capital	23	200	200
Share premium account	24	4,799,998	4,799,998
Profit and loss account	24	2,557,181	2,670,532
		<u>7,357,379</u>	<u>7,470,730</u>

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

19th September 2018


H Sharratt
Director

The notes on pages 14 to 34 form part of these financial statements.

GENERATION TWO LIMITED
REGISTERED NUMBER: 08008574

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 £	2016 £
Fixed assets			
Investments	14	6,500,000	6,500,000
Current assets			
Debtors: amounts falling due within one year	17	198	198
Net current assets		198	198
Total assets less current liabilities		6,500,198	6,500,198
Net assets		6,500,198	6,500,198
Capital and reserves			
Called up share capital	23	200	200
Share premium account	24	4,799,998	4,799,998
Profit and loss account	24	1,700,000	1,700,000
		6,500,198	6,500,198

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

19th September 2018



H Sharratt
Director

The notes on pages 14 to 34 form part of these financial statements.

GENERATION TWO LIMITED

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

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2017	200	4,799,998	2,670,532	7,470,730
Comprehensive income for the year				
Loss for the year	-	-	(113,351)	(113,351)
Total comprehensive income for the year	-	-	(113,351)	(113,351)
At 31 December 2017	<u>200</u>	<u>4,799,998</u>	<u>2,557,181</u>	<u>7,357,379</u>

The notes on pages 14 to 34 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2016	200	4,799,998	2,187,636	6,987,834
Comprehensive income for the year				
Profit for the year	-	-	482,896	482,896
Total comprehensive income for the year	-	-	482,896	482,896
At 31 December 2016	<u>200</u>	<u>4,799,998</u>	<u>2,670,532</u>	<u>7,470,730</u>

The notes on pages 14 to 34 form part of these financial statements.

GENERATION TWO LIMITED

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

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2017	200	4,799,998	1,700,000	6,500,198
Total comprehensive income for the year	-	-	-	-
At 31 December 2017	200	4,799,998	1,700,000	6,500,198

The notes on pages 14 to 34 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2016	200	4,799,998	1,700,000	6,500,198
Total comprehensive income for the year	-	-	-	-
At 31 December 2016	200	4,799,998	1,700,000	6,500,198

The notes on pages 14 to 34 form part of these financial statements.

GENERATION TWO LIMITED

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

	2017 £	2016 £
Cash flows from operating activities		
(Loss)/profit for the financial year	(113,351)	482,896
Adjustments for:		
Amortisation of intangible assets	193,144	193,144
Depreciation of tangible assets	84,734	83,571
Interest paid	766	3,271
Interest received	(1,484)	(1,636)
Taxation charge	83,502	218,294
Decrease/(increase) in stocks	6,773	(4,398)
(Increase) in debtors	(563,324)	(170,515)
(Decrease)/increase in creditors	(100,390)	31,177
Corporation tax (paid)	(225,000)	(352,601)
Net cash generated from operating activities	<u>(634,630)</u>	<u>483,203</u>
Cash flows from investing activities		
Purchase of tangible fixed assets	(316,849)	(18,424)
Interest received	1,484	1,636
Net cash from investing activities	<u>(315,365)</u>	<u>(16,788)</u>
Cash flows from financing activities		
Repayment of loans	-	(115,268)
Interest paid	(766)	(3,271)
Net cash used in financing activities	<u>(766)</u>	<u>(118,539)</u>
Net (decrease)/increase in cash and cash equivalents	(950,761)	347,876
Cash and cash equivalents at beginning of year	1,176,951	829,075
Cash and cash equivalents at the end of year	<u>226,190</u>	<u>1,176,951</u>
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	226,190	1,176,951
	<u>226,190</u>	<u>1,176,951</u>

The notes on pages 14 to 34 form part of these financial statements.

GENERATION TWO LIMITED

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

1. General information

Generation Two Limited ('the company') is a private company limited by shares incorporated in England and Wales (registered number 08008574). The address of the registered office and principal place of business is:

Coolair House
Globe Lane
Dukinfield
Cheshire
SK16 4UJ

The company is the ultimate parent company of Coolair Management Company Limited and Coolair Equipment Limited, both of which are incorporated in England and Wales.

The principal activity of the company is that of a holding company.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies 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 Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of Comprehensive Income in these financial statements.

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") 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 Balance Sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained. They are deconsolidated from the date control ceases.

GENERATION TWO LIMITED

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

2. Accounting policies (continued)

2.3 Going concern

These financial statements have been prepared on a going concern basis.

The current economic conditions present increased risks for all business. In response to such conditions, the directors have carefully considered these risks, including an assessment of uncertainty on future trading projection for a period of at least 12 months from the date of signing the financial statements, and the extent to which they might affect the preparation of the financial statements on a going concern basis.

Based on this assessment, the directors consider that the Group maintains an appropriate level of liquidity, sufficient to meet the demands of the business including any capital and servicing obligations of external debt liabilities.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and that there are no material uncertainties that lead to significant doubt upon the Group's ability to continue as a going concern. Thus the directors have continued to adopt the going concern basis of accounting in preparing these financial statements.

GENERATION TWO LIMITED

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

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Group will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

2.5 Interest income

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

2.6 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

GENERATION TWO LIMITED

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

2. Accounting policies (continued)

2.7 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 Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Group in independently administered funds.

2.8 Current and deferred taxation

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

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

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

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

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

GENERATION TWO LIMITED

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

2. Accounting policies (continued)

2.9 Intangible assets

Goodwill

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

Other intangible assets

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

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

2.10 Tangible fixed assets

Tangible fixed assets under the cost model, other than investment properties, 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.

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

Depreciation is provided on the following basis:

Freehold property	- 4% straight line
Leasehold improvements	- 4% straight line
Motor vehicles	- 33% straight line
Fixtures & fittings	- 20% straight line

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

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

2.11 Operating leases: Lessee

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

GENERATION TWO LIMITED

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

2. Accounting policies (continued)

2.12 Operating leases: Lessor

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease.

2.13 Investment property

Investment property is carried at fair value determined annually and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Statement of Comprehensive Income.

2.14 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted Group shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the Consolidated Statement of Comprehensive Income for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

Investments in listed company shares are remeasured to market value at each Balance Sheet date. Gains and losses on remeasurement are recognised in profit or loss for the period.

2.15 Stocks

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

At each balance sheet 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 the Statement of Comprehensive Income.

2.16 Long-term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

2.17 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.

GENERATION TWO LIMITED

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

2. Accounting policies (continued)

2.18 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.

2.19 Cash and cash equivalents

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

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

2.20 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.

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

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

2.22 Financial instruments

The Group only enters into basic financial instrument 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 the 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.

GENERATION TWO LIMITED

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

2. Accounting policies (continued)

2.22 Financial instruments (continued)

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the Group would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

GENERATION TWO LIMITED

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

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

In applying the Company's accounting policies, the directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. The directors' judgements, estimates and assumptions are based on the best and most reliable evidence available at the time when decisions are made, and are based on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, estimates and assumptions, the actual results and outcomes may differ.

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 period.

Critical judgements in applying the Company's accounting policies

The critical judgements that the directors have made in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognised in the statutory financial statements are discussed below.

(i) Assessing indicators of impairment

In assessing whether there have been any indicators of impaired assets, the directors have considered both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability. There have been no indicators of impairments identified during the current financial year.

(ii) Recognition of deferred tax assets

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

(i) Recoverability of Debtors

The Company establishes a provision for debtors that are estimated not to be recoverable. When assessing recoverability the directors consider the ageing of the debtors, past experience of recoverability, the credit profile of the client plus any known contractual problems. Provision is made for all debtors in dispute with clients, plus all retentions exceeding three years in age.

(ii) Determining residual values and useful economic lives of property, plant and equipment

The Company depreciates tangible assets over their estimated useful lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires estimates and assumptions to be made by management.

GENERATION TWO LIMITED

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

4. Turnover

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

	2017	2016
	£	£
Installation of air conditioning	25,993,812	27,921,543

All turnover arose within the United Kingdom.

5. Operating (loss)/profit

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

	2017	2016
	£	£
Depreciation of tangible fixed assets	84,734	83,571
Amortisation of intangible assets, including goodwill	193,144	193,144
Defined contribution pension cost	219,776	198,159

All audit fees are borne by Coolair Equipment Limited.

6. Auditor's remuneration

	2017	2016
	£	£
Fees payable to the Group's auditor and its associates for the audit of the Group's annual accounts	21,000	20,500
Fees payable to the Group's auditor and its associates in respect of:		
Other services relating to taxation	2,550	2,500
All other services	2,425	2,350
	<u>4,975</u>	<u>4,850</u>

GENERATION TWO LIMITED

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

7. Employees

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

	Group 2017 £	Group 2016 £	Company 2017 £	Company 2016 £
Wages and salaries	3,525,334	4,028,998	-	-
Social security costs	340,825	69,344	-	-
Cost of defined contribution scheme	219,776	198,159	-	-
	<u>4,085,935</u>	<u>4,296,501</u>	<u>-</u>	<u>-</u>

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

	2017 No.	2016 No.
Engineers	40	48
Warehouse and distribution	1	1
Sales	23	20
Management and administration	23	24
	<u>87</u>	<u>93</u>

The Company has no direct employees other than the Directors, who did not receive any remuneration (2016 - £NIL) from the Company as they are remunerated via a subsidiary.

8. Directors' remuneration

	2017 £	2016 £
Directors' emoluments	693,187	935,557
Company contributions to defined contribution pension schemes	77,500	76,010
	<u>770,687</u>	<u>1,011,567</u>

During the year retirement benefits were accruing to 6 Directors (2016 - 6) in respect of defined contribution pension schemes.

The highest paid Director received remuneration of £86,716 (2016 - £91,352).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid Director amounted to £11,800 (2016 - £12,200).

GENERATION TWO LIMITED

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

9. Interest receivable

	2017 £	2016 £
Other interest receivable	1,484	1,636

10. Interest payable and similar expenses

	2017 £	2016 £
Bank interest payable	766	3,270
Other interest payable	-	1
	<u>766</u>	<u>3,271</u>

11. Taxation

	2017 £	2016 £
Corporation tax		
Current tax on profits for the year	94,529	157,506
Adjustments in respect of previous periods	4,000	43,353
Total current tax	<u>98,529</u>	<u>200,859</u>
Deferred tax		
Origination and reversal of timing differences	(15,027)	52,623
Adjustment to prior period	-	(40,689)
Effect of tax rate change on opening balance	-	5,501
Total deferred tax	<u>(15,027)</u>	<u>17,435</u>
Taxation on profit on ordinary activities	<u>83,502</u>	<u>218,294</u>

GENERATION TWO LIMITED

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

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016 - the same as) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £	2016 £
(Loss)/Profit on ordinary activities before tax	(29,849)	701,190
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	(5,746)	140,238
Effects of:		
Non-tax deductible amortisation of goodwill and impairment	37,180	38,629
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	36,556	32,596
Fixed asset differences	9,531	7,954
Adjustments to tax charge in respect of prior periods	3,995	2,664
Adjust opening and closing deferred tax to average rate of 20% (2015: 20.25%)	1,986	(3,787)
Total tax charge for the year	83,502	218,294

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

GENERATION TWO LIMITED

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

12. Intangible assets

Group and Company

	Goodwill £
Cost	
At 1 January 2017	3,862,874
At 31 December 2017	<u>3,862,874</u>
Amortisation	
At 1 January 2017	901,338
Charge for the year	193,144
At 31 December 2017	<u>1,094,482</u>
Net book value	
At 31 December 2017	<u>2,768,392</u>
At 31 December 2016	<u>2,961,536</u>

Generation Two Limited purchased 100% of the share capital of Coolair Management Company Limited on 27 April 2012. Goodwill arising on this acquisition totalled £3,862,874 and is being amortised over 20 years.

GENERATION TWO LIMITED

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

13. Tangible fixed assets**Group**

	Freehold property £	Leasehold improve- ments £	Motor vehicles £	Fixtures & fittings £	Total £
Cost or valuation					
At 1 January 2017	672,487	128,439	11,440	345,488	1,157,854
Additions	303,725	-	-	13,124	316,849
Transfers between classes	193,925	-	-	-	193,925
At 31 December 2017	<u>1,170,137</u>	<u>128,439</u>	<u>11,440</u>	<u>358,612</u>	<u>1,668,628</u>
Depreciation					
At 1 January 2017	163,350	74,733	11,440	273,644	523,167
Charge for the year on owned assets	43,797	5,124	-	35,813	84,734
At 31 December 2017	<u>207,147</u>	<u>79,857</u>	<u>11,440</u>	<u>309,457</u>	<u>607,901</u>
Net book value					
At 31 December 2017	<u>962,990</u>	<u>48,582</u>	<u>-</u>	<u>49,155</u>	<u>1,060,727</u>
At 31 December 2016	<u>509,137</u>	<u>53,706</u>	<u>-</u>	<u>71,844</u>	<u>634,687</u>

The usage of the asset held as an Investment Property in the prior year changed during 2017 and it no longer met the Investment Property criteria under FRS 102. As a result the asset was transferred to Tangible Fixed Assets. Using its fair value as cost and depreciated from that date.

GENERATION TWO LIMITED

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

14. Fixed asset investments

Direct subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Coolair Management Company Limited	Ordinary	100 %	Dormant holding company

Indirect Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding	Principal activity
Coolair Equipment Limited	Ordinary	100 %	Supply and installation of air conditioning systems and commercial heating products

Company

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2017	6,500,000
At 31 December 2017	<u>6,500,000</u>
Net book value	
At 31 December 2017	<u>6,500,000</u>
At 31 December 2016	<u><u>6,500,000</u></u>

GENERATION TWO LIMITED

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

15. Investment Property

The usage of the asset held as an Investment Property in the prior year changed during 2017 and it no longer met the Investment Property criteria under FRS 102. As a result the asset was transferred to Tangible Fixed Assets. Using its fair value as cost and depreciated from that date.

16. Stocks

	Group 2017	Group 2016	Company 2017	Company 2016
	£	£	£	£
Finished goods and goods for resale	45,784	52,557	-	-

Stock recognised in cost of sales during the year as an expense was £11,627,911 (2016: £12,913,363).

17. Debtors

	Group 2017	Group 2016	Company 2017	Company 2016
	£	£	£	£
Due after more than one year				
Trade debtors	926,962	1,042,779	-	-
Due within one year				
Trade debtors	7,593,912	6,752,509	-	-
Other debtors	40,530	22,530	198	198
Prepayments and accrued income	162,883	343,146	-	-
Deferred taxation	9,160	-	-	-
	<u>7,806,485</u>	<u>7,118,185</u>	<u>198</u>	<u>198</u>

18. Cash and cash equivalents

	Group 2017	Group 2016	Company 2017	Company 2016
	£	£	£	£
Cash at bank and in hand	226,190	1,176,951	-	-

GENERATION TWO LIMITED

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

19. Creditors: Amounts falling due within one year

	Group 2017	Group 2016	Company 2017	Company 2016
	£	£	£	£
Trade creditors	3,640,572	3,885,495	-	-
Corporation tax	31,033	157,505	-	-
Other taxation and social security	970,891	824,753	-	-
Other creditors	42,258	52,258	-	-
Accruals and deferred income	682,407	639,012	-	-
	<u>5,367,161</u>	<u>5,559,023</u>	<u>-</u>	<u>-</u>

20. Creditors: Amounts falling due after more than one year

	Group 2017	Group 2016	Company 2017	Company 2016
	£	£	£	£
Other creditors	110,000	145,000	-	-
	<u>110,000</u>	<u>145,000</u>	<u>-</u>	<u>-</u>

21. Financial instruments

	Group 2017	Group 2016	Company 2017	Company 2016
	£	£	£	£
Financial assets				
Financial assets that are debt instruments measured at amortised cost	<u>8,787,594</u>	<u>8,994,769</u>	<u>198</u>	<u>198</u>
Financial liabilities				
Financial liabilities measured at amortised cost	<u>(3,792,830)</u>	<u>(4,082,753)</u>	<u>-</u>	<u>-</u>

Financial assets that are debt instruments measured at amortised cost comprise of cash and cash equivalents, trade debtors and other debtors.

Financial liabilities measured at amortised cost comprise of bank loans, trade creditors and other creditors.

GENERATION TWO LIMITED

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

22. Deferred taxation

Group

	2017 £
At beginning of year	(5,867)
Charged to profit or loss	15,027
At end of year	9,160

At end of year

The deferred taxation balance is made up as follows:

	Group 2017 £	Group 2016 £
Accelerated capital allowances	(29,800)	(31,211)
Short term timing differences	38,960	25,344
	9,160	(5,867)

GENERATION TWO LIMITED

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

23. Share capital

	2017	2016
	£	£
Allotted, called up and fully paid		
10,000 Ordinary A shares of £0.01 each	100	100
10,000 Ordinary B shares of £0.01 each	100	100
	<u>200</u>	<u>200</u>

Ordinary A shares have attached to them full voting, dividend and capital distribution (including on winding up) rights. They do not confer any rights of redemption.

Ordinary B shares attracts the same voting and dividend rights as the ordinary A shares.

24. Reserves**Share premium account**

This reserve represents the amount above the nominal value received for issued share capital, less transaction costs

Profit & loss account

This reserve represents the cumulative profit and losses.

25. Pension commitments

The Group operates a defined contribution pension scheme for the benefit of employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge for the year represents contributions payable by the company to the fund and amounted to £219,776 (2016: £198,159). There were outstanding contributions of £7,258 (2016: £7,258) at the end of the year which are included within creditors.

26. Commitments under operating leases

At 31 December 2017 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	Group	Group
	2017	2016
	£	£
Not later than 1 year	121,130	120,796
Later than 1 year and not later than 5 years	107,441	56,333
	<u>228,571</u>	<u>177,129</u>

Operating lease expenses in the year for the group totalled £120,796 (2016: £141,492).

GENERATION TWO LIMITED

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

27. Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under FRS 102.

There are considered to be no key management personnel other than the Directors. Directors remuneration has been disclosed in note 8.

28. Controlling party

The Company has no ultimate controlling party.