

Trend Control Systems Ltd

Report and accounts 2011



Contents

	<u>Page(s)</u>
Directors' report	1-4
Independent auditors' report	5
Profit and loss account	6
Statement of total recognised gains and losses	6
Balance sheet	7
Notes to the accounts	8-16

Directors' report

for the year ended 31 December 2011

The directors of Trend Control Systems Ltd present their report and audited accounts of the company for the year ended 31 December 2011

Principal activities

The principal activities of the company are the design, manufacture and sale of intelligent products and systems for measurement and control of the building environment including energy consumption. The company is a toll manufacturer for a fellow subsidiary, Honeywell Technologies Sarl.

Business review and future developments

Until 9 April 2010, under definitions set out in FRS 17 "Retirement benefits", the company accounted for the defined benefit schemes in which it participated as multi-employer pension schemes, as the company was unable to identify its share of the underlying assets and liabilities. Accordingly the company accounted for its contributions as if they were made to defined contribution schemes and charged the contributions to the profit and loss accounts as they became payable.

On 9 April 2010, the assets and liabilities of the previous defined benefit pension schemes were transferred to the Honeywell UK Pension Scheme ("HUKPS"), resulting in the company being able to identify its share of the assets and liabilities. The effect of this transfer has been recognised in 2011 as a credit of past service cost of £1,200,000 in the current year profit and loss account.

Turnover

Turnover for 2011 was 9.6% up on 2010 at £58,725,000 (2010 £53,575,000). This increase is mainly driven by strong UK product sales, which is expected to continue in 2012.

Operating results

The operating profit for 2011 was £3,274,000 (2010 £16,115,000 loss).

Strategy

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

- focus on providing excellent customer service, delivery, training and e-business
- productivity and process improvement,
- continued investment into efficient solutions, rejuvenated product portfolio and innovative technology.
- close alignment with Trend partners and key customers to generate Trend specifications and demand creation and
- 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:

- rate of growth of domestic and commercial construction
- fluctuation in demand for residential retrofits and upgrades
- fluctuations in industrial capital spend
- adverse economic conditions in the UK construction industry

In response to the risks the company:

- maintains a close working relationship with Honeywell Technologies Sarl to ensure effective response to market changes
- maintains a high technology offering while widening its product base and expanding into new areas, and
- monitors applicable regulations to ensure products and systems provide high quality solutions for current needs as directed by Honeywell Technologies Sarl.

At 31 December 2011 the fair value of unrealised assets/(liabilities) under hedge contracts was not material.

Directors' report (continued)

for the year ended 31 December 2011

Key performance indicators

Management monitors the business using the following key indicators

<u>Turnover</u>	<u>2011</u>	<u>2010</u>
% change compared with the prior year	9.6%	(6.4%)
The change in net sales in 2011 and 2010 is attributable to the following		
Price	1.4%	1.0%
Volume	8.2%	(3.0%)
Transfer to Limited Risk Distributors	-	(4.4%)
	9.6%	(6.4%)

Turnover increased in 2011 due to strong UK product sales as a result of investment into sales and marketing
This expected to continue in 2012

<u>Cost of products and services sold</u>	<u>2011</u>	<u>2010</u>
Gross margin %	25.3%	23.5%

Costs increased in line with business activity

<u>Operating expenses</u>	<u>2011</u>	<u>2010</u>
% of turnover	8.7%	43.6%

Other operating expenses as a percentage of turnover is in line with last year
The pension contributions of £19.6m was the main reason for the increase in operating expenses in 2010

<u>Staff numbers</u>	<u>2011</u>	<u>2010</u>
% increase year on year	-	(2.7%)

Staff numbers are flat against 2010

Results and dividends

The company's profit for the financial year was £590,000 (2010 £11,416,000 loss) which will be transferred to reserves. The results for the year are shown on page 6

The directors do not recommend the payment of a dividend (2010 £41,800,000)

Directors

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

Jon Cooper
Madeleine Orbell
Allan Richards (resigned 21 February 2011)
Grant Fraser (appointed 1 January 2012)

Directors' indemnities

Pursuant to the company's articles of association, the directors were throughout the year to 31 December 2011 and are at the date of this report entitled to a qualifying indemnity provision as defined in section 236 of the Companies Act 2006

Directors' report (continued)

for the year ended 31 December 2011

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. Financial risks are monitored by the directors.

Interest rate risk

The company borrows in the United Kingdom at a fixed rate 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 debtors. Credit limits are set and monitored closely as well as the past dues. The financial institutions which the company has banking arrangements with are approved by the Honeywell group.

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.

Employment of disabled persons

It is the company's policy that persons who are disabled or become disabled during their employment shall be considered for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities.

Employee involvement

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

Directors' responsibilities statement

The directors are responsible for preparing the Directors' report and the accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have prepared the accounts in accordance with the United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these accounts, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts,
- prepare the accounts 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 accounts 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.

Directors' report (continued)

for the year ended 31 December 2011

Disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

By order of the board



Madeleine Orbell

Director

11 April 2012

Independent auditors' report

to the members of Trend Control Systems Ltd

We have audited the financial statements of Trend Control Systems Ltd for the year ended 31 December 2011 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. 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).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on 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 Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

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. In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

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 at 31 December 2011 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.

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.

Alison Cashmore (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
West London

24 APRIL 2012

Profit and loss account

for the year ended 31 December 2011

	<u>Note</u>	2011 <u>£000</u>	2010 <u>£000</u>
Turnover	3	58,725	53,575
Cost of sales		(43,889)	(40,993)
Gross profit		<u>14,836</u>	<u>12,582</u>
Distribution costs		(6,482)	(5,360)
Administrative expenses		(5,080)	(23,337)
Exceptional item - other operating income	15	1,200	-
Operating profit/(loss)	4	<u>4,474</u>	<u>(16,115)</u>
Interest receivable and similar income	6	1,115	1,166
Interest payable and similar charges	6	(3,356)	(3,283)
Other finance income	15	3,100	-
Profit/(loss) on ordinary activities before taxation		<u>5,333</u>	<u>(18,232)</u>
Tax on profit/(loss) on ordinary activities	7	(4,743)	6,816
Profit/(loss) on ordinary activities after taxation	17	<u>590</u>	<u>(11,416)</u>

All amounts are derived from continuing operations

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

Statement of total recognised gains and losses

for the year ended 31 December 2011

	<u>Note</u>	2011 <u>£000</u>	2010 <u>£000</u>
Loss for the financial year		590	(11,416)
Actuarial loss	15	(20,867)	-
Movement on deferred tax relating to pension liability	8	4,350	-
Movement on current tax relating to pension liability		867	-
Total recognised gains and losses relating to the year		<u>(15,060)</u>	<u>(11,416)</u>

Balance sheet

as at 31 December 2011

	<u>Note</u>	2011 <u>£000</u>	2010 <u>£000</u>
Fixed assets			
Tangible assets	9	1,712	1,626
Investments	10	9,636	9,636
		<u>11,348</u>	<u>11,262</u>
Current assets			
Debtors	11	90,268	92,654
Cash at bank and in hand		-	-
		<u>90,268</u>	<u>92,654</u>
Creditors: amounts falling due within one year	12	<u>(39,275)</u>	<u>(39,565)</u>
Net current assets		<u>50,993</u>	<u>53,089</u>
Total assets less current liabilities		62,341	64,351
Creditors: amounts falling due after more than one year	13	<u>(43,276)</u>	<u>(43,276)</u>
Net assets excluding pension liability		19,065	21,075
Pension liability	15	(13,050)	-
Net assets including pension liability		<u>6,015</u>	<u>21,075</u>
Capital and reserves			
Called up share capital	16	5,000	5,000
Share premium account	17	452	452
Capital redemption reserve	17	150	150
Profit and loss account	17	413	15,473
Total shareholders' funds	17	<u>6,015</u>	<u>21,075</u>

The accounts were approved by the board of directors on 11 April 2012 and were signed on its behalf by



Madeleine Orbell
Director

Notes to the accounts

for the year ended 31 December 2011

1. Accounting policies

These accounts are prepared on a going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The accounting policies which have been applied consistently throughout the year, 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".

During the year amendments to FRS8 "Related Party Disclosures" have been adopted. The amendments to this policy have had no impact on the accounts of the company.

Turnover and revenue recognition

Turnover comprises sales to customers and service revenues net of value added tax. Revenue from product and service sales is recognised on delivery and when acceptance by the customer has occurred. Revenue from long term contracts for custom built control systems is recognised on the percentage of completion basis once the outcome of the contract can be recognised with reasonable certainty. Revenue from service contracts is recognised evenly over the period of the contract. Revenue from the sale of consignment stock is recognised when the title of goods sold passes to the customer. Where, for a particular contract, turnover exceeds amounts invoiced on account, the excess is included in debtors as amounts recoverable on contracts. Where amounts invoiced exceed turnover, the excess is included in payment on account.

Leases

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the period of the lease.

Research and development

All costs associated with research, engineering, product design and product development are written off to the profit and loss account in the year of expenditure.

Foreign currency

Transactions denominated in foreign currency are booked into the accounts using daily or monthly 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 losses resulting from the year's trading are reflected in the operating results for the year. Exchange gains and losses from financing activities are recognised in interest income and expense. Gains or losses on foreign currency hedges obtained from the ultimate parent company are recognised when realised. The fair value of unrealised hedges at the year end is disclosed in the Directors' report if material.

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 substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Notes to the accounts (continued)

for the year ended 31 December 2011

1. Accounting policies (continued)

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 estimated useful life. Cost comprises purchase cost, together with any incidental expenses of acquisition. The annual depreciation rates used for the major assets are:

Land and buildings - leasehold improvements	3% - 5%
Plant and machinery	7% - 33%

Investments

Investments are shown at cost less provision for permanent impairment and comprise of preference shares held

Pensions

The company participates in a defined benefit pension scheme, the assets of which are held separately from those of the company in an independently administered fund. Full actuarial valuations of the company's defined benefit scheme are carried out every three years and the valuations are updated to 31 December each year by qualified independent actuaries. For the purposes of these annual updates, scheme assets are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method. The liabilities are discounted at the current rate of return on a high quality corporate bond of equivalent currency and term. Assets and liabilities are allocated in proportion to the number of defined benefit members for the scheme, as reported by the scheme's trustees to the pension regulator.

The company's share of the post-retirement benefits surplus or deficit of schemes in which it participates is based on its actual shares of assets and obligations to the extent they are identifiable, or otherwise in proportion to its anticipated share of future contributions to the scheme.

This share is included on the company's balance sheet, net of the related amount of deferred tax. Surpluses are only included to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes. The current service cost and any past service costs are included in the profit and loss account within operating expenses and the expected return on the schemes' assets, net of the impact of the unwinding of the discount on scheme liabilities, is included within other finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised, net of the related deferred tax, in the statement of total recognised gains and losses.

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.

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 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 income statement 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.

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.

The company accrues for employers' national insurance contributions payable on share based payments at the applicable contribution rate.

Notes to the accounts (continued)

for the year ended 31 December 2011

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 wholly owned undertakings within the Honeywell group are not required to be disclosed in these accounts, on the grounds that this company is a wholly owned subsidiary of Honeywell International Inc , whose accounts are publicly available

3. Segmental reporting

Turnover, stated net of value added tax, is attributable to the principal activity of the company. The business is carried on in the UK and the turnover derives mainly from that origin

	2011 £000	2010 £000
<i>Analysis of turnover by geographical market</i>		
United Kingdom	47,834	44,371
Rest of Europe	9,552	8,417
Other	1,339	787
	<u>58,725</u>	<u>53,575</u>

4. Operating profit/(loss)

Operating profit/(loss) is stated after (crediting)/charging

Exceptional item - credit of past service cost (note 15)	(1,200)	-
<i>Depreciation and amortisation</i>		
Tangible assets - owned	385	443
<i>Rental charges under operating leases</i>		
Plant and machinery	14	17
Other operating leases	768	742
(Gain)/loss on foreign exchange	18	(28)
<i>Auditors' remuneration</i>		
Audit fees - statutory audit	38	38

5. Employees and directors

Average number of persons employed during the year

	<u>number</u>	<u>number</u>
(including executive directors)		
Factory and engineering	173	177
Selling, servicing and marketing	105	102
General and administration	67	66
	<u>345</u>	<u>345</u>

	<u>£000</u>	<u>£000</u>
<i>Staff costs</i>		
Wages and salaries	13,606	12,294
Social security costs	1,524	1,590
Pension - defined benefit current service cost (note 15)	1,333	532
Pension - defined benefit past service cost credit (note 15)	(1,200)	-
Special pension contributions	-	19,598
Pension costs - defined contributions (note 15)	357	353
Share-based payment charges	-	65
	<u>15,620</u>	<u>34,432</u>

Directors' remuneration

Aggregate emoluments	163	140
Pension - defined benefit	17	15

The number of directors who were

	<u>number</u>	<u>number</u>
Members of a defined benefit plan	2	2

During the year one director (2010 one) exercised options over shares of Honeywell International Inc , the ultimate parent company

Notes to the accounts (continued)

for the year ended 31 December 2011

6. Interest	2011	2010
<i>Interest receivable and similar income</i>	<u>£000</u>	<u>£000</u>
Interest receivable from group undertakings	1,115	1,105
Other interest receivable	-	61
	<u>1,115</u>	<u>1,166</u>
<i>Interest payable and similar charges</i>		
Other interest payable	110	37
Preference share dividend	3,246	3,246
	<u>3,356</u>	<u>3,283</u>
7. Tax on profit/(loss) on ordinary activities		
<i>Current tax</i>		
UK corporation tax on profits/(losses) of the year	867	-
Adjustment in respect of prior years	3,494	(3,783)
Total current tax (charge)/credit	<u>4,361</u>	<u>(3,783)</u>
<i>Deferred tax</i>		
Accelerated capital allowances	(32)	176
Other timing differences	40	63
Tax losses	1,407	(3,179)
Adjustment in respect of prior years	(1,033)	(93)
	<u>382</u>	<u>(3,033)</u>
Tax on profit/(loss) on ordinary activities	<u>4,743</u>	<u>(6,816)</u>
The tax assessed for the year is different to the standard rate of UK corporation tax rate of 26½% (2010 28%) and the differences are explained below		
Profit/(loss) on ordinary activities before tax	<u>5,333</u>	<u>(18,232)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 26½% (2010 28%)	1,413	(5,105)
<i>Effects of</i>		
Expenses not deductible for tax purposes and other permanent differences	885	944
Capital allowances for the year in excess of depreciation	97	(155)
Movements in general provisions and other short term timing differences	(35)	(113)
Group relief	(266)	-
Tax losses	(1,175)	3,296
Pension	(52)	-
Trading loss carried back	-	1,133
Adjustment in respect of prior years	3,494	(3,783)
Total current tax (charge)/credit for the year	<u>4,361</u>	<u>(3,783)</u>

Factors that may affect future tax charges

Deferred tax is provided at 25% on temporary differences reversing in 2012 and 25% on differences reversing after 2012. There are proposals to reduce UK Corporation Tax in stages to 22% by April 2014, and the effect of these proposals either will be to reduce the deferred tax asset/liability is not material.

Notes to the accounts (continued)

for the year ended 31 December 2011

8. Deferred taxation	2011	2010
<i>Tax effect of timing differences because of</i>	<u>£000</u>	<u>£000</u>
Differences between capital allowances and depreciation	841	568
Other short term timing differences	44	145
Tax losses	2,625	3,179
Deferred tax excluding that relating to pension scheme liability (note 11)	3,510	3,892
Deferred tax asset on pension liability (note 15)	4,350	-
Net deferred tax asset	<u>7,860</u>	<u>3,892</u>

Movement in deferred tax excluding that relating to pension liability

At 1 January	3,892	859
(Charge)/credit to the profit and loss account (note 7)	(382)	3,033
At 31 December	<u>3,510</u>	<u>3,892</u>

Amounts included within pension liability relating to deferred tax

At 1 January	-	-
Credit to the statement of total recognised gains and losses	4,350	-
At 31 December	<u>4,350</u>	<u>-</u>

9. Tangible assets

	Land & buildings	Plant & machinery	Construction in progress	Total
<i>Cost</i>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
At 1 January 2011	828	4,482	708	6,018
Additions	97	177	197	471
Disposals	(402)	(987)	-	(1,389)
Reclassifications	60	590	(650)	-
At 31 December 2011	<u>583</u>	<u>4,262</u>	<u>255</u>	<u>5,100</u>
<i>Accumulated depreciation</i>				
At 1 January 2011	584	3,808	-	4,392
Charge for the year	92	293	-	385
Disposals	(402)	(987)	-	(1,389)
At 31 December 2011	<u>274</u>	<u>3,114</u>	<u>-</u>	<u>3,388</u>
<i>Net book value</i>				
At 31 December 2011	<u>309</u>	<u>1,148</u>	<u>255</u>	<u>1,712</u>
At 31 December 2010	<u>244</u>	<u>674</u>	<u>708</u>	<u>1,626</u>

Land & buildings represent leasehold improvements

10. Investments

<i>Cost and net book value</i>	<u>£000</u>
At 1 January 2011 and 31 December 2011	<u>9,636</u>

Preference shares in group undertakings

<u>Name of company</u>	<u>Interest</u>	<u>Principal activities</u>	<u>Country of incorporation</u>
Friedland Ltd	8,590,994 preference shares of £1 each	Dormant	England

The preference shares do not entitle the company to participate in the profits or assets of the undertakings and they 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.

The company is entitled to receive a dividend on its preference shares in Friedland Ltd. As of 31 December 2011 arrears of dividends amounting to £6,440,000 (2010 £5,796,000) had not been paid. The directors have decided not to recognise the preference dividend income until it is formally declared by Friedland Ltd.

Notes to the accounts (continued)

for the year ended 31 December 2011

11. Debtors	2011	2010
	<u>£000</u>	<u>£000</u>
Trade debtors	10,462	9,892
Amounts owed by group undertakings	75,904	75,045
Deferred taxation (note 8)	3,510	3,892
Corporation tax recoverable	138	3,632
Other debtors	29	11
Prepayments and accrued income	225	182
	<u>90,268</u>	<u>92,654</u>

Included in amounts owed by group undertakings are loans of £75,009,000 (2010 £73,894,000), that bear interest at UK base rate plus 1% All other amounts are non interest bearing All amounts are unsecured and repayable on demand

12. Creditors: amounts falling due within one year	2011	2010
	<u>£000</u>	<u>£000</u>
Bank loans and overdrafts	2,853	9,497
Payments received on account	656	696
Trade creditors	1,438	1,616
Amounts owed to group undertakings	6,951	2,987
Taxation and social security	-	184
Accruals and deferred income	1,409	1,863
Accrued preference share dividends	25,968	22,722
	<u>39,275</u>	<u>39,565</u>

Amounts owed to group undertakings are unsecured, repayable on demand and non interest bearing

13. Creditors - amounts falling due after more than one year	2011	2010
	<u>£000</u>	<u>£000</u>
43,275,964 7 5% cumulative redeemable preference shares of £1 each	<u>43,276</u>	<u>43,276</u>

14. Loans and other borrowings	2011	2010
	<u>£000</u>	<u>£000</u>
43,275,964 7 5% cumulative redeemable preference shares of £1 each	<u>43,276</u>	<u>43,276</u>

The cumulative redeemable preference shares carry an entitlement to dividend at the rate of 7 5p per share per annum amounting to £3,246,000 ranking above ordinary shares in respect of dividends and capital, but not conferring voting rights or any right to participate further in the assets and profits 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

15. Pension commitments

Until 9 April 2010, the company participated in four defined benefit schemes, the Novar Pension Scheme, the Novar Executive Pension Scheme, the MK Pension Scheme and the MK Executive Pension Scheme These schemes are closed new entrants

Until 9 April 2010, under definitions set out in FRS 17 "Retirement benefits", the company accounted for the defined benefit schemes in which it participated as multi-employer pension schemes, as the company was unable to identify its share of the underlying assets and liabilities Accordingly the company accounted for its contributions as if they were made to defined contribution schemes and charged the contributions to the profit and loss accounts as they became payable

On 9 April 2010, the assets and liabilities of the previous defined benefit pension schemes were transferred to the Honeywell UK Pension Scheme ("HUKPS"), resulting in the company being able to identify its share of the assets and liabilities The effect of this transfer has been recognised in 2011 as a credit of past service cost of £1,200,000 in the current year profit and loss account

The 2011 disclosures relate to the company's share of the Honeywell UK Pension Scheme The comparative figures relate to the company's share of opening assets and liabilities, although these were not recognised in the prior year accounts

Notes to the accounts (continued)

for the year ended 31 December 2011

15. Pension commitments (continued)

Defined benefit sections

Honeywell UK Pension Scheme (HUKPS)

The Honeywell UK Pension Scheme is a funded defined benefit scheme providing retirement benefits based on salary. It is closed to new entrants. Regular contributions to the scheme by the company in 2012 are estimated to be £12,380,000.

The valuation used for FRS17 disclosures has been based on a full assessment of the liabilities of the Honeywell UK Pension Scheme as at 31 March 2011. The present values of the defined benefit obligation were measured using the projected unit credit method. Following the valuation, the participating members are able to identify their share of the pension assets and liabilities with effect from 1 January 2011.

<i>Main actuarial assumptions</i>	<u>2011</u>	<u>2010</u>
Inflation (RPI)	3.10%	3.40%
Inflation (CPI)	2.20%	2.50%
Rate of general long term increases in salaries	4.10%	4.40%
<i>Rate of increase for pensions</i>		
Pensions subject to limited price indexation to 5%	3.00%	3.20%
Pensions subject to limited price indexation to 2½%	2.10%	2.20%
Discount rate for scheme liabilities	4.80%	5.50%
Expected rate of return	6.10%	6.90%

Basis used to determine the overall long-term rate of return

The company employs a building block approach in determining the long-term rate of return on pension scheme 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 scheme at the year end.

Mortality assumptions

Mortality assumptions are based on standard mortality tables which allow for future mortality improvements. These tables assume that a member who retires in 2011 at age 65 will live on average for a further 22.8 years after retirement if male or a further 24.9 years if female.

	<u>HUKPS</u>	<u>unrecognised HUKPS</u>
	<u>2011</u>	<u>2010</u>
	<u>£000</u>	<u>£000</u>
<i>Fair value by class of asset</i>		
Corporate bonds	13,300	54,700
Government bonds	67,500	6,300
Equities	130,500	129,600
Properties	10,200	28,900
Cash/liquid assets	5,800	11,200
Total fair value of assets	<u>227,300</u>	<u>230,700</u>
<i>Reconciliation of funded status to balance sheet</i>		
Fair value of assets	227,300	230,700
Present value of funded defined benefit obligations	(244,700)	(229,500)
Net pension (liability)/asset	<u>(17,400)</u>	<u>1,200</u>
Related deferred tax asset	4,350	-
Net pension (liability)/asset after tax	<u>(13,050)</u>	<u>1,200</u>
<i>Analysis of profit and loss credit</i>		
Past service cost credit	(1,200)	
Current service cost	1,333	
Interest cost	12,300	
Expected return on pension scheme assets	<u>(15,400)</u>	
Credit recognised in profit and loss	<u>(2,967)</u>	

Notes to the accounts (continued)

for the year ended 31 December 2011

15. Pension commitments (continued)	2011
<i>Changes in present value of defined benefit obligation</i>	<u>£000</u>
At 1 January	-
Recognised upon adoption of full defined benefit accounting	229,500
Current service cost	1,333
Interest cost	12,300
Contributions by participants	100
Actuarial losses on liabilities	10,167
Net benefits paid out	(8,700)
At 31 December	<u>244,700</u>

Changes in fair value of scheme assets

At 1st January	-
Recognised upon adoption of full defined benefit accounting	230,700
Expected return on assets	15,400
Actuarial losses on assets	(10,700)
Contributions by the employer	500
Contributions by participants	100
Net benefits paid out	(8,700)
At 31 December	<u>227,300</u>

Actual return on assets

Expected return on assets	15,400
Actuarial losses on assets	(10,700)
Actual return on assets	<u>4,700</u>

Amounts recognised in the statement of total recognised gains and losses (STRGL)

Actuarial loss recognised in the STRGL	<u>(20,867)</u>
Cumulative amount of losses recognised in STRGL	<u>(20,867)</u>

History of asset values, DBO and liability

Fair value of assets	227,300
Defined benefit obligation (DBO)	(244,700)
Pension liability	<u>(17,400)</u>

History of experience gains and losses

Experience loss on assets	(10,700)
Experience gain on liabilities	<u>18,600</u>

Defined contribution sections

Contributions to defined contribution plans during the year were £357,000 (2010 £353,000) Contributions accrued at year end amounted to £nil (2010 £nil)

16. Called up share capital	2011	2010
<i>Authorised, called up, allotted and fully paid</i>	<u>£000</u>	<u>£000</u>
5,000,000 ordinary shares of £1 each	<u>5,000</u>	<u>5,000</u>

Notes to the accounts (continued)

for the year ended 31 December 2011

17. Reconciliation of shareholders' funds and movements on reserves

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	2011 Total £000	2010 Total £000
At 1 January	5,000	452	150	15,473	21,075	74,240
Profit/(loss) for the financial year	-	-	-	590	590	(11,416)
Capital contribution in respect of share options	-	-	-	-	-	51
Actuarial loss on the pension plan	-	-	-	(20,867)	(20,867)	-
Movement on deferred tax relating to pension liability	-	-	-	4,350	4,350	-
Movement on current tax relating to pension liability	-	-	-	867	867	-
Dividend paid - £8 36 per £1 ordinary share	-	-	-	-	-	(41,800)
At 31 December	5,000	452	150	413	6,015	21,075

18. Operating lease commitments

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

	2011 £000	2010 £000
<i>Land and buildings</i> expiring in two to five years	742	742
<i>Other leases</i> expiring in two to five years	14	14

19. Contingent liabilities

All UK Honeywell group companies have entered into a composite accounting agreement whereby each company has provided a guarantee to the bank. This agreement permits the set-off of balances, on a group basis, for interest purposes. The maximum liability arising from this arrangement, on a group basis, is the total overdraft balances held by group companies amounting to £568,591,000 (2010 £470,428,000). Positive cash balances held in the group exceeded the overdraft balances in 2011 and 2010.

20. Ultimate parent undertakings

The immediate parent undertaking is Novar Electrical Holdings Ltd

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