Trend Control Systems Limited

Report and accounts

for the year ended 31 December 2006

Company registration number 1664519

Contents

Directors' report

for the year ended 31 December 2006

The directors of Trend Control Systems Limited present their report and audited financial statements of the company for the year ended 31 December 2006

Business review and principal activities
The principle activities of the company are the design, manufacture and world wide distribution of intelligent products and systems for measurement and control of the building environment, and energy consumption

Turnover
Turnover for 2006 was 6 1% up on 2005 at £37,263,000 (2005 £35,108,000) The main points affecting the business results fo the year and the future outlook for the company are as follows

Sales growth in 2006 was driven by a combination of factors including further sector share growth in well established markets such as the UK, and increased sales to export markets such as Spain and France (22% up on 2005)
Growth is expected to continue in 2007 due to the investment made in the international business through recruitment of additional human resources

Operating profit
The operating profit for 2006 shows a 25% increase against 2005 at £9,903,000 (2005 £7,921,000), the improvement has been driven by increased profit margins, a result of increased productivity and positive material price variances This level of growth is expected to continue for 2007

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

- focus on demand creation with key customers to generate Trend specifications
- close alignment and cooperation with the Trend value-added reseller (VAR) partner business
- excellence of customer service, innovative product solutions and customer training
- targeted market strategies and aligned business goal deployment
- strong brand recognition through brand and channel management

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

- Adverse economic conditions in UK construction industry
- Effects from changing building regulations and resultant product certification requirements
- Dependence on 3rd party VAR partner business stability for route to market

In response to the risks the company
- invests in brand / channel development, and international growth plans to mitigate dependancy on the UK market
- monitors applicable regulations to ensure products and systems provide high quality solutions for current needs and the Company remains abreast of changing standards
- maintains an innovative product system solution by ongoing investment in research and development
- establishes direct contact with key end users and specifiers, and maintains a broad non regionally exclusive network of highly capable partner businesses

Key performance indicators
Management monitors the business using the following key indicators

		2006	2005
Turnover	% increase year on year	6 1%	8 8%

The growth in 2006 can be attributed to share growth in well established markets such as the UK, and mainly increased sales to export markets such as Spain and France

Gross profit	% of turnover	71 4%	68 3%

Gross profit measures the operational performance of the businesses The increase in 2006 is driven by volume (higher recovery), productivity and positive material price variances

Staff numbers	% increase year on year	6 4%	6 8%

Staff numbers have increased in line with growth in underlying activity

Directors' report (continued)

for the year ended 31 December 2006

Key performance indicators (continued)		2006	2005
Working capital	% of turnover	7 1%	14 2%

Working capital is based on net current assets excluding financial and intercompany balances, deferred tax, and other debtors The decrease in 2006 over 2005 is due to tight control on trade debtors and resulting reduction as well as an increase in trade creditors as a result of negotiations with vendors

Results and dividends

The company's profit for the financial year was £9,231,000 (2005 £3,601,000) which will be transferred to reserves The results for the year are shown on page 5 The directors do not recommend the payment of a dividend (2005 £nil)

Research and development

The company has its own design and development facility which carries out research into electronics technology and its applications Research and development expenditure in the year amounted to £2,421,000 (2005 £2,457,000)

Directors

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

T Darkes
S Durham (resigned 3 February 2006)
E Malcherek
S Molzahn (resigned 1 September 2007)
R Possidonio (appointed 31 August 2007)
P Tochet (appointed 31 August 2007)

Financial instrument policies

Financial risk management

The company's operations expose it to a variety of financial risks that include interest rate risk, foreign exchange risk, credit risk and liquidity risk

Interest rate risk

The company borrows in the United Kingdom at both fixed and floating rates of interest The interest rate characteristics of new borrowings are positioned according to expected movements in interest rates

Currency risk

The company considers it has limited currency risk since it primarily transacts in sterling

Credit risk

The company's credit risk is primarily attributable to its trade receivables Credit limits are set and monitored closely as well as the past dues

Liquidity risk

The company ensures availability of funding through an appropriate amount of committed facilities, on a group wide basis, that are designed to ensure the company has sufficient available funds for its operations

Charitable donations

The company made charitable donations of £nil during the year (2005 £285)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 period

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, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

Statement of directors' responsibilities (continued)

The directors are responsible for keeping proper accounting records that 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 1985 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

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting

By order of the board

R Possidonio
Director
9/1/08

Independent auditors' report

to the members of Trend Control Systems Limited

We have audited the financial statements of Trend Control Systems Limited for the year ended 31 December 2006 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company as at 31 December 2006 and of its profit for the year then ended, and
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
West London

12/1/08

Profit & loss account

for the year ended 31 December 2006

	Notes	2006 £000	*2005 £000 As restated*
Turnover	3	37,263	*35,108*
Cost of sales		(10,647)	*(11,126)*
Gross profit		26,616	23,982
Administrative expenses		(16,713)	*(16,061)*
Operating profit	6	9,903	*7,921*
Interest receivable and similar income	7	800	-
Interest payable and similar charges	7	(3,614)	*(3,246)*
Profit on ordinary activities before taxation		7,089	*4,675*
Tax on profit on ordinary activities	8	2,142	*(1,074)*
Profit for the financial year	18, 19	9,231	3,601

All amounts have been derived from continuing operations

Statement of total recognised gains and losses

for the year ended 31 December 2006

	2006 £000	*2005 £000 As restated*
Profit for the financial year	9,231	*3,601*
Total recognised gains and losses relating to the year	9,231	*3,601*
Prior year adjustment - FRS 20 (note 1)	4	
Total gains recognised since last annual report	9,235	

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents

Balance sheet

as at 31 December 2006

	Notes	2006 £000	*2005 £000 As restated*
Fixed assets			
Tangible fixed assets	9	812	*851*
Investments	10	9,636	*9,636*
		10,448	*10,487*
Current assets			
Stock	11	1,483	*1,506*
Debtors	12	10,706	*10,010*
Cash at bank and in hand		60,768	*47,927*
		72,957	*59,443*
Creditors amounts falling due within one year	14	(15,698)	*(11,514)*
Net current assets		57,259	*47,929*
Total assets less current liabilities		67,707	*58,416*
Creditors amounts falling due after more than one year	15	(50,525)	*(50,494)*
Net assets		17,182	*7,922*
Capital and reserves			
Called up share capital	17	5,000	*5,000*
Share premium account	19	452	*452*
Capital redemption reserve	19	150	*150*
Profit and loss account	19	11,580	*2,320*
Total equity shareholders' funds	18	17,182	*7,922*

The financial statements on pages 5 to 15 were approved by the board of directors on 9/1/2008 and were signed on its behalf by

Possidonio

R Possidonio
Director

Notes to the accounts

for the year ended 31 December 2006

1 Accounting policies

These financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards The accounting policies which have been applied consistently throughout the year, except for changes arising on the adoption of new accounting standards, are set out below

Changes in accounting policies

The accounting policies have been reviewed by the Board of Directors in accordance with FRS18 "Accounting policies"

FRS20 "Share-based payment" has been adopted in the year The effect was to increase administrative expenses by £33,000 (2005 £13,000) and increase the deferred tax credit by £10,000 (2005 £4,000), decreasing the profit for the year by £23,000 (2005 £9,000) The effect on net assets at 1 January 2006 was to increase the deferred tax asset by £4,000

Share-based payment

The company's employees participate in share option plans operated by Honeywell International Inc, the ultimate parent company All share based payments in shares of Honeywell International Inc are equity-settled and are measured at fair value at the date of grant The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the company's estimate of the number of options that will eventually vest At each balance sheet date, the company reviews its estimate of the number of options that are expected to vest

In accordance with FRS20, the charge arising for share based payments is recognised in the profit and loss account of the company which employs those to whom share based awards are granted The credit entry is reported directly to reserves as a capital contribution from the ultimate parent company

The company has taken advantage of the exemption available and has applied the provisions of FRS20 only to those options granted after 7 November 2002 and which had not vested on or before 31 December 2005

Group accounts

The financial statements contain information about the company as an individual company and do not contain consolidated financial information as parent of a group The company is exempt under section 228a of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of Honeywell International Inc , a company registered in the USA and whose accounts the directors consider to be drawn up in a manner equivalent to the 7th Directive

Investments

The company's interest in subsidiary undertakings and other investments is shown at cost less provision for permanent impairment The value of investments is reviewed annually by the directors and provision made where it is considered that there has been a permanent impairment of value

Tangible fixed assets and depreciation

Tangible assets are stated at purchase cost 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 of purchase cost, together with any incidental expenses of acquisition The annual depreciation rates used for the major assets are

Leasehold improvements	3% - 5%
Fixtures, fittings, plant and machinery	7% - 33%

Stock

Stocks and work-in-progress are stated at the lower of cost and net realisable value Cost represents materials, direct labour and appropriate production overheads Where necessary, provision has been made for slow moving, obsolete and defective stocks

Leases
Assets held under any finance leases are capitalised and included in tangible fixed assets at historical cost A lease is deemed to be a finance lease when substantially all the risks and rewards of ownership lie with the company, as opposed to the finance company The obligations relating to finance leases, net of finance charges in respect of future years are included in creditors

Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element, which reduces the outstanding obligation for future instalments All other leases are accounted for as operating leases are and the rentals charged to the profit and loss account on a straight line basis

Taxation
Taxation is calculated on profits chargeable to UK corporation tax at the current rate applicable

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

Pensions
As described in note 5, the company participates in two defined benefit pension schemes for the benefit of its employees, the assets of which are held separately from those of the company in independently administered funds The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution being determined by the actuary

Under definitions set out in FRS 17 'Retirement benefits", the defined benefit schemes are multi-employer pension schemes Consequently the company is unable to identify its share of the underlying assets and liabilities of the schemes Accordingly, the company has taken advantage of the exemption under FRS 17 "Retirement benefits" and has accounted for its contributions as if they were defined contribution schemes Accordingly the contributions to these schemes are charged to the profit and loss account as they become payable

Defined contribution schemes are externally funded, with the assets of the scheme held separately from those of the company in separate trustee administered funds and contributions to such schemes are charged to the profit and 'loss account as they become payable

Foreign currency
Transactions denominated in foreign currency are booked in to the accounts using exchange rates prevailing when the transaction is recorded Monetary assets and liabilities which are denominated in foreign currencies are translated into pounds sterling at rates of exchange approximating to those ruling at the balance sheet date Exchange gains or or losses resulting from the year's trading are reflected in the operating results for the year

Turnover and revenue recognition
Turnover comprises sales to customers net of value added tax Revenue from product sales is recognised on delivery and when acceptance by the customer has occurred

Research and development
All costs associated with research, engineering, product design and product development are written off in the year of expenditure

2. Cash flow statement and related party transactions
The company is a wholly owned subsidiary company of a group headed by Honeywell International Inc , and is included in the consolidated accounts of that company, which are publicly available Consequently, the company has taken advantage of the exemption within FRS 1 "Cash flow statements" (revised 1996) from preparing a cash flow statement

In accordance with the exemptions available under FRS 8 "Related party disclosures", transactions with other undertakings within the Honeywell group or with undertakings which the group has invested in are not required to be disclosed in these financial statements, on the grounds that this company is a wholly owned subsidiary of Honeywell International Inc , whose accounts are publicly available

3. Segmental reporting
The turnover, stated net of value added tax, and pre-tax profit are attributable to the principal activity of the company The business is carried on in the UK and the turnover and profit derive mainly from that origin

An analysis of turnover by geographical market is given below	2006	*2005*
	£000	*£000*
United Kingdom	25,680	*25,192*
Rest of Europe	9,067	*7,595*
North and South America	985	*345*
Other	1,531	*1,976*
	37,263	*35,108*

4 Employees and directors	2006	*2005*
Average monthly number of persons employed during the year	Number	*Number*
Production, projects and field services	79	*77*
Development	40	*44*
Sales	66	*61*
Administration	31	*21*
	216	*203*
Staff costs	£000	*£000*
Wages and salaries	7,454	*6,455*
Social security costs	616	*528*
Pension costs (see note 5)	18	*36*
Share-based payment expense - stock options (see note 21)	19	*13*
Share-based payment expense - restricted stock options (see note 21)	14	-
	8,121	*7,032*
Directors' remuneration		
Aggregate emoluments	234	*272*
Compensation for loss of office	144	*85*
	378	*357*
Highest paid director		
Emoluments including pension contributions	55	*140*
Compensation for loss of office	144	-
	199	*140*
Directors to whom retirement benefits are accruing under defined benefit schemes	Number 2	*Number* *2*

5. Pension commitments
The company participates in two defined benefit pension schemes, which provide benefits based on final pensionable pay, the "Novar Staff Pension Scheme" and the 'Novar Executive Pension Scheme" ("the schemes")

The schemes are multi-employer schemes and in accordance with paragraphs 8-12 of FRS 17 "Retirement benefits", participating employers of the schemes, including Trend Control Systems Limited, account for their pension costs arising under the schemes as if they were defined contribution schemes, with additional disclosures regarding the surplus or deficit of the scheme and future action to be taken Therefore contributions to the schemes are charged to the profit and loss account as they become payable

In particular, the actuaries of the schemes have confirmed that, in accordance with paragraph 9(b) of the Standard, the company is unable to identify its share of the underlying assets and liabilities of the schemes

5. Pension commitments (continued)

(a) Defined benefit schemes

A full actuarial valuation was carried out as at 31 March 2003 and updated to 31 December 2006 by Hewitt Bacon & Woodrow Limited, a qualified independent actuary using the projected unit method

Actuarial assumptions having the most significant effect on the results of the valuation

	31 December 2006	*31 December 2005*	*31 December 2004*
Inflation rate	3 0%	*2 9%*	*2 9%*
Rate of increase in salaries	4 0%	*3 9%*	*3 9%*
Rate of increase for pensions	3 0%	*2 8%*	*2 7%*
Discount rate for plan liabilities	5 1%	*4 8%*	*5 3%*
Expected return on assets			
By class of asset			
Equities	8 3%	*8 0%*	*7 5%*
Government bonds	4 5%	*4 3%*	*4 5%*
Property	8 3%	*n/a*	*n/a*
Other	5 0%	*4 5%*	*4 8%*
Fair value of assets			
By class of asset	£m	*£m*	*£m*
Equities	426 8	*430 2*	*361 0*
Government bonds	141 1	*87 3*	*74 2*
Property	47 2	-	-
Other	51 9	*8 5*	*7 7*
Total market value of assets	667 0	*526 0*	*442 9*
Present value of plan liabilities	(786 8)	*(763 0)*	*(651 2)*
Deficit in plans	(119 8)	*(237 0)*	*(208 3)*
Related deferred tax asset	35 9	*71 1*	*62 5*
Net pension deficit	(83 9)	*(165 9)*	*(145 8)*

The latest formal actuarial valuation of the schemes was at 31 March 2003 and gave rise to a deficit of £200,200,000

Contributions to the schemes are made by the parent company, Novar Limited, and are not recharged to the company, hence there is no pension charge in the profit and loss account for the year ended 31 December 2006 (2005 £nil) for the defined benefit schemes

(b) Defined contribution scheme

The company also operates a number of defined contribution schemes, the assets of which are held in separately administered funds and for which contributions during the year totalled £18,000 (2005 £36,000) and amounts of £nil (2005 £nil) were outstanding at the year-end

6. Operating profit	2006	*2005*
Operating profit is stated after charging	£000	*£000*
Depreciation on owned assets	451	*399*
Research and development expenditure	2,421	*2,457*
Rentals payable under operating leases		
Plant and machinery	286	*266*
Other	831	*850*
Auditors' remuneration		
Audit fees	48	*27*
Exchange losses (gains)/losses	(12)	*7*

7. Interest receivable and payable	2006	*2005*
Interest receivable and similar income	£000	*£000*
Other interest receivable	800	-
Interest payable and similar charges		
Preference share dividend	3,246	*3,246*
Interest payable on finance leases	3	-
Interest payable to group undertakings	365	-
	3,614	*3,246*

8. Tax on profit on ordinary activities	2006	*2005*
Current tax	£000	*£000*
		As restated
UK corporation tax at 30% (2005 30%)	-	-
Adjustments in respect of previous periods	-	*1,078*
Total current tax	-	*1,078*
Deferred tax		
Other timing differences	(338)	*(4)*
Deferred tax asset previously unrecognised	(1,804)	-
Total deferred tax	(2,142)	*(4)*
Tax (credit)/charge on profit on ordinary activities	(2,142)	*1,074*

The tax assessed for the year is lower (2005 lower) than the standard rate of UK corporation tax rate of 30% (2005 30%) and the differences are explained below

	2006	*2005*
	£000	*£000*
		As restated
Profit on ordinary activities before tax	7,089	*4,675*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 30%)	2,127	*1,402*
Effects of		
Expenses not deductible for tax purposes	1,017	*1,004*
Capital allowances in excess of depreciation	129	*(236)*
Other timing differences	208	*(931)*
Group relief claimed for nil consideration	(3,481)	*(1,239)*
Adjustments in respect of previous periods	-	*1,078*
Total current tax charge for the year	-	*1,078*

9. Tangible fixed assets	Leasehold improvements	Fixtures & fittings, plant & machinery	Total
Cost	£000	£000	£000
At 1 January 2006	441	2,348	2,789
Additions	-	412	412
At 31 December 2006	441	2,760	3,201
Depreciation			
At 1 January 2006	431	1,507	1,938
Charge for the year	7	444	451
At 31 December 2006	438	1,951	2,389
Net book value			
At 31 December 2006	3	809	812
At 31 December 2005	*10*	*841*	*851*

10. Investments

	£000
Cost and net book value at 1 January and 31 December 2006	9,636

Principal undertaking

Undertaking	Country of incorporation	Activities	Preference shares % owned
Friedland Limited	England and Wales	Dormant	100%
8,590,994 preference shares of £1 each			

The preference shares do not entitle the company to participate in the profits or assets of the undertakings and do not qualify as subsidiary undertakings The investments in preference shares in Group undertakings are therefore treated as fixed asset investments The directors believe that the book value of investments is supported by their underlying net assets

11. Stock

	2006 £000	*2005 £000*
Raw materials	574	*590*
Finished goods for sale	909	*916*
	1,483	*1,506*

There were no significant difference between the replacement cost and the values shown for any of the stock categories

12 Debtors

Amounts falling due within one year	2006 £000	*2005 £000 As restated*
Trade debtors	6,295	*7,428*
Amounts owed by group undertakings	1,471	*2,067*
Other debtors	306	*55*
Deferred tax asset (see note 13)	2,146	*4*
Prepayments and accrued income	488	*456*
	10,706	*10,010*

Amounts owed by the group undertakings are unsecured, repayable on demand and bear no interest

13. Deferred tax asset

	2006 £000	*2005 £000 As restated*
At 1 January - as previously reported	-	-
Prior year adjustment - FRS20 (note 1)	4	-
At 1 January - as restated	4	-
Credit to the profit and loss account	2,142	*4*
At 31 December	2,146	*4*
Tax effect of timing differences because of		
Accelerated capital allowances	1,574	-
Other short term timing differences	572	*4*
	2,146	*4*

The directors consider that it is more likely than not that there will be sufficient taxable profits in the future such as to realise the recognised deferred tax asset, and therefore the asset has been recognised in these financial statements

Unrecognised deferred tax asset

The following amounts of deferred tax have not been recognised in the financial statements due to uncertainty over the availability of future taxable profits against which they may be utilised

	2006 £000	*2005 £000*
Accelerated capital allowances and other short term timing differences	-	*1,018*
Capital losses	20	*20*
	20	*1,038*

A number of changes to the UK corporation tax system were enacted in the 2007 Finance Act on 19 July The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

13. Deferred taxation asset (continued)
The effect of the changes enacted in the Finance Act 2007 would have been to reduce the deferred tax asset recognised at 31 December 2006 and decrease the profit for the year by £143,000 This decrease in deferred tax is due to the reduction in the corporation tax rate from 30% to 28% with effect from 1 April 2008

The effect of changes to be enacted in the Finance Act 2007 in respect of industrial buildings allowances would have reduced the deferred tax asset by £89,000 over the course of the next four years

The other changes to be enacted would have had no further effects on the deferred tax asset at 31 December 2006

14. Creditors - amounts falling due within one year	2006	*2005*
	£000	*£000*
Trade creditors	2,352	*2,404*
Amounts owed to group undertakings	863	*606*
Other taxation and social security	674	*461*
Accruals and deferred income	2,071	*1,551*
Accrued preference share dividends	9,738	*6,492*
	15,698	*11,514*

15 Creditors - amounts falling due after more than one year		
Amounts owed to group undertakings	7,249	*7,218*
7 5% cumulative redeemable preference shares of £1 each - 43,275,964	43,276	*43,276*
	50,525	*50,494*

Included in amounts owed to the group undertakings is a loan of £ 6,741,223 from Novar Limited which bears interest at base ra 1% Other amounts owed to group undertakings are unsecured, repayable on demand and bear no interest

16. Loans and other borrowings	2006	*2005*
	£000	*£000*
7 5% cumulative redeemable preference shares of £1 each - 43,275,964	43,276	*43,276*

The 7 5% cumulative redeemable preference shares carry an entitlement to dividend at the rate of 7 5p per share per annum (£3,246,000) ranking both as regards dividends and capital in priority to the ordinary shares but not conferring any right to to participate further in the assets, profits or voting of the company

The company is entitled to redeem all or part of the preference shares in issue at any time after 1 January 2007 at par value together with a sum equal to the cash equivalent of any arrears, deficiency or accrual of the preference dividend calculated up to the redemption date

17. Called up share capital	2006	*2005*
Authorised	£000	*£000*
5,000,000 ordinary shares of £1 each	5,000	*5,000*
	5,000	*5,000*
Called up, allotted and fully paid		
5,000,000 ordinary shares of £1 each	5,000	*5,000*
	5,000	*5,000*

18. Reconciliation of movements in equity shareholders' funds		
Opening equity shareholders' funds - as previously reported	7,918	*4,308*
Prior year adjustment - FRS 20 (note 1)	4	-
Opening equity shareholders' funds - as restated	7,922	*4,308*
Retained profit for the financial year	9,231	*3,601*
Capital contribution in respect of share options	29	*13*
Closing equity shareholders' funds	17,182	*7,922*

19. Reserves

	Share premium account	Capital redemption reserve	Profit and loss account
	£000	£000	£000
At 1 January 2006 - as previously reported	452	150	2,316
Prior year adjustment - FRS 20 (note 1)	-	-	4
At 1 January 2006 - as restated	452	150	2,320
Profit for the financial year	-	-	9,231
Capital contribution in respect of share options	-	-	29
At 31 December 2006	452	150	11,580

20 Operating lease commitments
At 31 December the company had annual commitments under non-cancellable operating leases expiring as follows

	2006	*2005*
Land and buildings	£000	*£000*
expiring in one year	-	*40*
expiring in two to five years	304	*245*
expiring after five years	536	*831*
	840	*1,116*
Other		
expiring in one year	77	*13*
expiring in two to five years	134	*412*
	211	*425*

21. Share-based payments
Share option scheme
The company participates in the Honeywell Stock Incentive Plan for employees Options are granted over shares in Honeywell International Inc Options are granted with a fixed exercise price which is not less than the market price of the shares on that date The options vest over a three year period in the ratio 40% 30% 30% and expire after 10 years Starting with the 2007 options, the vesting period will be extended to four years There are no specific performance criteria attached to the options

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model Expected volatility is based on implied volatilities from traded options on Honeywell stock We used a Monte Carlo simulation model to derive an expected term, using historic data to estimate option activity and post-vest termination behaviour The expected term represents an estimate of the time options are expected to remain outstanding The risk-free rate for periods within the contractual life of the option is based on the US Treasury yield curve in effect at the time of the grant

The fair value of each stock option grant made during 2006 was estimated on the grant date using the Black-Scholes model using the following weighted-average assumptions consistent with the requirements of FRS20

	2006	*2005*
	£000	*£000*
Expected volatility	22 32%	*34 80%*
Expected annual dividend yield	2 15%	*2 40%*
Risk-free rate of return	4 63%	*3 70%*
Expected option term (years)	5 0	*5 0*

Share options outstanding during the year	2006 number	2006 price*	*2005 number*	*2005 price**
Outstanding at 1 January	8,000	£20 67	-	-
Granted	-	-	*8,000*	*£20 67*
Cancelled	-		-	-
Outstanding at 31 December	8,000	£20 67	*8,000*	*£20 67*
Exercisable at 31 December	3,200	£20 67	-	-

*The price is the weighted average exercise price

Notes to the accounts (continued)
for the year ended 31 December 2006

21. Share-based payments (continued)
Restricted stock units
The Honeywell Stock Incentive Plan includes Restricted stock units (RSUs) which entitle the holder to receive one share of common stock for each unit when the units vest RSUs are issued to certain key employees at fair market value at the date of grant as remuneration RSUs typically vest after three years and are payable in common stock of Honeywell International Inc upon vesting The RSUs are valued using a similar methodology to the share option scheme described above

Restricted stock options outstanding during the year	2006 number	2006 price*	*2005 number*	*2005 price**
Outstanding at 1 January	-	-	-	-
Granted	3,800	£20 72	-	-
Outstanding at 31 December	3,800	£20 72	-	-
Exercisable at 31 December	-		-	

*The price is the weighted average exercise price

The total charge for the year relating to share based payments plans was £33,000 (2005 £13,000) After deferred tax credit the c was £23,000 (2005 £9,000)

22. Contingent liabilities
Certain UK Honeywell group companies have entered into a composite accounting agreement whereby each company in the arrangement has provided a guarantee to the bank The UK companies participating in this arrangement had, at the year end, in aggregate a balance at bank amounting to £340,635,000 (2005 £192,679,000) and a bank overdraft of £336,693,000 (2005 £183,518,000)

23. Ultimate parent and controlling party
The immediate parent company is Novar Electrical Holdings Limited

The ultimate parent undertaking and controlling party is Honeywell International Inc , a company incorporated in the USA, which is the smallest and largest group to consolidate these accounts Copies of these accounts are publicly available and can be obtained from Corporate Publications, PO Box 2245, Morristown, New Jersey 07962-2245, USA or from the Internet at www honeywell com