The Hymatic Engineering Company Limited

Annual Report and Financial Statements For the year ended 31 December 2020

Company Information

Officers and professional advisors

Director

Kevin Mogg

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,
Berks,
RG12 1EB
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Strategic report

for the financial year ended 31 December 2020

The director presents his strategic report for the financial year ended 31 December 2020.

Principal activity

The principal activity of the company is that of design, manufacture and overhaul of components and systems for the aerospace, defence, industrial and telecommunications markets worldwide.

Review of the business and future developments

The profit for the financial year, after taxation, is £343,000 (2019: £1,542,000).

During the current year the business remained stable despite some difficulties in supply due to the COVID pandemic. Growth planned for 2020 was disrupted by the challenge in supply chain, and a mitigation exercise was carried out in 2021 to avoid any impact on the company's long-term demand. Whilst overall demand remained stable within the Defence and Space sector and the order book remained firm, the business took the opportunity to restructure in order to protect itself against short term downturn in line with corporate restructuring. This will put the business in a strong operational position for the coming years & maintain strong profitability. The business was successful in broadening its capabilities in repair and overhaul support for UK defence marine equipment, together with continued development activities for its Space and Satellite product pipeline. 2021 is forecasting the recovery of growth for the business with increases in revenue for both core manufacturing and Customer funded Engineering development.

The EU-UK Trade and Cooperation Agreement (Brexit deal) was signed on 30 December 2020 and is effective from midnight on 31 December 2020. The company's trading activity with the EU is not significant to the overall activity and as a result the Brexit deal is not expected to have a significant impact on the future activities of the company. However, it will affect the principal risks and uncertainties as detailed in the risk management, and principal risks and uncertainties paragraphs included in this report.

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:

	2020	*2019*
Turnover % change compared with previous year	(4.1)	(6.8)
Gross profit margin %	26.8	26.7
Operating profit margin % of turnover	5.4	17.3

Turnover

The reduction in turnover by 4.1% was due to the delay in delivering high value sale, as a result of reallocating engineering resources to mitigate supply difficulties.

Gross profit margin

Gross profit remained stable even though there was a reduction in volume by 4.1%. This was achieved by reducing employment costs through the second half of 2020.

Operating profit margin

The large reduction in operating profit has been as a result of the increase in administration expenses, primarily related to central cost recharges and reorganisation costs.

Strategic report

for the financial year ended 31 December 2020

Strategy

The company maintains market share and sustainable growth through the following strategies:

- focus on customers. including customer survey programmes to obtain and action customer feedback to improve business performance
- providing the highest standard of product service and delivery to its customer at a competitive cost
- productivity and process improvement
- product development
- continued expansion into current and new markets
- proactive alignment of its business structure to meet changing market demands
- strong brand recognition through brand and channel management.

Financial risk management, objectives and policies

Foreign currency risks

The impact of COVID-19 has resulted in increased volatility in foreign exchange rates thus exposing the company to increased foreign currency risks. This has been compounded by the effect of the Brexit deal on British Pound Sterling.

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.

Liquidity risks

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

Credit risks

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

In respect of intercompany receivables, the company does not have exposure to credit risk considering that we are receiving a guarantee letter from Honeywell International Inc. to support intercompany balances.

Principal risks and uncertainties

As a trading company, the company is dependent on its continued ability to secure contracts with customers and its ability to perform under those contracts.

In December 2019, a novel strain of coronavirus ("COVID-19") was identified in Asia. Over the next several months, COVID-19 quickly spread across the world. In March 2020, the World Health Organization declared COVID-19 a worldwide pandemic. The outbreak of COVID-19 has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown which could negatively impact the company's operations and adversely affect its business. As of December 31, 2020, the virus continues to spread, and many countries are experiencing a resurgence in infection rates. Although vaccines have recently been made available, the availability and distribution of the vaccines continues to provide challenges. We remain cautious as many factors remain unpredictable, including the increasing rate of COVID-19 infections. We continue to monitor COVID-19 infection rates and acknowledge the risk of new surges in COVID-19 infections.

Strategic report

for the financial year ended 31 December 2020

The global spread of COVID-19 creates significant volatility, uncertainty and economic disruption, which impacts our business, operations and financial results and may continue to do so. Honeywell's capabilities adapted towards addressing the COVID-19 challenges of our customers around the world. The enduring impact of the COVID-19 pandemic on business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration, scope and severity of the pandemic; as well as the timing and availability of effective medical treatments and vaccines; governmental, business and individual decisions and actions; the impact of the pandemic on economic activity; and the extent to which we or our business partners may be prevented from conducting normal business activities due to shutdowns or other restrictive measures that may be requested or mandated by governmental authorities.

These factors could, among other things, disrupt the purchasing and payment behaviours of our customers and their end-users; our operations, including our manufacturing activities, the shipment of our products, and the performance of our suppliers and service providers; and our liquidity and cash flow.

The following risks will be applicable to the companies dealing in aerospace business as a whole:

- Customer risk: Existing and potential customers and their end-users may choose to reduce or delay spending, cancel contracts, or cut costs in a manner that reduces demand for our products and services. In particular, lower demand for air travel may continue to cause our customers to delay spending in connection with the manufacturing, repair, overhaul or servicing of aircraft. Customers may also attempt to renegotiate contracts and obtain concessions, face financial constraints on their ability to make payments to us on a timely basis or at all, or discontinue their business operations, and we may be required to discount the pricing of our products, all of which may materially and negatively impact our operating results, financial condition and prospects. In addition, unfavourable customer site conditions, such as closure of or access restrictions to customer facilities, and disruptions to our customers' third-party logistics, warehousing, inventory management and distribution services may limit our ability to sell products and provide services, meet billing milestones or provide services.
- Operations risk: The closure of our facilities, restrictions inhibiting our employees' ability to access those facilities, and disruptions to the ability of our suppliers or service providers to deliver goods or services to us (including as a result of supplier facility closures or access restrictions, disruptions to their supply chains, and supplier liquidity or bankruptcy risk) could disrupt our ability to provide our services and solutions and result in, among other things, terminations of customer contracts and losses of revenue. Because the COVID-19 pandemic could adversely affect our near-term and long-term revenues, earnings, liquidity and cash flows, we have taken and may be required to continue taking significant cost actions, including but not limited to reducing discretionary expenses (such as non-essential travel, contractors, and consultants), reducing hiring, cancelling annual merit increases; reducing executive and board of directors pay, reducing work schedules across the enterprise, shortening or staggering work schedules to match production with demand, and reducing staffing levels, as well as increasing supplier-based productivity and enhancing spending-limit controls. Remote work and increased frequency of cybersecurity attacks, including phishing and malware attempts that utilise COVID-19-related strategies, increase the risk of a material cybersecurity incident that could result in the loss of proprietary or personal data, render us more vulnerable to future cybersecurity attacks, disrupt our operations, or otherwise cause us reputational or financial harm.

The company is involved in design, manufacture and overhaul of components and systems for the aerospace, defence, industrial and telecommunications markets worldwide. Considering, the company operates in defence and space sector, the current coronavirus pandemic has a minimal impact on the company's operation. However, it may experience future government funding cutbacks for defence spend, as a result of unplanned COVID-19 related expenditure leading to downfall in revenue. Being part of the wider aerospace business, the company is also undertaking various cost mitigating measures as described above to reduce its current cost base.

With the introduction of a vaccine, the COVID-19 pandemic is being brought under control however there is potential for new strains of the virus resulting in reduced efficacy and continuation of government-imposed restrictions to business activities. A sustained or prolonged COVID-19 outbreak could exacerbate the negative impacts described above, and the resumption of normal business operations may be delayed or constrained by lingering effects on our suppliers, third-party service providers, and/or customers. These effects, alone or taken together, could further impact each of the risks described above. Due to daily evolution of the COVID-19 pandemic

Strategic report

for the financial year ended 31 December 2020

and the responses to curb its spread, we cannot predict the ultimate impact the COVID-19 pandemic will have on our business, financial condition, results of operations, liquidity, and cash flow.

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 UK left the EU on 31 January 2020 and was in a transition period until 31 December 2020. The EU-UK Trade and Cooperation Agreement (Brexit deal) was signed on 30 December 2020 and is effective from 1 January 2021. The deal imposes additional rules and regulations to govern the transfer of goods and services between the United Kingdom and European Union. This is likely to lead to an increase in costs and administrative requirements of trading with the European Union. The implementation of the deal is also expected to impact macroeconomic factors such as exchange rates. A working group has been established by Honeywell International Inc. to monitor the trade deal and regulation and implement mitigating actions to respond to any changes.

The company's trading activity with the EU is not significant to the overall activity. As a result, the effect of the Brexit deal is limited to macroeconomic factors, such as exchange rate and interest rate fluctuations, that are influenced by the deal and affect the environment in which the company operates.

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

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Kevin Mogg
Director
08-Mar-2022

Director's report

for the financial year ended 31 December 2020

The director presents his annual report and audited financial statements for the company for the financial year ended 31 December 2020.

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 profit for the financial year, after taxation was £343,000 (2019: £1,542,000) which will be transferred to reserves. The results for the financial year are shown on page 11.

The director did not recommend the payment of a dividend (2019: £nil).

Financial risk management, objectives and policies

The details of the financial risk management of the company are included in the strategic report on page 2.

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:

Anthony Hutchings (resigned on 31 March 2020)
Kevin Mogg

Director's indemnities

Pursuant to the company's articles of association, the director was throughout the financial year ended 31 December 2020 and is at the date of this report entitled to a qualifying indemnity provision as defined in section 234 of the Companies Act 2006.

Research and development

Research and development expenditure for the financial year related mostly to the development of a new software and a hardware platform which will be used for all future product developments and amounted to £157,000 (2019: £240,000).

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. While considering the ability of the ultimate parent company to provide financial support, the director, has reviewed the operating results for 2020 and financial performance of Honeywell International Inc. as well as representations and initiatives of Honeywell Executive Leadership. The director has further relied on forward looking under various possible COVID 19 scenarios and are satisfied that the ultimate parent company is in a position to provide the necessary financial support. As part of his consideration, the director has acknowledged the cost control measures already taken across Honeywell International Inc and the group's cash, cash equivalents and short-term investments balance at 31 December 2021 of $11.5 billion.

The director has a reasonable expectation that the company has adequate resources, including support from Honeywell International Inc. to continue in operational existence for the foreseeable future being a period of at least 12 months from the date of these financial statements.

Based on the circumstances described above, the financial statements are prepared on the assumption that the entity is a going concern.

Director's report

for the financial year ended 31 December 2020

Disclosure of information to auditor

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 him 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.

Global GHG emissions and energy use for the period

The company has not exceeded 40,000 kWh of energy from gas and electricity and is thus exempt from further disclosures.

Events since the balance sheet date

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

Independent auditor

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:

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Kevin Mogg
Director
08-Mar-2022

Director's responsibilities statement

for the financial year ended 31 December 2020

The director is responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework.'

Under company law the director must not approve the financial statements unless he is 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 these financial statements, the director is 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 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is 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. He is 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 himself in discharging his responsibilities, the director has engaged a number of third-party providers including accounting firms who are 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 Western Europe. The director has 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 The Hymatic Engineering Company Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of The Hymatic Engineering Company Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit 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 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 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including 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 Financial Reporting Council's (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

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the director with respect to going concern are described in the relevant sections of this report.

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.

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.

Independent auditor's report

to the members of The Hymatic Engineering Company Limited

Responsibilities of the director

As explained more fully in the director's responsibilities statement, the director is 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 director determines 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 director is 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 director either intends 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.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act 2006 and relevant tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

- due to the nature of the group structure and the recharge arrangements in place, there is a risk that intragroup recharges are not recorded in the correct accounting period: we have tested a sample of post year end invoices and verified that the charges have been recorded in the accounting period to which the goods or provision of services relate; and
- due to the significant judgements in determining the percentage of completion for revenue contracts, there is a risk that revenue could be inaccurately recorded: we tested the design and implementation of relevant controls and have tested a sample by reviewing the contract, agreeing cumulative costs incurred to date to invoice and comparing the estimated costs to complete against invoices received post period end.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

Independent auditor's report

to the members of The Hymatic Engineering Company Limited

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- enquiring of management, and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations.

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 director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the director's 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 director's 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 director's 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.

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.

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James Boyle CA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom
09-Mar-2022

Profit and loss account

for the financial year ended 31 December 2020

	Notes	2020	2019
		£000s	£000s
Turnover	5	8,385	8,747
Cost of sales		(6,140)	(6,410)
Gross profit		**2,245**	**2,337**
Distribution expenses		(388)	(292)
Administrative expenses		(1,416)	(540)
Government grant income	8	11	11
Operating profit	**9**	**452**	**1,516**
Interest receivable	12	182	241
Interest payable and similar charges	13	(151)	(176)
Profit before taxation		**483**	**1,581**
Tax on profit	14	(140)	(39)
Profit for the financial year		**343**	**1,542**

The notes on pages 15 to 39 form an integral part of the financial statements.

Statement of comprehensive income

for the financial year ended 31 December 2020

	Notes	2020 £000s	2019 £000s
Profit for the financial year		343	1,542
Other comprehensive income:			
Items that cannot be reclassified to profit or loss			
Actuarial gains/(losses) on pension plan	23	2,119	(217)
Movement on deferred tax relating to pension scheme	14	(468)	37
Other comprehensive income/(expense) for the year, net of tax		**1,651**	**(180)**
Total comprehensive income for the year, net of tax		**1,994**	**1,362**

Balance sheet

as at 31 December 2020

	Notes	2020 £000s	(Restated) 2019 £000s
Fixed assets			
Tangible assets	15	1,033	1,091
Right-of-use assets	16	1,336	1,634
		2,369	**2,725**
Current assets			
Stocks	17	975	923
Debtors: amounts falling due within one year	18	2,753	2,743
Cash at bank and in hand		238	276*
		3,966	3,942
Creditors: amounts falling due within one year	19	(2,404)	(2,340)*
Net current assets		**1,562**	**1,602**
Total assets less current liabilities (excluding pension asset)		**3,931**	**4,327**
Creditors: amounts falling due after one year	20	(566)	(988)
Provisions for liabilities	22	(3,006)	(2,458)
Pension asset	23	10,463	7,947
Net assets		**10,822**	**8,828**
Capital and reserves			
Called-up share capital	24	283	283
Share premium account	25	132	132
Other reserves	26	35,000	35,000
Profit and loss account		(24,593)	(26,587)
Total shareholder's funds		**10,822**	**8,828**

* The Group has previously offset certain cash balances against bank borrowings which, whilst in line with the Group's legal right of offset, did not reflect any short-term intention to offset the liabilities after the balance sheet dates as required by IAS 32. Accordingly, £276,000 has been added to cash balances and bank borrowings respectively in 2019. There has been no impact on the income statement or on net assets.

The financial statements on pages 11 to 39 were approved by the board of directors on 08-Mar-2022 and signed on its behalf by:

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Kevin Mogg
Director

Statement of changes in equity

for the financial year ended 31 December 2020

	Called-up share capital	*Share premium account*	*Other reserves*	*Profit and loss account*	*Total*
	£000s	*£000s*	*£000s*	*£000s*	*£000s*
At 1 January 2019	283	132	35,000	(27,949)	7,466
Profit for the financial year	-	-	-	1,542	1,542
Other comprehensive expense	-	-	-	(180)	(180)
At 31 December 2019	**283**	**132**	**35,000**	**(26,587)**	**8,828**
Profit for the financial year	-	-	-	343	343
Other comprehensive income	-	-	-	1,651	1,651
At 31 December 2020	**283**	**132**	**35,000**	**(24,593)**	**10,822**

Notes to the financial statements

for the financial year ended 31 December 2020

1. General information

The Hymatic Engineering Company 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 Honeywell International UK Limited, a company incorporated in United Kingdom. The registered address of the parent is Honeywell House, Skimped Hill Lane, Bracknell, Berks, 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 300 South Tryon Street, Charlotte, NC 28202, USA. The financial statements of Honeywell International Inc. are publicly available and can be obtained 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' and Companies Act 2006.

These financial statements are prepared on a going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and FRS 101. The company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) 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' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- 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 and Equipment,
    - paragraph 118(e) of IAS 38 Intangible Assets (reconciliations between the carrying amount at the beginning and end of the period),
    - and paragraph 17 of IAS 24 Related Party Disclosures (key management compensation)
- the requirements of following paragraphs of IAS 1 Presentation of Financial Statements
    - 10(d) (statement of cash flows),
    - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements and 16 (statement of compliance with all IFRS),
    - 38A to 38D (requirement for minimum of two primary statements, including cash flow statements and additional comparative information),
    - 40A to 40D, 111 (statement of cash flows information) and 134-136 (capital management disclosures) of IAS 1;
- 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 (disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- 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 is a party to the transaction is wholly owned by such a member;
- 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 31 December 2020

- The requirements of paragraph 52 of IFRS 16 Leases; and
- The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.

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. While considering the ability of the ultimate parent company to provide financial support, the director, has reviewed the operating results for 2020 and financial performance of Honeywell International Inc. as well as representations and initiatives of Honeywell Executive Leadership. The director has further relied on forward looking under various possible COVID 19 scenarios and are satisfied that the ultimate parent company is in a position to provide the necessary financial support. As part of his consideration, the director has acknowledged the cost control measures already taken across Honeywell International Inc and the group's cash, cash equivalents and short-term investments balance at 31 December 2021 of $11.5 billion.

The director has a reasonable expectation that the company has adequate resources, including support from Honeywell International Inc. to continue in operational existence for the foreseeable future being a period of at least 12 months from the date of these financial statements.

Based on the circumstances described above, the financial statements are prepared on the assumption that the entity is a going concern.

Turnover and revenue recognition

Turnover comprises revenue from sales to customers 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 as follows:

Type of sale	*Recognition*
Product and service sales	On delivery and when acceptance by the customer has occurred
Equipment contracts	Evenly over the period of the contract and the difference is reported in accrued or deferred income
Service contracts	As and when performance obligation is satisfied using cost to cost measure of progress

Construction contracts

Revenue from construction contracts is recognised over time on a cost–to–cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The company considers that the input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations.

Notes to the financial statements

for the financial year ended 31 December 2020

The company determines at contract inception that the control of a promised good or service is transferred over time, when any of the following conditions are satisfied:

- The customer is receiving and consuming the benefits of the company's performance as the company performs
- The company creates or enhances an asset that the customer controls as it is created or enhanced
- The company's performance does not create an asset with alternative use and the company has a right to payment for performance completed to date

The company becomes entitled to invoice customers for contracts based on achieving a series of performance-related milestones. The company will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost–to–cost method, then the company recognises a contract liability for the difference.

The company's contracts are typically negotiated for the construction of a single asset or a group of assets that are closely interrelated or interdependent in terms of their design, technology and function. In certain circumstances, the measurement criteria are applied to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.

Owing to the nature of the contracts entered into by the company, it assumes significant integration of goods and services in order to affect the delivery of the combined item the customer contracts for and hence considers the contracted services under such contracts as a single performance obligation.

Assets covered by a single contract are treated separately when:

- separate proposals have been submitted for each asset
- each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset
- the costs and revenues of each asset can be identified

A group of contracts are treated as a single construction contract when:

- the group of contracts is negotiated with a single commercial objective;
- the consideration paid for one contract is dependent on the price or performance of another contract or goods; or
- services promised are a single performance obligation.

Warranty obligations

The company typically provides warranties for general repairs of defects that existed at the time of sale, as required by law. These assurance-type warranties are accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The service-type warranties are sold either separately or bundled together with the sale of goods. Contracts for bundled sales of goods and a service-type warranty comprise two performance obligations because the promises to transfer the good and to provide the service-type warranty are capable of being distinct. Using the relative stand-alone selling price method, a portion of the transaction price is allocated to the service-type warranty and recognised as a contract liability. Revenue is recognised over the period in which the service-type warranty is provided based on the time elapsed.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in financial instruments – initial recognition and subsequent measurement.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the company transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the company performs under the contract.

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.

Interest payable

Interest payable is recognised using the effective interest rate method. In calculating interest payable, the effective interest rate is applied to the amortised cost of the liability.

Leases – as lessee

The company assesses whether a contract is or contains a lease, at inception of a contract. The company recognises a right-of-use asset and a corresponding lease liability for all leasing arrangements, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (less than £5,000). For these leases, the company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease liability – Initial measurement

The lease liability is initially measured at the present value of the lease payments, excluding payments made at or before the commencement date, discounted using the rate implicit in the lease. If this rate cannot be readily determined, the company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments); and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable lease payments are not included in the determination of the lease liability and are charged to the profit and loss in the period that they arise.

Lease liability – Subsequent measurement

The lease liability is subsequently measured at amortised cost.

The lease liability is remeasured, with a corresponding adjustment to the related right-of-use asset, whenever:

- the lease term has changed in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

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for the financial year ended 31 December 2020

Right-of-use assets

The right-of-use asset is initially measured at the initial amount of the lease liability adjusted for:

- lease payments made at or before the commencement day, less any lease incentives received;
- any initial direct costs;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The company also assesses the right-of-use asset for impairment when such indicators exist.

Research and development

All costs associated with research and development are written off to the profit and loss account in the year of expenditure, unless the costs meet the recognition criteria under IAS 38 to be capitalised. R&D expenditure credit reclaimable from HM Revenue and Customs in respect of those costs is recognised when the actual claim is submitted to revenue authorities. The amount claimed reduces the research and development costs in profit and loss account in the year of claim.

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.

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.

Notes to the financial statements

for the financial year ended 31 December 2020

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:

Plant and equipment	10 - 30%
Fixtures and fittings	20%

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. 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. The company also assesses the right-of-use asset for impairment when such indicators exists.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in 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 attribute able 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 marketplace (regular way trades) are recognised on the trade date, i.e., the date that the company commits to purchase or sell the asset.

Classification of financial assets

All financial assets held by the company during the current and prior year meet the following conditions and have been classified as those measured at amortised cost.

- 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.

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 31 December 2020

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 all financial assets not measured at fair value.

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 of 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, or financial liabilities at amortised cost as appropriate.

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

Currently, the company holds financial liabilities measured at amortised cost which comprises of loans and borrowings and trade and other payables.

Subsequent measurement

After initial recognition, financial liabilities at amortised cost are 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.

Notes to the financial statements

for the financial year ended 31 December 2020

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 statement of profit or loss.

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value. Provisions for obsolete and slow-moving stocks are made where appropriate.

The cost of raw materials, consumables and goods for resale is the purchase cost on a first-in, first-out basis. The cost of work in progress and finished goods is the cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Pensions

As described in note 23, 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.

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.

Provisions

The company recognises a provision when it has present obligation, either legal or constructive, that can be reliably measured, and it is probable that the transfer of economic benefits will be required to settle that obligation.

Provisions are based on the best estimate of expenditure required to settle the obligation.

Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are credited to a deferred income account and are released as income by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Grants for specific expenses such as furlough costs are credited to income in profit and loss account in the same period as the relevant expense.

3. Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 2, the director is required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Judgements

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.

(i) Estimates used for revenue recognition

Construction contracts

The use of the cost-to-cost method requires the company to estimate the proportion of costs incurred to the total estimated costs to complete the contract.

The percentage of completion and the revenue to recognise are determined on the basis of a large number of estimates. Consequently, the company has implemented an internal financial budgeting and reporting system. In particular, the company reviews each quarter the estimates of contract revenue and contract costs as the contract progress.

(ii) Estimates used for provisions

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken where required through internal or external subject matter experts.

Judgements are also required where there is a high degree of uncertainty associated with determining whether a present obligation exists and estimating the probability and amount of any outflows that may arise.

Warranty provision

Provisions for warranty costs are recognised when the product is sold to the customer. Initial recognition is based on historical experiences. To calculate the provision for warranty cost, management take all returns/credit in relation to the products for the last 12 months and considers the cost of sales for those credits for the warranty period. The estimate of warranty costs is revised annually. The carrying amount of the warranty provision as at 31 December 2020 was £25,000 (2019: £25,000).

Dilapidation provision

The dilapidation provision covers the anticipated dilapidation costs of returning property to its original condition at the end of their lease period. The carrying amount of the dilapidation provision as at 31 December 2020 was £1,239,000 (2019: £1,164,000).

Contract provision

Contract loss provision is excess of estimated total contract cost over estimated contract revenue. Carrying value of contract loss provision at the year-end was £8,000 (2019: £143,000).

(iii) Estimates used for DB pension scheme

The cost of defined benefit pension plans and other post-employment medical benefits is 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 23.

(iv) Impairment of financial assets

The company estimates the expected credit loss in relation to its financial assets considering the nature of business, past history and other mitigating factors. The company reviews this policy annually, if required. Accordingly, on application of ECL, the company concluded that there was no credit risk involved.

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.

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 2020. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of The Hymatic Engineering Company Limited, nor is there expected to be any future impact to the company.

Notes to the financial statements
for the financial year ended 31 December 2020

5. Turnover

	2020	2019
	£000s	£000s
Analysis of turnover by geographical market		
United Kingdom	4,897	3,003
Rest of Europe	1,072	2,210
North America	2,295	3,158
Rest of the world	121	376
Total turnover by geographical market	8,385	8,747

	2020	2019
	£000s	£000s
Analysis of turnover by category		
Sale of goods	6,645	8,128
Rendering of services	153	269
Construction contracts (note 6)	1,587	350
Total turnover by category	8,385	8,747
Timing of revenue recognition		
Point of time	6,645	8,128
Over time	1,740	619
Total revenue from contracts with customers	8,385	8,747

Notes to the financial statements

for the financial year ended 31 December 2020

6. Construction contracts

	2020	*2019*
	£000s	*£000s*
Contract revenue recognised in period	1,587	350
Cumulative contract costs incurred	173	1,695
Recognised profits less recognised losses	819	82
Contract costs incurred and recognised profits (less recognised losses)	992	1,777
Less: progress billings	(905)	(1,641)
Amount due from customer	87	136
Amounts due from customers included within trade receivables	87	136

Amounts relating to construction contracts are balances due from customers under construction contracts that arise when the company receives payments from customers in line with a series of performance – related milestones.

7. Disclosures in respect of contract with customers

The following table provides information about receivables, contracts assets and contract liabilities:

	2020	*2019*
	£000s	*£000s*
Trade debtors (note 18)	2,436	1,399
Contract assets (note 18)	-	65
Contract liabilities (note 19)	204	166

8. Government grant income

During the year the company received a government grant of £11,000 under the Coronavirus Job Retention Scheme (JRS). The grant is given to UK employers to cover all or part of the wages and salary costs of employees on temporary leave (furlough) due to the COVID-19 pandemic.

In the previous year, Government grant of £11,000 has been received from Innovate UK for development of a prototype sterling engine/ system. There are no unfulfilled conditions or contingencies attached to these grants to the extent of grant recognised as income for the financial year.

Notes to the financial statements

for the financial year ended 31 December 2020

9. Operating profit

	2020	2019
	£000s	£000s
This is stated after charging/(crediting):		
Depreciation and amortisation		
Tangible assets – owned (note 15)	161	141
Right-of-use assets (note 16)	555	482
Gain on disposal of fixed assets (note 15)	(8)	-
Reorganisation and redundancy	399	-
Research and development	157	240
Gain on foreign exchange	(12)	(15)

10. Auditor's remuneration

Fees payable to the auditor, Deloitte LLP, amounted to £16,900 (2019: £19,300) 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 (2019: £nil).

11. Employees and directors

(a). Staff costs

	2020	2019
	£000s	£000s
Wages and salaries	2,459	2,623
Social security costs	239	241
Contributions to defined contribution pension plans	168	164
Pension costs for defined benefit plans (note 23)	58	40
Total staff costs	2,924	3,068

The average monthly number of employees during the financial year was made up as follows:

(including executive directors)

	2020	2019
	No.	No.
Direct	45	49
Indirect	25	27
Total monthly average number of employees	70	76

Notes to the financial statements
for the financial year ended 31 December 2020

(b). Director's remuneration

	2020	2019
	£000s	£000s
Aggregate emoluments	120	119
Pension costs - defined contribution	13	14
Total payments to director	133	133

	2020	2019
	No.	No.
Number of directors who:		
Were members of defined contribution plans	1	1

In 2020, one director (2019: one director) was remunerated by other group companies for his service to the group as a whole.

12. Interest receivable

	2020	2019
	£000s	£000s
Pension interest (note 23)	182	241
Total interest receivable	182	241

13. Interest payable and similar charges

	2020	2019
	£000s	£000s
Interest payable on bank overdraft	28	52
Unwinding of discounts on provision	99	94
Interest payable on lease liability	24	30
Total interest payable and similar charges	151	176

Notes to the financial statements

for the financial year ended 31 December 2020

14. Taxation

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

	2020	*2019*
	£000s	*£000s*
Current tax:		
UK corporation tax on profit for financial year	-	-
Total current tax	-	-
Deferred tax:		
Effect of changes in tax rates	67	-
Adjustment in respect of prior years	10	-
Origination and reversal of temporary differences	63	39
Total deferred tax	140	39
Total tax expense in the profit and loss account	140	39

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

	2020	*2019*
	£000s	*£000s*
Deferred tax:		
Effect of changes in tax rates	65	-
Remeasurements on defined benefit pension plans	403	(37)
Total deferred tax	468	(37)
Total tax expense/(credit) in the statement of comprehensive income	468	(37)

Notes to the financial statements

for the financial year ended 31 December 2020

(c). Reconciliation of the total tax charge

The tax expense in the profit and loss account for the financial year is lower than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are reconciled below:

	2020	*2019*
	£000s	*£000s*
Profit before income tax	483	1,581
Profit multiplied by the effective rate of corporation tax in the UK of 19% (2019:19%)	92	300
Effects of:		
Expenses not deductible for tax purposes and other permanent differences	-	6
Income not taxable	(1)	-
Adjustment in respect of prior year	10	-
Effect of changes in tax rates	67	-
Difference in current tax rate to deferred rate	-	(5)
Group relief (not paid for)	(28)	(262)
Total tax expense reported in the profit and loss account	140	39

(d). Factors affecting tax charge for the financial year

The Finance (No.2) Act 2015 reduced the main rate of UK corporation tax to 19%, effective from 1 April 2017. A further reduction in the UK corporation tax rate to 17% was expected to come into effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%. Deferred taxes on the balance sheet have been measured at 19% (2019:17%) which represents the future corporation tax rate that was enacted at the balance sheet date.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances at the period end. The company has assessed the impact of the change in rate on its deferred tax assets and liabilities and the impact would be to increase the deferred tax liability at the balance sheet date by £587,000.

Notes to the financial statements

for the financial year ended 31 December 2020

(e). Deferred tax

	2020	*2019*
	£000s	*£000s*
The deferred tax included in the balance sheet is as follows:		
Deferred tax asset		
Differences between capital allowances and depreciation	9	18
Other short-term timing differences	245	207
Total deferred tax asset	254	225
Deferred tax liability		
Deferred tax provision on pension asset (note 22)	(1,988)	(1,351)
Total deferred tax liability	(1,988)	(1,351)
Net deferred tax liability	(1,734)	(1,126)

Movements in deferred tax	*Excluding pension*	*Pension*	*Total*
	£000s	*£000s*	*£000s*
At 1 January 2020	225	(1,351)	(1,126)
Charge to the profit and loss account	29	(169)	(140)
Charge to statement of comprehensive income	-	(468)	(468)
At 31 December 2020	254	(1,988)	(1,734)

Notes to the financial statements

for the financial year ended 31 December 2020

15. Tangible assets

	Plant and equipment	*Fixtures and fittings*	*Total*
	£000s	*£000s*	*£000s*
Cost			
At 1 January 2020	5,288	1,383	6,671
Additions during the year	104	-	104
Disposals during the year	(36)	-	(36)
At 31 December 2020	5,356	1,383	6,739
Accumulated depreciation			
At 1 January 2019	4,243	1,337	5,580
Provided during the year	156	5	161
Disposals during the year	(35)	-	(35)
At 31 December 2019	4,364	1,342	5,706
Net book value:			
At 31 December 2020	992	41	1,033
At 31 December 2019	1,045	46	1,091

During the year the company disposed of plant and equipment of net book value £1,000 for £9,000 resulting in gain of £8,000 on disposal.

Notes to the financial statements

for the financial year ended 31 December 2020

16. Right-of-use assets

	Land and buildings
	£000s
Cost	
At 1 January 2020	2,116
Additions during the year	257
At 31 December 2020	2,373
Accumulated depreciation	
At 1 January 2020	482
Provided during the year	555
At 31 December 2020	1,037
Net book value:	
At 31 December 2020	1,336
At 31 December 2019	1,634

The company leases a building. The average lease term is 3 years (2019: 4 years).

17. Stocks

	2020	*2019*
	£000s	*£000s*
Raw materials	593	599
Work in progress	376	320
Finished goods	6	4
Total stocks	975	923

Cost of stocks recognised as an expense during the year	2,118	2,547

Notes to the financial statements
for the financial year ended 31 December 2020

18. Debtors: amounts falling due within one year

	2020	*2019*
	£000s	*£000s*
Amounts falling due within one year		
Trade receivables	2,436	1,399
Amounts owed by group undertakings	250	1,192
Contract assets	-	65
Prepayments and accrued income	67	87
Total amounts falling due within one year	2,753	2,743

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

19. Creditors: amounts falling due within one year

	2020	*2019*
	£000s	*£000s*
Trade creditors	784	800
Amounts owed to group undertakings	115	55
Bank overdraft	305	631*
Accruals and deferred income	429	182
Contract liabilities	204	166
Lease liability (note 21)	567	506
Total amount owed to creditors	2,404	2,340

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

*The Group has previously offset certain cash balances against bank borrowings which, whilst in line with the Group's legal right of offset, did not reflect any short-term intention to offset the liabilities after the balance sheet dates as required by IAS 32. Accordingly, £276,000 has been added to cash balances and bank borrowings respectively in 2019. There has been no impact on the income statement or on net assets.

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

	2020	*2019*
	£000s	*£000s*
Lease liability (note 21)	566	988

21. Lease liabilities

Land and buildings	*2020* *£000s*	*2019* *£000s*
Non-current (note 20)	566	988
Current (note 19)	567	506
Total	1,133	1,494

The non-cancellable lease payments are due

	2020 *£000s*	*2019* *£000s*
Within 1 year	567	506
Between 1 and 5 years	566	988
Total	1,133	1,494

The company has a lease agreement at its Redditch site with a remaining term at year end of 3 years. This agreement contains an option for review in 2023. There are no restrictions placed upon the lessee by entering into this lease.

During the year a change in lease rentals were made effective from prior date. Therefore, the liability is adjusted accordingly.

22. Provisions for liabilities

	Dilapidations	Warranty	Contract	Deferred tax liability (note 14)	Total
	£000s	*£000s*	*£000s*	*£000s*	*£000s*
At 1 January 2020	1,164	25	143	1,126	2,458
Charge to profit and loss account	75	-	-	140	215
Credit to other comprehensive income	-	-	-	468	468
Utilised during the year	-	-	(135)	-	(135)
At 31 December 2020	1,239	25	8	1,734	3,006

The dilapidations provision covers the anticipated dilapidation costs of returning certain properties to their original condition at the end of the lease in 2023.

The warranty provision represents the best estimate of the costs associated with the sale of products and services supplied under warranty before the balance sheet date.

The contract provision relates to future losses on long term contracts based on the estimated completion costs.

Notes to the financial statements

for the financial year ended 31 December 2020

23. Pension commitments

Honeywell UK Pension Scheme (HUKPS)

The company is a participating employer in the Honeywell UK Pension Scheme (HUKPS) which is a funded defined-benefit plan based on salary. The scheme was closed for future accruals of benefits with effect from 30 June 2017 and all active members at this date became deferred members. Regular employer contributions to the plan by the company in 2021 are estimated to be £nil. Defined benefit obligations are based on a full valuation of the schemes liabilities as at 31 March 2020, measured using the projected unit credit method and rolled forward to the year-end date as at 31 December 2020.

Amounts recognised in the balance sheet	*2020*	*2019*
	£000s	*£000s*
Fair value of plan assets	44,537	39,648
Present value of defined benefit obligations	(34,074)	(31,701)
Net assets	10,463	7,947

Amounts recognised in profit or loss	*2020*	*2019*
	£000s	*£000s*
Interest cost	638	821
Expected return on pension plan assets	(820)	(1,062)
Finance credit recognised	(182)	(241)
Past service cost (including curtailments)	3	-
Total administrative expenses recognised in Profit and loss account	55	40
Cost recognised in profit and loss	(124)	(201)
Actual return on assets	4,942	4,782

Remeasurements	*2020*	*2019*
	£000s	*£000s*
Liability losses due to changes in assumptions	2,707	3,972
Liability gains due to experience during the year	(513)	(35)
Asset gains arising during the year	(4,122)	(3,720)
Gains on transfer between companies	(191)	-
Total actuarial (gain)/loss recognised in other comprehensive income	(2,119)	217

Notes to the financial statements

for the financial year ended 31 December 2020

Changes in present value of defined benefit obligation		
At 1 January	31,701	28,264
Transfer between companies	622	-
Interest cost	638	821
Curtailments	3	-
Actuarial losses on liabilities- financial assumption	2,539	4,246
Actuarial losses/(gains) on liabilities - demographic assumptions	168	(274)
Actuarial gains on liabilities- experience	(513)	(35)
Net benefits paid out	(1,084)	(1,321)
At 31 December	34,074	31,701

Changes in fair value of scheme assets	*2020* *£000s*	*2019* *£000s*
At 1 January	39,648	36,227
Transfer between companies	813	-
Expected return on assets	820	1,062
Actuarial gains on assets	4,122	3,720
Contributions by employer	273	-
Actual administration expenses paid	(55)	(40)
Net benefits paid out	(1,084)	(1,321)
At 31 December	44,537	39,648

Major categories of plan assets as a percentage of total plan assets	*2020* *%*	*2019* *%*
Equities (including venture cap and alternative investments)	28.0	32.0
Bonds	59.0	13.0
Property	12.0	3.0
Cash	1.0	52.0
Total	100.0	100.0

Notes to the financial statements

for the financial year ended 31 December 2020

Main actuarial assumptions	*2020*	*2019*
	%	%
Inflation (RPI)	2.7	2.9
Inflation (CPI)	2.2	1.9
Rate of increase for pensions		
Pensions subject to limited price indexation to 5%	2.6	2.8
Pensions subject to limited price indexation to 2.5%	2.0	2.1
Other pensions and deferred pensions	2.2	1.9
Discount rate for scheme liabilities	1.4	2.0

Mortality

Mortality assumptions are based on standard mortality tables that allow for future mortality improvements. These tables assume that a member who retired in 2020 at age 65 will live on average for a further 22.2 years (2019: 22.4 years) after retirement if male or a further 24.6 years (2019: 24.4 years) if female.

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.

24. Called-up share capital

	2020	*2019*
	£000s	*£000s*
Authorised and allotted, called-up and fully paid		
282,800 (2019: 282,800) ordinary shares of £1 each at 31 December	283	283

25. Share premium account

	2020	*2019*
	£000s	*£000s*
Balance at 1 January and 31 December		
Premium arising on issue of equity shares	132	132

Notes to the financial statements

for the financial year ended 31 December 2020

26. Other reserves

	2020	*2019*
	£000s	*£000s*
Balance at 1 January and 31 December		
Capital contribution	35,000	35,000

The capital contribution covers the amount of capital contribution received by the company from the parent company in the nature of equity.

27. 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 £494,085,000 (2019: £560,423,000).

Positive cash balances held by the group exceeded overdrawn balances in 2020 and 2019.

28. Events after balance sheet date

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