

Trend Control Systems Limited

Annual Report and Financial Statements For the year ended 31 December 2018

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Company Information

Officers and professional advisors

Directors

Loretta Wootton
Stefano D'Agostino
Madeleine Orbell-Thompson

Statutory Auditor

Deloitte LLP
Saltire Court,
20 Castle Terrace,
Edinburgh,
EH1 2DB
United Kingdom

Bankers

Barclays Bank
Level 11,
One Churchill Place,
London,
E14 5HP
United Kingdom

Registered address

Honeywell House,
Skimped Hill Lane,
Bracknell,
Berkshire,
RG12 1EB
United Kingdom

Company Information

The directors present their strategic report for the financial year ended 31 December 2018.

Principal activities

The principal activities of the company are design, manufacture and sale of intelligent products and systems for the measurement and control of the building environment including energy consumption. The company provides contract manufacturing and sales services to a fellow Honeywell group company, Honeywell Products and Solutions Sarl.

Review of the business and future developments

The loss for the financial year, after taxation, is £2,313,000 (2017: £2,177,000). Being a service provider to Honeywell Products and Solutions Sarl, the performance of the company is directly linked to the operating income levels defined in the agreements with them. Operating results for both years are in line with the management's expectations after excluding defined benefit pension expenses of £2,055,000 (2017: £1,197,000). The company saw a decline in turnover mainly due to weak demand in building controls market. This is aligned to fewer construction projects being undertaken due to continued uncertain UK economic outlook. The directors expect the company to become profitable in foreseeable future.

During the current year, the company's ultimate parent company Honeywell International Inc. carried out a divestiture exercise to spin off its Homes products portfolio and ADI global distribution business, as well as its Transportation Systems business, into two stand-alone publicly-traded companies, Resideo Technologies Inc and Garrett Motion Inc. As a result of the spin off exercise, the company transferred its customer list, associated debtors and an employee to Ademco 1 Limited. The net book value of the debtors transferred amounted to £14,000, for a consideration of £443,000 resulting in a gain of £429,000.

The company is in a net asset position and expects to remain so for the foreseeable future.

Key performance indicators

Management monitors the business using the following key indicators:

	2018	2017
	%	%
Operating result % of turnover	0.1	1.2
Operating result before pension charge % of turnover	3.5	3.0

Operating result

Operating results before pension charge for both years are in line with directors' expectations. The slight increase is due to a change in composition of costs and associated mark-ups charged to Honeywell Products and Solutions Sarl.

Financial risk management, objectives and policies

Foreign currency risk

The company monitors and manages the foreign currency risk relating to the operations of the company, with the assistance of the treasury department of Honeywell International Inc.

Credit risk

Credit risk arises from exposures to customers. The creditworthiness of customers granted credit terms in the normal course of business are monitored continually

The terms and conditions of credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer. Sales are not materially dependent on a single customer or a small group of customers

Liquidity risk

The company ensures availability of funding for its operations through an appropriate amount of committed bank facilities on a group wide basis.

Company Information

Other risks

The company is exposed to interest rate risk arising out of amounts owed to/by group undertakings. The exposures to interest rate risks have not been hedged as there is no net interest rate risk at group level on account of intra group loan balances.

Strategy

As a service provider to fellow Honeywell group companies, the company applies the following strategies to manage its group interest:

- focus on customers and customer feedback to improve business performance
- productivity and process improvement
- assist in product development
- assist in continued expansion into current and new markets
- proactive alignment of its business structure to meet changing market demands
- defending and extending the installed base through productivity improvements
- strong brand recognition through brand and channel management

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks affecting the company are:

- changes in spending and capital investment patterns
- fluctuation in customer demand
- adverse economic conditions
- raw material price fluctuations
- obsolescence arising from a shift in technology
- changes in legislation or government regulations or policies
- cost of employee retirement benefits
- health and safety of employees and contractors.

In response to the risks the company:

- maintains a UK-wide presence and aims to have a competitive installed cost and integrated product through technology and productivity
- ensures continued recognition of brand and quality to maintain market position
- maintains a high technology offering while widening its product base and expanding into new areas
- implements supply chain and procurement initiatives
- actively investigates new technologies and market trends
- monitors applicable regulations to ensure products and systems provide high quality solutions for current needs
- ensures that pension schemes are adequately funded
- ensures that all reasonable steps are taken to provide a safe working environment.

On 23 June 2016, the UK held a referendum on the UK's continuing membership of the EU, the outcome of which was a decision for the UK to leave the EU (Brexit). The progress of current negotiations between the UK Government and the EU will likely determine the future terms of the UK's relationship with the EU, as well as to what extent the UK will be able to continue to benefit from the EU's single market and other arrangements. Until the Brexit negotiation process is completed, it is difficult to anticipate the potential impact on the Company and the wider Honeywell Group's operations. The uncertainty during and after the period of negotiation is also expected to increase volatility and may have an economic impact particularly in the UK and Eurozone.

Approved by the board of directors and signed on its behalf by:

Madeleine Orbell-Thompson
Director
07-Jan-2020

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Madeleine Orbell-Thompson
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Directors' report

for the financial year ended 31 December 2018

The directors present their annual report and audited financial statements for the company for the financial year ended 31 December 2018.

Business review and future developments

A review of the business of the company and future developments is included in the strategic report on page 1.

Results and dividends

The company's loss for the financial year after taxation was £2,313,000 (2017: £2,177,000) which will be deducted from reserves. The results for the financial year are shown on page 9.

The directors do not recommend the payment of a dividend (2017: £nil).

Financial risk management, objectives and policies

Financial risk management of the company is included in the strategic report on page 1.

Directors of the company

The directors of the company who held office during the financial year and up to the date of signing these financial statements were:

Loretta Wootton (appointed on 01 October 2019)
Stefano D'Agostino (appointed on 02 October 2019)
Madeleine Orbell-Thompson
Andrew Paddock (appointed on 31 May 2018, resigned on 25 October 2019)
Mehmet Erkilic (resigned on 31 January 2018)
Graeme Rees (resigned on 31 May 2018)

Directors' indemnities

Pursuant to the company's articles of association, the directors were throughout the financial year ended 31 December 2018 and are at the date of this report entitled to a qualifying indemnity provision as defined in section 234 of the Companies Act 2006.

Employment of disabled persons

The company recognises that physically or otherwise disabled individuals are not, of necessity, prevented from making a valuable and significant contribution to the business, and where people have the attitudes and abilities necessary for the job, the company gives sympathetic consideration towards employing them, or retaining them in work should the disability emerge during employment. The company's policy is to ensure that no discrimination either direct or indirect occurs against employees or applicants, whether in selection, promotion, access to training, or appraisal.

Employee involvement

The company keeps employees fully informed of the company's strategies and their impact on the performance of the company and the group and encourages employee participation. Briefing meetings are held for each division to give information on company matters and provide an opportunity for discussion. E-mail bulletins are circulated regularly to all employees to ensure a common awareness of financial and economic factors that affect the performance of the company. Furthermore, employees can acquire shares in the ultimate parent company through the UK Share Builder Plan.

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the strategic report.

Directors' report

for the financial year ended 31 December 2018

The ultimate parent company, Honeywell International Inc. has indicated that it will provide financial support to the company for at least one year from the date of signing these financial statements. The directors, having taken into account both the future trading of the company and the ability of the ultimate parent company to provide financial support, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Disclosure of information to auditors

In the case of each of the persons who is a director at the time this report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Events since the balance sheet date

There have been no material adjusting or disclosable events since the financial year end.

Independent auditors

Deloitte LLP have expressed their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the board of directors and signed on its behalf by:

DocuSigned by:

Madeline Orbell-Thompson

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Madeline Orbell-Thompson

Director

07-Jan-2020

Directors' responsibilities statement

for the financial year ended 31 December 2018

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 Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework.'

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards has 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.

To assist them in discharging these responsibilities, the directors have engaged a number of third-party providers including an accounting firm who is engaged to prepare the company's financial statements, as well as Honeywell International Inc.'s own finance shared service centres located in Bengaluru and Bucharest. Honeywell operates a country controllership model under which an identified senior finance representative is responsible for all of the UK and Ireland entities, supported by a wider finance team and under the supervision of the Regional Finance Leader for North & South Europe. The directors have ensured that adequate processes are in place to maintain oversight and supervision over these various providers and processes and to ensure there is clear linkage with the company's activities.

Independent auditor's report

to the members of Trend Control Systems Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Trend Control Systems Limited (the 'company') which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

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.

Independent auditor's report

to the members of Trend Control Systems 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 respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

Report on other legal and regulatory requirements

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.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

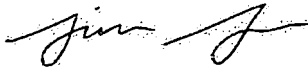
We have nothing to report in respect of these matters.

Independent auditor's report

to the members of Trend Control Systems Limited

Use of our 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.



James Boyle CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
07 January 2020

Profit and loss account

for the financial year ended 31 December 2018

		2018	2017
	Notes	£000s	£000s
Turnover	5	61,333	64,690
Cost of sales		(48,271)	(48,755)
Gross profit		13,062	15,935
Distribution expenses		(6,463)	(8,057)
Administrative expenses		(6,520)	(7,106)
Operating profit	6	79	772
Interest receivable and similar income	9	3,429	2,189
Interest payable and similar charges	10	(4,190)	(3,881)
Loss before taxation		(682)	(920)
Tax on loss	11	(1,631)	(1,257)
Loss for the financial year		(2,313)	(2,177)

All amounts are derived from continuing operations.

There is no material difference between the loss before taxation and the loss for the financial year stated above and their historical cost equivalents.

The notes on pages 13 to 33 form an integral part of the financial statements.

Statement of comprehensive income
 for the financial year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> £000s	<i>2017</i> £000s
Loss for the financial year		(2,313)	(2,177)
Other comprehensive income:			
<i>Items that cannot be reclassified to profit or loss</i>			
Actuarial gains on pension plan	17	17,093	31,555
Movement on deferred tax relating to pension scheme	11	(2,906)	(5,364)
Other comprehensive income for the financial year, net of tax		14,187	26,191
Total comprehensive income for the financial year, net of tax		11,874	24,014

Balance sheet

as at 31 December 2018

	Notes	2018 £000s	2017 £000s
Fixed assets			
Tangible assets	12	1,014	436
		1,014	436
Current assets			
Debtors: amounts falling due within one year	13	95,890	96,615
		95,890	96,615
Creditors: amounts falling due within one year	14	(90,204)	(80,511)
Net current assets		5,686	16,104
Total assets less current liabilities		6,700	16,540
Creditors: amounts falling due after more than one year	15	(43,276)	(43,276)
Provisions for liabilities	16	(14,738)	(10,201)
Pension assets	17	98,960	72,709
Net assets		47,646	35,772
Capital and reserves			
Called-up share capital	18	5,000	5,000
Other reserves	20	150	150
Share premium account	19	452	452
Profit and loss account		42,044	30,170
Total shareholders' funds		47,646	35,772

The financial statements on pages 9 to 33 were approved by the board of directors on 07-Jan-2020 and signed on its behalf by:

DocuSigned by:

Madeleine Orbell-Thompson

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 Madeleine Orbell-Thompson
 Director

Statement of changes in equity

for the year ended 31 December 2018

	<i>Called-up share capital</i>	<i>Share premium account</i>	<i>Other reserve</i>	<i>Profit and loss account</i>	<i>Total</i>
	£000s	£000s	£000s	£000s	£000s
At 1 January 2017	5,000	452	150	6,156	11,758
Loss for the financial year	-	-	-	(2,177)	(2,177)
Other comprehensive income	-	-	-	26,191	26,191
At 31 December 2017	5,000	452	150	30,170	35,772
Loss for the financial year	-	-	-	(2,313)	(2,313)
Other comprehensive income	-	-	-	14,187	14,187
At 31 December 2018	5,000	452	150	42,044	47,646

Notes to the financial statements

for the financial year ended at 31 December 2018

1. General information

Trend Control Systems Limited is a private company limited by shares which is incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The nature of the company's operations and its principal activities are set out in the strategic report on page 1.

The immediate parent undertaking is Novar Electrical Holdings Limited, a company incorporated in United Kingdom. The registered address of the parent is Honeywell House, Skimped Hill Lane, Bracknell, Berkshire, RG12 1EB, United Kingdom.

The company's results are included in the consolidated financial statements of Honeywell International Inc., a company registered in the USA. Honeywell International Inc. is the company's ultimate parent company and controlling party, heading up the smallest and largest group to consolidate these financial statements. The registered office of the ultimate parent company is located at 251, Little Falls Drive, Wilmington, DE 19808, USA. The financial statements of Honeywell International Inc. are publicly available and can be obtained from Corporate Publications, PO Box 2245, Morristown, New Jersey 07962-2245, USA or from the Internet at www.honeywell.com.

2. Significant accounting policies

The accounting policies that have been applied consistently throughout the financial year and in the preceding year are set out below:

Basis of preparation

The company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

These financial statements are prepared on a going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006. The company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£) except when otherwise indicated.

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 Property, Plant, Equipment and paragraph 118(e) of IAS 38 Intangible Assets and paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 40A to 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which a party to the transaction is wholly owned by such a member; and
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

Notes to the financial statements

for the financial year ended at 31 December 2018

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the strategic report.

The ultimate parent company, Honeywell International Inc. has indicated that it will provide financial support to the company for at least one year from the date of signing these financial statements. The directors, having taken into account both the future trading of the company and the ability of the ultimate parent company to provide financial support, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Turnover and revenue recognition

The company has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18.

Turnover comprises revenue from sales to customers, royalty income and service revenues net of value added tax.

The company recognises revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer excluding amounts collected on behalf of third parties. The company measures revenue at the transaction price, excluding estimates of variable considerations. A good or service is considered to be transferred when the customer obtains control. IFRS 15 states that "control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset". Control also means the ability to prevent others from directing the use of, and receiving the benefit from, a good or service.

As per IFRS 15, the performance obligations are deemed to be satisfied in respect of the following when:

<u>Type of sale</u>	<u>Recognition</u>
Product sales	On delivery and when acceptance by the customer has occurred
Service contracts	As and when performance obligation are satisfied using cost to cost measure of progress

Volume rebates

The company provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the company applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The company then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

Notes to the financial statements

for the financial year ended at 31 December 2018

Revenue – Accounting policies applied until 31 December 2017

- *Turnover and revenue recognition*

Turnover comprises revenue sales to customers and service revenues net of value added tax.

Turnover comprises the cost-plus mark-up of manufacturing service and selling and marketing, net of value added tax.

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

<u>Type of sale</u>	<u>Recognition</u>
Product and service sales	On delivery and when acceptance by the customer has occurred
Service contracts	Evenly over the period of contract and the difference is reported in accrued or deferred income.

Where, for a particular contract, turnover exceeds amounts invoiced on account, the excess is included in debtors as amounts recoverable on contracts. Where amounts invoiced exceed turnover, the excess is included in payments on account.

Interest receivable

Interest income is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Operating leases – as lessee

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the profit and loss account on a straight line basis over the lease term.

Foreign currency translation

The company's financial statements are presented in Sterling, which is also the company's functional currency.

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Notes to the financial statements

for the financial year ended at 31 December 2018

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

Taxation

The tax currently payable is based on taxable profit for the financial year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the company to make a single net payment.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in the profit and loss account.

Tangible assets and depreciation

Tangible assets are stated at historical purchase cost less accumulated depreciation. Depreciation is calculated using the straight line method at rates calculated to write down the cost to the estimated residual value over the estimate useful life. Cost comprises purchase costs together with any incidental expenses of acquisition. The annual depreciation rates used for the major assets are:

Buildings - leasehold improvements	20-50%
Plant & equipment	7-33%

Depreciation is not provided on construction in progress until the asset is completed.

Land is not depreciated.

The assets' estimated useful lives, depreciation rates and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period.

Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount in order to determine the extent of the impairment loss. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Notes to the financial statements

for the financial year ended at 31 December 2018

Impairment losses on continuing operations are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

For assets where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined, net of depreciation, had no impairment losses been recognised for the asset or cash generating unit in prior years. A reversal of impairment loss is recognised immediately in the profit and loss account.

Goodwill is tested for impairment annually as at year end and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial asset – recognition and measurement

Initial recognition and measurement

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

All recognised financial assets are subsequently measured in their entirety at amortised cost.

Classification of financial assets

Classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The company classifies its financial assets in the following measurement categories:

- those measured at amortized cost,
- those to be measured subsequently at fair value through other comprehensive income (FVTOCI)

Financial asset at amortised cost

A financial asset is measured at the amortised cost if both the following conditions are met:

- The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows, and
- Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

This category is the most relevant to the company. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss.

Notes to the financial statements

for the financial year ended at 31 December 2018

Financial asset at FVTOCI

A 'financial asset' is classified as at the FVTOCI if both of the following criteria are met:

- The objective of the business model is achieved both by collecting contractual cash flows and selling the financial assets, and
- The asset's contractual cash flows represent SPPI.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the company's balance sheet) when:

- The rights to receive cash flows from the asset have expired, or
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

In accordance with IFRS 9, the company applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the following financial assets and credit risk exposure:

- a) Financial assets that are debt instruments, and are measured at amortised cost e.g., loans, trade receivables and bank balance.
- b) Trade receivables or any contractual right to receive cash or another financial asset that result from transactions that are within the scope of IFRS 15.

The company estimates the expected credit loss in relation to its trade debtor considering the nature of business and its past history. The company reviews this policy annually, if required. In respect of other financial assets which primarily comprises of amounts owed from group undertakings, a letter of guarantee has been provided by the ultimate parent company, Honeywell International Inc. indicating that support will be given in order to settle these amounts should it be necessary. Accordingly, the company has not recognised a provision for expected credit loss.

ECL is the weighted average of difference between all contractual cash flows that are due to the company in accordance with the contract and all the cash flows that the company expects to receive, discounted at the original effective interest rate, with the respective risks of default occurring as the weights. When estimating the cash flows, the company is required to consider:

- All contractual terms of the financial assets (including prepayment and extension) over the expected life the assets.
- Cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Financial liabilities - recognition and measurement

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The company's financial liabilities comprises of trade creditors and borrowings.

Notes to the financial statements

for the financial year ended at 31 December 2018

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit and loss account when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as interest payable in the profit and loss account.

De-recognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the profit and loss account.

Financial Instruments – Accounting policies applied until 31 December 2017

- *Financial assets - recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The company determines the classification of its financial assets at initial recognition. Trade debtors, amounts owed by group undertakings and other debtors have been classified as loans and receivables. The company has no other financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value and subsequently measured at amortised cost, less impairment.

Impairment of financial assets

The company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

An allowance for doubtful debts is made against trade debtors that exceed 180 days past due date. Losses arising from impairment are recognised in the profit and loss account in administrative expenses.

Provisioning made against debts subsequently settled after 180 days past due is treated as a change in accounting estimate and released to profit or loss.

Pensions

As described in note 17, the company participates in a defined benefit pension scheme for the benefit of certain of its employees, the assets of which are held separately from those of the company in independently administered funds. The rates of contribution are determined by independent professionally qualified actuaries.

Notes to the financial statements

for the financial year ended at 31 December 2018

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in profit or loss. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the profit and loss account during the period in which the settlement or curtailment occurs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as interest receivable or payable.

Remeasurements, comprising actuarial gains and losses and the return on the net assets (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur.

The defined benefit pension asset or liability in the balance sheet comprises the total for each plan of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the present value of any amount the company expects to recover by way of refunds from the plan or reductions in the future contributions.

Defined contribution plans are externally funded, with the assets of the plan held separately from those of the company in separate trustee administered funds. Contributions to such plans are charged to the profit and loss account as they become payable.

3. Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the financial year.

Judgements

There are no judgements that have a significant effect on amounts recognised in the financial statements.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the company. Such changes are reflected in the assumptions when they occur.

Notes to the financial statements

for the financial year ended at 31 December 2018

(i) Estimates used for DB pension scheme

The cost of defined benefit pensions plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, the actuary considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Management works closely with the actuary to agree to these assumptions. The value of a net pension benefit asset is restricted to the present value of any amount the company expects to recover by way of refunds from the plan or reductions in the future contributions. Further details are given in note 17.

4. New and amended standards and interpretations

The company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2018. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new standard or amendment is described below:

IFRS 15 Revenue from contracts with customers

IFRS 15 superseded IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The company adopted IFRS 15 using the cumulative effects method. There was no impact of the transition to IFRS 15 on the profit and loss account of the company.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in the changes in accounting policies and adjustments to the amounts recognised in the financial statements. The company estimated its due contractual cash flows discounted at the original effective interest rate, with the respective risks of default on external debts. However, on application of such model (ECL), the company concluded there was no credit risk involved in the trade debtors. Hence, there will be no impact on the financial statements.

In respect of the amounts owed from group undertakings, a letter of guarantee has been provided by the ultimate parent company, Honeywell International Inc. indicating that support will be given in order to settle these amounts should it be necessary. We are satisfied that Honeywell International Inc. has the ability to provide this guarantee. Accordingly, the company has not recognised a provision for expected credit loss.

Notes to the financial statements

for the financial year ended at 31 December 2018

5. Turnover

	2018	2017
	£000s	£000s
<i>Analysis of turnover by geographical market</i>		
United Kingdom	48,462	51,539
Rest of Europe	12,283	12,586
Others	588	565
<i>Total turnover by geographical market</i>	61,333	64,690
	2018	2017
	£000s	£000s
<i>Analysis of turnover by category</i>		
Sale of goods	48,702	51,215
Rendering of services	12,631	13,475
<i>Total turnover by category</i>	61,333	64,690

6. Operating profit

	2018	2017
	£000s	£000s
This is stated after charging/(crediting):		
<i>Depreciation (refer note 12)</i>		
Tangible assets – owned	207	158
Rental charges under operating leases		
Land and buildings	511	448
Loss/(gain) on disposal of fixed assets (refer note 12)	21	(20)
Gain on transfer of assets (refer note 13)	(429)	-
Reorganisation and redundancy	436	363
Loss on foreign exchange	32	14

Notes to the financial statements

for the financial year ended at 31 December 2018

7. Auditor's remuneration

Fees payable to the auditor, Deloitte LLP, amounted to £20,557 (2017: £19,000) for the audit of the financial statements. This cost was incurred by Honeywell Control Systems Limited, a fellow UK subsidiary of Honeywell International Inc., and it is not recharged to the company.

There are no non-audit services fees payable to the auditor.

8. Employees and directors

(a). Staff costs

	2018	2017
	£000s	£000s
Wages and salaries	12,497	14,274
Social security costs	1,345	1,569
Contributions to defined contribution pension plans	1,661	1,114
Pension costs for defined benefit plans (note 17)	2,055	1,197
Total staff costs	17,558	18,154

The average monthly number of employees during the financial year was made up as follows:
(including executive directors)

	2018	2017
	No.	No.
Direct	105	116
Indirect	188	193
Total monthly average number of employees	293	309

(b). Directors' remuneration

	2018	2017
	£000s	£000s
Aggregate emoluments	360	205
Pension costs – defined contribution	-	4
Total payments to directors	360	209
Highest paid director		
Aggregate emoluments	136	112
Total payments to highest paid director	136	112

During the financial year the highest paid director did not (2017: did not) exercise options over shares of Honeywell International Inc., the ultimate parent company.

Notes to the financial statements

for the financial year ended at 31 December 2018

	2018	2017
	No.	No.
Number of directors who:		
Were members of defined benefit plans	-	2

In 2018, one director (2017: one director) did not undertake any relevant services to the entity and was remunerated by other group companies for his services to the group as a whole.

9. Interest receivable and similar income

	2018	2017
	£000s	£000s
Interest receivable from group undertakings	1,320	1,048
Pension interest (note 17)	2,109	1,141
<i>Total interest receivable and similar income</i>	3,429	2,189

10. Interest payable and similar charges

	2018	2017
	£000s	£000s
Interest payable on bank overdraft	944	635
Preference share dividend (note 15)	3,246	3,246
<i>Total interest payable and similar charges</i>	4,190	3,881

Notes to the financial statements

for the financial year ended at 31 December 2018

11. Taxation

(a). Tax charged in the profit and loss account

	2018	2017
	£000s	£000s
<i>Current tax:</i>		
UK corporation tax on profit for financial year	-	-
Total current tax	-	-
<i>Deferred tax:</i>		
Origination and reversal of temporary differences	1,631	1,517
Adjustment in respect of prior years	-	131
Effect of change in tax laws and rates	-	(391)
Total deferred tax	1,631	1,257
Total tax expense reported in the profit and loss account	1,631	1,257

(b). Tax relating to items credited or charged to statement of comprehensive income

	2018	2017
	£000s	£000s
<i>Deferred tax:</i>		
Remeasurements on defined benefit pension plans	2,906	5,364
Total deferred tax	2,906	5,364
Total tax expense in the statement of comprehensive income	2,906	5,364

Notes to the financial statements

for the financial year ended at 31 December 2018

(c) Reconciliation of the total tax charge

The tax expense in the profit and loss account for the financial year is higher than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

	2018	2017
	£000s	£000s
Loss before tax	(682)	(920)
Loss multiplied by the effective rate of corporation tax in the UK of 19% (2017: 19.25%)	(130)	(177)
Effects of:		
Expenses not deductible for tax purposes	629	641
Income not taxable	(124)	-
Effect of change in tax laws and rates	-	(391)
Difference in current tax rate to deferred rate	(192)	(201)
Adjustment for tax for prior years	-	131
Group relief not paid for	1,448	1,254
<i>Total tax expense reported in the profit and loss account</i>	<u>1,631</u>	<u>1,257</u>

(d) Factors affecting tax charge for the financial year

The standard rate of UK corporation tax reduced from 20% to 19% on 1 April 2017. The Finance (No.2) Act 2017 received Royal Assent on 16 November 2017 which will reduce the rate further to 17% from 1 April 2020. These reductions may reduce the company's future tax charge accordingly.

(e) Deferred tax

	2018	2017
	£000s	£000s
<i>The deferred tax included in the balance sheet is as follows:</i>		
Deferred tax asset		
Differences between capital allowances and depreciation	439	511
Tax losses carried forward	1,641	1,641
Other short-term timing differences	5	8
<i>Total deferred tax asset</i>	<u>2,085</u>	<u>2,160</u>
Deferred tax liability		
Deferred tax provision on pension asset (note 17)	(16,823)	(12,361)
<i>Total deferred tax liability</i>	<u>(16,823)</u>	<u>(12,361)</u>
<i>Net deferred tax liability</i>	<u>(14,738)</u>	<u>(10,201)</u>

Notes to the financial statements

for the financial year ended at 31 December 2018

<i>Movements in deferred tax</i>	<i>Excluding pension</i>	<i>Pension</i>	<i>Total</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
At 1 January 2018	2,160	(12,361)	(10,201)
Charge to profit and loss account	(75)	(1,556)	(1,631)
Charge to statement of comprehensive income	-	(2,906)	(2,906)
<i>At 31 December 2018</i>	<u>2,085</u>	<u>(16,823)</u>	<u>(14,738)</u>

The deferred tax asset is recognised because it is more likely than not that there will be sufficient taxable profits in the future to recover the assets.

There are no unprovided amounts relating to deferred tax.

12. Tangible assets

	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Construction in progress</i>	<i>Total</i>
	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>	<i>£000s</i>
<i>Cost:</i>				
At 1 January 2018	618	4,138	-	4,756
Additions	697	44	66	807
Disposals	-	(32)	-	(32)
<i>At 31 December 2018</i>	<u>1,315</u>	<u>4,150</u>	<u>66</u>	<u>5,531</u>
<i>Accumulated depreciation</i>				
At 1 January 2018	606	3,714	-	4,320
Provided during the financial year	72	135	-	207
Disposals	-	(10)	-	(10)
<i>At 31 December 2018</i>	<u>678</u>	<u>3,839</u>	<u>-</u>	<u>4,517</u>
<i>Net book value:</i>				
<i>At 31 December 2018</i>	637	311	66	1,014
<i>At 31 December 2017</i>	12	424	-	436

The above figures include:

	<i>2018</i>	<i>2017</i>
	<i>£000s</i>	<i>£000s</i>
Short leasehold land and buildings, at net book value	<u>2</u>	<u>3</u>

Notes to the financial statements

for the financial year ended at 31 December 2018

13. Debtors: amounts falling due within one year

	2018	2017
	£000s	£000s
<i>Amounts falling due within one year</i>		
Trade debtors	9,586	10,607
Amounts owed by group undertakings	84,505	84,799
Amount recoverable on contracts	1,378	954
Prepayments and accrued income	196	255
Other debtors	225	-
<i>Total amounts falling due within one year</i>	95,890	96,615

Amounts owed by group undertakings include the following interest -bearing loans and other borrowings:

<i>Receivable</i>	<i>Currency</i>	<i>Interest terms</i>	2018	2017
			£000s	£000s
On demand	GBP	UK Base Rate Plus 1%	83,129	81,809

All amounts owed by group undertakings are payable on demand and unsecured.

During the year, as a part of Homes spin, the company transferred its customer list, associated debtors and an employee to Ademco 1 Limited. The net book value of the debtors transferred amounted to £14,000, for a consideration of £443,000 resulting in a gain of £429,000.

14. Creditors: amounts falling due within one year

	2018	2017
	£000s	£000s
Payment received on account	-	4
Bank overdraft	32,148	26,350
Trade creditors	1,643	1,666
Amounts owed to group undertakings	6,158	4,930
Taxation and social security	375	206
Accruals and deferred income	1,190	1,776
Accrued preference dividends	48,690	45,444
Other Creditors	-	135
<i>Total amount owed to creditors</i>	90,204	80,511

Notes to the financial statements

for the financial year ended at 31 December 2018

All amounts owed to group undertakings are payable on demand, unsecured and non-interest bearing.

Accrued preference dividends represent an annual dividend of £3,246,000 since 2004 on 7.5% cumulative preference shares of £1 each.

15. Creditors: amounts falling due after more than one year

	2018 £000s	2017 £000s
7.5% cumulative preference shares of £1 each	43,276	43,276

The holders of the redeemable cumulative preference shares have the right to be paid a fixed cumulative preference dividend at the rate of 7.5% per annum payable annually in arrears.

The company can redeem all or part of the preference shares at any time together with arrears of dividends. In the case of winding up the company, the holders of the preference shares are entitled to receive the face value of the shares together with arrears of dividends up to the date of winding up.

16. Provisions for liabilities

	At 1 January 2018	Charge to profit & loss account	Charge to statement of comprehensive income	At 31 December 2018
	£000s	£000s	£000s	£000s
Deferred tax liability (note 11)	10,201	1,631	2,906	14,738
Total	10,201	1,631	2,906	14,738

17. Pension commitments

The company is a participating employer in the Honeywell UK Pension Scheme (HUKPS) which is a funded defined benefit plan based on salary. It is closed to new entrants. Regular employer contributions to the plan by the company in 2019 are estimated to be nil. Defined benefit obligations are based on a full valuation of the schemes liabilities as at 31 March 2018, measured using the projected unit credit method and rolled forward to the year-end date as at 31 December 2018.

	2018	2017
	£000s	£000s
<i>Amounts recognised in the balance sheet</i>		
Fair value of plan assets	434,967	427,035
Present value of defined benefit obligations	(336,007)	(354,326)
Net assets	98,960	72,709

Notes to the financial statements

for the financial year ended at 31 December 2018

<i>Amounts recognised in profit or loss</i>	2018	2017
	£000s	£000s
Interest cost	8,866	9,578
Expected return on pension plan assets	(10,975)	(10,719)
<i>Finance credit recognised</i>	(2,109)	(1,141)
Current service cost	-	789
Past service cost (including curtailments)	1,666	-
Total administrative expenses recognised in P&L	389	408
(Credit)/Cost recognised in profit and loss	(54)	56
Actual return on assets	12,241	33,524
<i>Remeasurements</i>	2018	2017
	£000s	£000s
Liability losses on changes in financial assumptions	(31,005)	6,268
Liability gains on changes in demographic assumptions	(1,266)	(4,299)
Asset gains due to experience	15,178	(33,524)
Total actuarial gain recognised in OCI	(17,093)	(31,555)
<i>Changes in present value of defined benefit obligation</i>	2018	2017
	£000s	£000s
At 1 January	354,326	355,595
Current service cost	-	789
Interest cost	8,866	9,578
Actuarial (gains)/losses on liabilities-financial assumption	(25,430)	11,781
Actuarial gains on liabilities - demographic assumptions	(5,575)	(5,513)
Actuarial losses/(gains) on liabilities-experience	15,177	(4,299)
Curtailment	1,666	-
Contributions by participants	-	18
Net benefits paid out	(13,023)	(13,623)
At 31 December	336,007	354,326

Notes to the financial statements

for the financial year ended at 31 December 2018

<i>Changes in fair value of scheme assets</i>	2018	2017
	£000s	£000s
At 1 January	427,035	388,361
Expected return on assets	10,975	10,719
Actuarial gains on assets	1,266	33,524
Contributions by employer	9,103	8,444
Actual administration expenses paid	(389)	(408)
Contributions by participants	-	18
Net benefits paid out	(13,023)	(13,623)
At 31 December	434,967	427,035

<i>Major categories of plan assets as a percentage of total plan assets</i>	2018	2017
	%	%
Equities (including venture cap and alternative investments)	32	60.0
Bonds	63	35.0
Property	4	1.0
Cash	1	4.0
Total	100.0	100.0

<i>Main actuarial assumptions</i>	2018	2017
	%	%
Inflation (RPI)	3.2	3.2
Inflation (CPI)	2.1	2.1

<i>Rate of increase for pensions</i>	2018	2017
Pensions subject to limited price indexation to 5%	3.1	3.1
Pensions subject to limited price indexation to 2.5%	2.2	2.2
Other pensions and deferred pensions	2.1	2.1
Discount rate for scheme liabilities	2.9	2.5

Mortality assumptions are based on standard mortality tables that allow for future mortality improvements. These tables assume that a member who retired in 2018 at age 65 will live on average for a further years 21.6 (2017: 22.7 years) after retirement if male or a further years 23.5 (2017: 24.6 years) if female.

Notes to the financial statements

for the financial year ended at 31 December 2018

Overall long-term rate of return

The company employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with a higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected rate of return for each asset class over the actual asset allocation for the plan at the year end.

18. Called-up share capital

	2018	2017
	£000s	£000s
<i>Authorised and allotted, called- up and fully paid</i>		
5,000,000 ordinary shares of £1 each	5,000	5,000

19. Share premium account

	2018	2017
	£000s	£000s
<i>Balance at 1 January and 31 December</i>		
Premium arising on issue of equity shares	452	452

20. Other reserves

	2018	2017
	£000s	£000s
<i>Balance at 1 January and 31 December</i>		
Capital redemption reserve	150	150

21. Operating lease commitments

	2018	2017
	£000s	£000s
<i>At 31 December the future minimum rentals payable under non-cancellable operating leases are as follows:</i>		
<i>Land and buildings</i>		
Not later than one year	585	499
After one year but not more than five years	1361	624
<i>Total land and building operating lease commitments</i>	1,946	1,123

Notes to the financial statements

for the financial year ended at 31 December 2018

During the year Albery house lease expired and was not renewed. The company entered into a new lease agreement for a period of 5 years for St. Marks Court property in Horsham starting from 22 January 2018 with an option to review in 2021. The Company has other commercial lease agreements which started from December 2015 on other locations in Horsham, UK and will expire in 2020. There are no restrictions placed upon the lessee by entering into these leases.

22. Contingent liabilities

The company, with other Honeywell group companies in the UK, has provided a bank guarantee under a composite accounting agreement. Under this agreement, bank interest is calculated on the net group position after setting off positive and overdrawn cash balances. The maximum contingent liability under this agreement is the total of overdrawn balances held by group companies, amounting to £423,389,000 (2017: £527,287,000).

Positive cash balances held by the group exceeded overdrawn balances in 2018 and 2017.