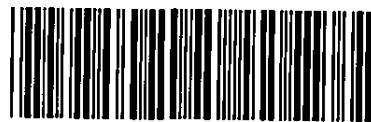


**Norgren Limited**

**Directors' report and financial  
statements**

**For the year ended 31 December 2009**

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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2009

### Business review and principal activities

The company is a wholly owned subsidiary of IMI Plc and operates as part of that company's Fluid Controls Division

The company's principal activities are the manufacture and distribution of pneumatic control equipment and precision manufactured components

### 2009

The results for the year and the financial position of the company are set out in detail on pages 6 to 21 of the financial statements

Sales revenue has fallen by 23%

Operating profit reduced from £16.1 million to £5.2 million

The directors monitor the business through various key performance indicators such as gross margin, sales and margin by key product and customers, working capital, and quality

### Outlook for 2010

The business outlook for 2010 is more positive as end markets are expected to move into a recovery phase

### Going Concern

The directors have prepared these financial statements as a going concern, and have prepared a detailed budget for 2010, as well as a detailed forecast to December 2011, which indicates that the Company has sufficient committed working capital facilities to continue to trade. As a consequence, the directors 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

### Principal risks and uncertainties

As with other companies in its sector, Norgren Ltd is exposed to competitive pressure. In order to mitigate this risk, the company seeks to focus on the high value engineered end of the market, developing strong relationships with key customers

The company sells its products into international markets and it is therefore exposed to currency movements on such sales. Where appropriate, the company manages this risk with forward cover contracts in line with IMI Plc's treasury policies

The company's business may be affected by fluctuations in the price and supply of key raw materials and supplies, although purchasing policies and practices seek to mitigate, where practicable, such risks

### Results for the year

The profit on ordinary activities before taxation amounted to £6.0 million (2008: £18.1 million)

The profit on ordinary activities after taxation amounted to £4.4 million (2008: £13.1 million)

### Dividend

During the year, the company paid an interim dividend of £47,000,000 (2008: £Nil) amounting to £1.56 per ordinary share. The directors do not recommend the payment of a final dividend (2008: £Nil)

### Research and development

The company continues to concentrate on the application of modern technology to improve production methods and product quality and also on developing new products. During the year, the company spent £3.5 million (2008: £2.7 million) on research and development

## **Directors' report (continued)**

### **Directors**

The directors who held office during the year were as follows

PD Cleaver  
B Martin

### **Employee involvement**

The directors believe that benefit is derived from the provision of systematic channels for employee participation. Formal joint consultative machinery has been in operation for many years and exchange of information between management and employees is strongly encouraged.

During 2009 joint consultation has continued, through exchange of information and constructive discussion, to play a vital role in ensuring consideration of employees' views on matters likely to affect their interests and in developing understanding of factors affecting the performance of the company.

An employee profit sharing scheme has been operated for many years providing an annual profit-related bonus to employees. Since 1980 an opportunity to take the bonus in the form of IMI Plc shares has been available to all. In 1984, an Inland Revenue approved savings-related share option scheme was introduced for all employees.

A summary of the IMI Annual Report and a copy of the full IMI Annual Report is also available to all employees.

### **Employment of disabled persons**

Applications for employment from disabled persons are fully and fairly considered, bearing in mind the aptitudes and abilities of the person concerned. In the event of employees becoming disabled every reasonable effort is made to ensure that their employment with the company continues and the appropriate training is arranged.

It is the policy of the company that disabled persons should, as far as possible, have identical training, career development and promotion to those who do not suffer from disabilities.

### **Policy on the payment of creditors**

The company policy is to make its suppliers aware of the terms of payment, to agree such terms with its suppliers for each business transaction and to make payments to suppliers in accordance with these terms, providing that the supplier is also complying with all relevant terms. At the end of the year, there were 46 days (2008 61 days) purchases in trade creditors.

### **Disclosure of information to auditor**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### **Auditors**

KPMG resigned as the Company's auditor on 16<sup>th</sup> October 2009. Resolution for the appointment of Ernst & Young LLP as auditor of the Company is to be proposed at the forthcoming annual general meeting.

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

SA Hallam  
Secretary



PO Box 22  
Eastern Avenue  
Lichfield  
Staffordshire  
WS13 6SB

28<sup>th</sup> September 2010

## **Statement of directors' responsibilities in respect of the directors' report and the financial statements**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the directors are required to

- Select suitable accounting policies and then apply them consistently,
- Make judgements and estimates that are reasonable and prudent,
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditor's report to the members of Norgren Limited**

We have audited the financial statements of Norgren Limited for the year ended 31 December 2009, which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

## **Independent auditor's report to the members of Norgren Limited (*continued*)**

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

*Ernst & Young LLP*

*Christopher Voogd (Senior Statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Birmingham  
30th September 2010*

**Profit and loss account**  
*for the year ended 31 December 2009*

	<i>Note</i>	<b>2009</b> <b>£000</b>	2008 £000
<b>Turnover</b> - continuing operations	2	<b>99,200</b>	129,623
Cost of sales		<b>(71,647)</b>	(90,232)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>27,553</b>	39,391
Distribution costs		<b>(8,403)</b>	(12,084)
Administrative expenses		<b>(13,992)</b>	(11,218)
		<hr/>	<hr/>
<b>Operating profit</b> – continuing operations	3	<b>5,158</b>	16,089
Interest receivable and similar income	4	<b>1,156</b>	2,629
Interest payable and similar charges	5	<b>(298)</b>	(599)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>		<b>6,016</b>	18,119
Taxation	8	<b>(1,608)</b>	(5,015)
		<hr/>	<hr/>
<b>Profit on ordinary activities after taxation</b>	18	<b>4,408</b>	13,104
		<hr/>	<hr/>

The notes on pages 9 to 21 form part of these financial statements

**Balance sheet**  
*at 31 December 2009*

	<i>Note</i>	<b>2009</b>	<b>2008</b>
		<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>			
Intangible assets	9	5,833	6,261
Tangible assets	10	17,290	23,436
Investments	11	50	50
		<b>23,173</b>	<b>29,747</b>
<b>Current assets</b>			
Stocks	12	9,726	10,560
Debtors (including £4,893,000 (2008 £15,485,000) due after more than one year)	13	74,930	85,923
Cash at bank and in hand		1,444	3,103
		<b>86,100</b>	<b>99,586</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>(59,737)</b>	<b>(39,021)</b>
<b>Net current assets</b>		<b>26,363</b>	<b>60,565</b>
<b>Total assets less current liabilities</b>		<b>49,536</b>	<b>90,312</b>
<b>Creditors: amounts falling due after more than one year</b>	15	<b>(6,371)</b>	<b>(6,371)</b>
<b>Provisions for liabilities and charges</b>	16	<b>(3,140)</b>	<b>(1,324)</b>
<b>Net assets</b>		<b>40,025</b>	<b>82,617</b>
<b>Capital and reserves</b>			
Called up share capital	17	30,033	30,033
Profit and loss account	18	9,992	52,584
<b>Shareholder's funds</b>		<b>40,025</b>	<b>82,617</b>

The notes on pages 9 to 21 form part of these financial statements

These financial statements were approved by the board of directors on 28<sup>th</sup> September 2010 and were signed on its behalf by



**PD Cleaver**  
*Director*

**Statement of total recognised gains and losses**  
*for the year ended 31 December 2009*

	2009 £000	2008 £000
<b>Profit for the financial year</b>	<b>4,408</b>	<b>13,104</b>
<b>Total recognised gains and losses relating to the financial year</b>	<b>4,408</b>	<b>13,104</b>
Dividends paid	<b>(47,000)</b>	-
<b>Total gains and losses recognised since last annual report</b>	<b>(42,592)</b>	<b>13,104</b>

**Reconciliation of movements in shareholder's funds**  
*for year ended 31 December 2009*

	2009 £000	2008 £000
<b>Profit for the financial year</b>	<b>4,408</b>	<b>13,104</b>
Dividends paid	<b>(47,000)</b>	-
<b>Net movement in shareholder's funds</b>	<b>(42,592)</b>	<b>13,104</b>
Opening shareholder's funds	<b>82,617</b>	<b>69,513</b>
<b>Closing shareholder's funds</b>	<b>40,025</b>	<b>82,617</b>

The notes on pages 9 to 21 form part of these financial statements

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

#### ***Basis of preparation***

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

Under FRS 1 "Cash Flow Statements", the company is exempt from the requirements to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of IMI Plc which presents consolidated financial statements which include the company and which are publicly available

As the company is a wholly owned subsidiary of IMI Plc the company has taken advantage of the exemption contained in FRS 8 "Related Party Disclosures" and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of IMI Plc, within which this company is included, can be obtained from the address given in note 25

#### ***Equity and equity-related compensation benefits***

The company participates in an Executive Share Option Scheme, a SAYE Share Option Scheme, a Long Term Incentive Plan, Deferred Bonus Plan and a Performance Share Plan. For options granted on or after 7 November 2002, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense each year.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. The fair value of the options is determined based on the Black-Scholes option-pricing model.

At each balance sheet date, the company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement.

#### ***Turnover***

Turnover represents amounts invoiced by the company in respect of goods and services provided during the year, excluding value added tax. Included within turnover is £19.0 million (2008: £31.2 million) of sales to Norgren European Logistics Limited, a fellow subsidiary undertaking, where the significant risks and rewards of ownership of the inventory to which these sales relate have been transferred to Norgren European Logistics Limited. In addition, the company has recognised sales of £14.5 million (2008: £17.5 million) for items sold to entities outside of the IMI Plc Group that have been originally manufactured by the company but have been purchased from Norgren European Logistics Limited. Purchases from Norgren European Logistics Limited during the year were £11.0 million (2008: £13.7 million).

#### ***Interest income***

Revenue is recognised as interest accrues using the effective interest method.

#### ***Goodwill***

Goodwill arising on acquisitions prior to 31 December 1997 was set off directly against reserves. Goodwill previously eliminated against reserves was not reinstated on implementation of FRS 10. Positive goodwill arising on acquisitions since 1 January 1998 is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life of 20 years. It is reviewed for impairment at the end of each financial year and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

## **Notes (continued)**

### ***Tangible fixed assets***

Assets in the course of construction are not depreciated. Depreciation is calculated so as to write off the cost of other tangible fixed assets by equal instalments over their estimated useful lives as follows:

Freehold buildings	-	20 years
Plant and machinery	-	between 3 and 15 years

No depreciation is provided on freehold land.

### ***Investments***

Investments are valued at the lower of cost and net realisable value. Provisions for diminution in value shall be made in respect of any reduction in value if this is expected to be permanent.

### ***Stocks***

Stocks are valued at the lower of cost and net realisable value. In respect of work in progress and finished goods, cost includes all direct costs of production and the appropriate proportion of production overheads.

### ***Research and development***

Expenditure on research and development is charged against profits in the year in which it is incurred except for expenditure on tangible fixed assets which is capitalised and depreciated in the normal manner.

### ***Provisions for liabilities***

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

### ***Taxation***

The charge for taxation is based on the profit or loss for the year, and takes into account taxation deferred or accelerated because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 "Deferred tax".

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

### ***Leased assets***

Operating lease rentals are charged to the profit and loss account in the period to which they relate.

Where the company has leasehold property commitments and the company is no longer using the property, the directors have made provision for future commitments at the estimated cost to the company.

### ***Post retirement benefits***

The company participates in a multi-employer pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement Benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

## Notes (continued)

### Foreign exchange

Assets and liabilities denominated in foreign currencies have been translated into sterling at the rate of exchange ruling at the year end. Foreign exchange differences arising on trading transactions in the year are reflected in the profit and loss account.

### Going concern

The directors have prepared these accounts as a going concern, and have prepared a detailed budget for 2010, as well as a detailed forecast to December 2011, which indicates that the Company has sufficient committed working capital facilities to continue to trade.

## 2 Turnover

The analysis of turnover by market is as follows

	2009 £000	2008 £000
UK	50,573	89,821
Rest of Europe	36,986	20,798
America	6,699	10,667
Asia	4,176	7,506
Australasia	23	79
Africa	743	752
	<u>99,200</u>	<u>129,623</u>

## 3 Operating profit

	2009 £000	2008 £000
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### Operating profit is stated after charging / (crediting):

Amortisation of goodwill	428	428
Depreciation on tangible fixed assets	6,127	5,042
Impairment of tangible fixed assets	2,819	-
Operating lease rentals		
Hire of plant and machinery	32	42
Other operating leases	708	2,764
Research and development	3,541	2,660
Rationalisation and redundancy costs	3,413	1,262

### Auditor's remuneration

Audit of these financial statements	93	164
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## 4 Interest receivable and similar income

	2009 £000	2008 £000
Receivable from group undertakings	1,156	2,629
	<u>1,156</u>	<u>2,629</u>

## Notes (continued)

### 5 Interest payable

	2009 £000	2008 £000
On bank overdrafts	29	139
On amounts owed to group undertakings	269	460
	<u>298</u>	<u>599</u>

### 6 Directors' remuneration

	2009 £000	2008 £000
Directors' remuneration		
Emoluments as executives of the company	451	327
Pension contributions	75	58
	<u>526</u>	<u>385</u>

The remuneration of the highest paid director was as follows

	£000	£000
Total remuneration excluding pension contributions	349	219
Pension contributions to defined benefit pension schemes	65	49

The amount of accrued pension at 31 December 2009 amounted to £43,162 (2008 £29,624)

Each of the directors serving at the year end are members of the group's defined benefit pension scheme

During the year one (2008 one) director exercised options over shares of IMI Plc. The highest paid director both exercised options and received shares in 2009 and 2008

### 7 Staff numbers and costs

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

	Number of employees 2009	2008
Production	439	539
Distribution	126	153
Administration	123	162
	<u>688</u>	<u>854</u>

## Notes (continued)

The aggregate payroll costs of these employees were as follows

	£000	£000
Wages and salaries	16,507	21,366
Share based payments (see note 23)	235	707
Social security costs	1,489	1,831
Other pension costs	2,080	2,666
	<u>20,311</u>	<u>26,570</u>

## 8 Taxation

### Analysis of charge in year

	2009 £000	2008 £000
<i>UK corporation tax</i>		
Current tax on income for the year	2,833	5,433
Adjustments in respect of prior periods	(125)	494
Total current tax	<u>2,708</u>	<u>5,927</u>
<i>Deferred tax (see note 16)</i>		
Origination and reversal of timing differences	(1,100)	232
Adjustment in respect of previous years	-	(1,144)
Tax on profit on ordinary activities	<u>1,608</u>	<u>5,015</u>

The current tax charge for the year is higher (2008 higher) than the standard rate of corporation tax in the UK 28% (2008 28.5%). The differences are explained below

	2009 %	2008 %
Average rate of corporation tax	28.0	28.5
Expenses not deductible for tax purposes	(0.3)	1.8
Capital allowances in excess of depreciation	20.0	-
Non tax deductible goodwill	2.0	0.7
Origination and reversal of timing differences	(2.7)	(1.0)
Adjustments in respect of previous years	(2.1)	2.7
Current tax rate for the year	<u>44.9</u>	<u>32.7</u>

## Notes (continued)

### 9 Intangible fixed assets

	<b>Goodwill</b> £000
<i>Cost</i>	
At beginning and end of year	8,570
<i>Depreciation</i>	
At beginning of year	2,309
Amortisation	428
At end of year	2,737
<i>Net book value</i>	
At 31 December 2009	5,833
At 31 December 2008	6,261

Goodwill arose on the acquisition of the trade and assets of Herion UK Limited, purchased in 1998, the goodwill arising on the acquisition of the trade and net assets of IMI Scott Limited, purchased in January 2003, and goodwill arising on the acquisition of the trade and net assets of IMI Watson Smith Limited, purchased in March 2005

### 10 Tangible fixed assets

	<b>Plant and machinery</b> £000	<b>Assets in course of construction</b> £000	<b>Total</b> £000
<i>Cost</i>			
At beginning of year	82,870	4,274	87,144
Additions	1,269	1,597	2,866
Disposals	(3,847)	-	(3,847)
Transfer	2,526	(2,526)	-
At end of year	82,818	3,345	86,163
<i>Depreciation</i>			
At beginning of year	63,708	-	63,708
Charge for the year	6,127	-	6,127
Impairment loss	2,819	-	2,819
Disposals	(3,781)	-	(3,781)
At end of year	68,873	-	68,873
<i>Net book value</i>			
At 31 December 2009	13,945	3,345	17,290
At 31 December 2008	19,162	4,274	23,436

## Notes (continued)

### 11 Investments

Investments in group undertakings

	£000
<b>Cost</b>	
At beginning and end of year	50
	<hr/>
<b>Provision</b>	
At beginning and end of year	-
	<hr/>
<b>Net book value</b>	
At 31 December 2009	50
	<hr/>
At 31 December 2008	50
	<hr/>

The company owns the whole of the issued ordinary share capital of IMI Scott Limited, a company incorporated in Great Britain and registered in England and Wales. The principal activity of IMI Scott Limited is acting as a selling operation for the company.

The company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements because it is included in the consolidated financial statements of IMI Plc, which is registered in England and Wales.

### 12 Stocks

	2009 £000	2008 £000
Raw materials and consumables	4,685	5,221
Work in progress	3,835	4,571
Finished goods	1,206	768
	<hr/>	<hr/>
	9,726	10,560
	<hr/>	<hr/>

The Directors consider that the replacement cost of stocks is not materially different to the historic cost.

### 13 Debtors

	2009 £000	2008 £000
Trade debtors	8,880	8,837
Amounts owed by group undertakings	63,832	75,760
Other debtors	64	206
Prepayments and accrued income	1,336	1,120
Deferred tax	818	-
	<hr/>	<hr/>
	74,930	85,923
	<hr/>	<hr/>

Included within amounts owed by group undertakings is a funding loan of £4,893,000 (2008: £15,485,000) which is due after more than one year. Interest is charged at a rate equivalent to the group's average borrowing rate for the year. These amounts are unsecured and are due for payment after more than twelve months.

**Notes (continued)**

**14 Creditors: amounts falling due within one year**

	<b>2009</b>	<b>2008</b>
	<b>£000</b>	<b>£000</b>
Trade creditors	7,218	8,659
Amounts owed to group undertakings	45,938	21,193
Corporation tax	2,793	4,575
Other taxation	1,159	2,244
Social security	402	260
Other creditors	275	383
Accruals and deferred income	1,952	1,707
	<u>59,737</u>	<u>39,021</u>

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

	<b>2009</b>	<b>2008</b>
	<b>£000</b>	<b>£000</b>
Amounts owed to group undertakings	<u>6,371</u>	<u>6,371</u>

The amount owed to a fellow group undertaking is non interest bearing

**16 Provision for liabilities and charges**

	<b>Deferred taxation £000</b>	<b>Warranties £000</b>	<b>Rationalisation £000</b>	<b>Total £000</b>
At beginning of year	282	434	608	1,324
Utilised in year	-	(236)	(2,235)	(2,471)
(Credited)/charged to the profit and loss in year	(282)	1,176	3,393	4,287
Released in year	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>At end of year</b>	<u>-</u>	<u>1,374</u>	<u>1,766</u>	<u>3,140</u>

Product warranties are given in the normal course of business and cover a period of 2 years. The rationalisation provision is expected to be utilised in 2010.

## Notes (continued)

### 16 Provision for liabilities and charges (continued)

The movements on deferred taxation are as follows

	2009 £000	2008 £000
At beginning of year	282	1,194
(Credited)/charged to the profit and loss in year	(1,100)	(912)
	<u>(818)</u>	<u>282</u>

The elements of deferred taxation are as follows

	2009 £000	2008 £000
Difference between accumulated depreciation and amortisation and capital allowances	(556)	395
Other timing differences	(262)	(113)
	<u>(818)</u>	<u>282</u>

### 17 Called up share capital

	2009 £000	2008 £000
<i>Authorised, allotted and fully paid.</i> 30,033,000 Ordinary shares of £1 each	<u>30,033</u>	<u>30,033</u>

### 18 Reserves

	Profit and loss account £000
At 1 January 2009	52,584
Profit on ordinary activities after tax	4,408
Dividends paid	(47,000)
At 31 December 2009	<u>9,992</u>

### 19 Capital commitments

Contracts in respect of future capital expenditure which had been contracted for at the balance sheet date and for which no provision had been made in the financial statements amounted to £2,366,000 (2008 £2,759,000)

## Notes (continued)

### 20 Operating leases

Annual commitments under operating leases expiring

	2009		2008	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	14	18	17	8
Between two and five years	-	36	14	64
After five years	586	11	586	-
	<u>600</u>	<u>54</u>	<u>617</u>	<u>72</u>

### 21 Contingent liabilities

The company has in the past, assigned various property leases and remains contingently liable for any default by subsequent tenants

There is a right of set off with the company's bankers relating to the balances of the company, its parent and certain of its fellow wholly owned United Kingdom undertakings with that bank. The company's maximum liability is limited to the extent of its current account cash balance

### 22 Pensions

The company participates in a multi-employer pension scheme providing benefits based on final pensionable pay. As permitted by FRS 17 "Retirement Benefits" the plan is accounted for by the company as if it were a defined contribution scheme, because the company is unable to identify its share of the plan's assets and liabilities on a consistent and reasonable basis.

The profit and loss charge in respect of employer contributions to the scheme for the year was £2,080,000 (2008 £2,666,000). At the year end there were outstanding contributions payable to the scheme of £331,000 (2008 £214,000).

Further information on the funding status of the scheme is disclosed in the accounts of IMI plc

### 23 Share based payments

The company participates in the following IMI Plc Group share-based payment schemes

#### SAYE savings-related share option scheme

This scheme is open to the majority of the Group's UK employees, including the executive directors, and allows the grant of options to all participants at a discount of up to 20% below the market price. Such schemes are not subject to performance conditions and offer tax incentives to encourage employees to use their own money to purchase shares in the business. SAYE options are exercisable within 6 months of the exercise date and otherwise expire.

#### Executive Share Option Scheme

Executive share options were last awarded to executive directors in 2004 and to certain other employees in 2005 under the Executive Share Option (1995) Scheme which expired in May 2005. All outstanding options granted under this scheme were granted subject to stretching tiered performance conditions related to growth in earnings per share above inflation over a fixed period of three financial years. Executive share options expire if not exercised or lapsed within the periods shown below.

## **Notes (continued)**

### **23 Share based payments (continued)**

#### **Long Term Incentive Plan (LTIP)**

The LTIP awards were made in 2005 as part of the transition to new long term incentive arrangements introduced in 2005. The LTIP allows cash awards selected senior managers within the Group subject to certain performance conditions. At the end of the performance period, the net of tax value of any LTIP payments can normally be invested in market purchases of IMI plc's ordinary shares pursuant to a deferred share plan. Such share purchases are to be made through an employee trust and held for a further three year period. After that period, matching shares are awarded of one additional share for every four with no further performance conditions.

#### **Performance Share Plan (PSP)**

These are open to the executive directors and selected senior managers within the IMI plc Group. For awards granted prior to April 2009, 50% of these PSP shares vest subject to EPS growth, based on internal financial performance conditions. Hence, for purposes of IFRS2, the fair value of the shares does not include any performance related discount. The plan uses TSR (total shareholder return) as a performance condition for the other 50% of shares granted. As TSR is a market based performance condition, the accounting treatment differs from that for shares subject to internal performance conditions. This means that the TSR performance condition must be incorporated into the calculation of the fair value, that is, there is a TSR related discount in calculating the fair value.

For awards granted in 2009, 100% of the shares granted vest subject to TSR as the performance condition. The accounting treatment is in line with that outlined above, but for 100% of the award.

#### **Deferred Bonus Plan (DBP)**

Under the DBP, senior managers may elect to voluntarily defer all or part of 50% of their annual bonus for three years and have it delivered in shares in IMI Plc. Additional shares, in the form of a matching award, may be earned to a maximum of 100% of the deferred bonus at the entry share price level if stretching performance conditions are met by IMI Plc over the three year deferral period.

#### **Share Matching Plan (SMP)**

In 2009, the DBP was amended and renamed, to become the SMP. Under this plan, senior manager's cash incentive payments are governed by their achievement of a Share Ownership Guideline (SOG). The SOG is a requirement to hold a percentage of salary as IMI shares, and if achieved, any incentive payment is made in cash. If not achieved, a proportion of earned annual bonus will be mandatorily deferred for three years, and delivered in shares in the

IMI Plc Group. Qualifying employees may also elect to voluntarily defer all or part of the remainder of their annual bonus, and invest personal funds, up to a maximum of 100% of incentive opportunity. Additional shares, in the form of a matching award, may be earned (to a maximum of 200% of the investment made at the entry share price level) if stretching performance conditions are met by the Company over the three year deferral period.

#### **Share Option Plan (SOP)**

Share Option awards were made in 2009 to selected senior managers and certain other employees under the Share Option Plan, adopted in 2009. These awards are not subject to performance conditions, but are subject to a three year vesting period.

**Notes (continued)**

**23 Share based payments (continued)**

Analysis of options granted table

	Employee SAYE Options			Executive Options		
	Number of options	Weighted average option price	Normal exercisable date	Number of options	Weighted average option price	Normal exercisable date
2004	180,545	289p	2008-2009	45,000	358p	2008-2014
2005	117,322	380p	2008-2010	42,000	421p	2008-2015
2006	94,845	495p	2009-2011	-	-	-
2007	89,185	517p	2010-2012	-	-	-
2008	115,363	391p	2011-2013	-	-	-
2009	314,903	201p	2012-2014	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

	Long Term Incentive Plan (1)		Performance Share Plan (1)		Deferred Bonus Plan (1)	
	Number of awards	Normal exercisable date	Number of awards	Normal exercisable date	Number of awards	Normal exercisable date
2004	-	-	-	-	-	-
2005	3,803	2008	15,000	2008	-	-
2006	-	-	24,900	2009	1,412	2009
2007	-	-	22,450	2010	2,358	2010
2008	-	-	23,700	2011	900	2011
2009	-	-	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

	Share Matching Plan (1)		Share Option Plan		
	Number of options	Normal exercisable date	Number of options	Weighted average option price	Normal exercisable date
2004	-	-	-	-	-
2005	-	-	-	-	-
2006	-	-	-	-	-
2007	-	-	-	-	-
2008	-	-	-	-	-
2009	18,916	2012	137,500	441p	2012
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

(1) These options were granted at an option price of £Nil

The number and weighted average exercise prices of share options are shown in note 20 to the IMI Group financial statements on page 104-105

**Notes (continued)**

**23 Share based payments (continued)**

The total expenses recognised for the year arising from share based payments are as follows

	<b>2009</b>	2008
	<b>£000</b>	£000
Equity settled share based payments	<b>235</b>	707
	<hr/>	<hr/>

**24 Related party transactions**

The company has taken advantage of the exemption in Financial Reporting Standard No. 8 not to disclose related party transactions with IMI Plc and its subsidiaries as the company is a wholly owned subsidiary undertaking of a company producing group financial statements

**25 Ultimate parent company**

The company's immediate parent company is IMI Kynoch Ltd, which is incorporated in Great Britain and registered in England and Wales. The ultimate parent company is IMI Plc, which is incorporated in Great Britain and registered in England and Wales. A copy of the group financial statements of that company can be obtained from The Company Secretary, IMI Plc, Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham B37 7XZ, United Kingdom.