

Novar ED&S Limited

Report and accounts for the year ended 31 December 2006

Company registration number 189291



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Directors' report

for the year ended 31 December 2006

The directors of Novar ED&S Limited present their report and audited financial statements of the company for the year ended 31 December 2006

Business review and principal activities

Novar ED&S Limited is a leading manufacturer and supplier of electrical and electronic products. These products include wiring accessories, circuit protection devices, cable management and datacoms solutions, door entry systems and security systems. Products are suitable for domestic, commercial and industrial applications and are widely available through an extensive wholesale network of distributors, and to consumers through retail outlets. Products are distributed throughout Europe, the Middle East and the Far East.

Turnover

Turnover for 2006 was 4.9% down on 2005 at £136m. The main factors affecting the business results for the year and the future outlook for the company are as follows:

Business transfers

Between 2005 and 2006 some business activities, including the emergency lighting business, were transferred to other UK group companies. The value of the business was approximately £4.4m per annum.

Like-for-like turnover, excluding the two items above, was therefore in line with prior year at £140m. Underlying turnover was up slightly, with a strong performance from the Middle East and a mixed performance across Europe. Similar trading conditions are expected to continue throughout 2007.

Operating result

The operating result for 2006 incorporates pension costs of £3.1m (2005 £2.8m). Pension costs are expected to continue at the 2006 level for the foreseeable future.

Strategy

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

- industry leadership in considering sustainable development in all of our activities
- focus on demand generation with key decision makers including specifiers and contractors
- ensuring that our customers receive the highest levels of customer service
- investment in new product development to ensure that the business continues to supply a broad range of innovative products and solutions
- high levels of product quality achieved through investment in design, improved materials and process excellence
- investment in key brands and increased awareness of brand values

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 commercial construction
- fluctuations in Government investment in schools, hospitals and other public buildings
- UK interest rates
- downturn in the UK retail market
- exchange rate fluctuations

In response to the risks the company:

- continually reviews opportunities to move into adjacent product segments
- maintains a multi-channel approach to the market
- ensures effective pricing and continued recognition of brand and quality to maintain market position
- invests in new and innovative solutions for its customers to maintain its leadership position
- ensures a flexible approach is taken to the business cost structure
- hedges exchange rate risk for key foreign currencies

Directors' report (continued)

for the year ended 31 December 2006

Key performance indicators

Management monitors the business using the following key indicators

		<u>2006</u>	<u>2005</u>
<u>Turnover</u>	% increase/(decrease) year on year	(4.9%)	(2.4%)

The reported reduction in turnover is due to the transfer of some business activities to other group companies, and the reclassification of settlement discounts

<u>Gross profit</u>	% of turnover	43.7%	42.3%
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Gross profit measures the operational performance of the businesses. The improvement in 2006 reflects the exit of some lower margin business and a focus upon process efficiency, partly offset by a small net decrease in selling prices

<u>Staff numbers</u>	% increase/(decrease) year on year	(4.9%)	(10.5%)
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Staff numbers have decreased inline with the company's activities

<u>Working capital</u>	% of turnover	17.3%	20.2%
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Working capital is based on trade debtors, creditors and inventory

Excludes intercompany balances, deferred tax, and other debtors and creditors. The decrease in 2006 over 2005 is due to reduction of working capital in the year to £23.5m (2005 £28.9m)

Results and dividends

The company's profit for the financial year was £13,198,000 (2005 restated loss £15,204,000). The directors do not recommend payment of a dividend (2005 £nil) and the profit for the year has been transferred to reserves accordingly. The results for the year are shown on page 5.

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 £4,020,000 (2005 £4,062,000).

Directors

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

M A Southgate	E Malcherek
C J White	S Molzahn
S P Box	A Stearns (resigned 24 May 2007)
D A Chorlton	A Richards (appointed 1 March 2007)
M A Hill	
D Cohen	

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. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

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 is sterling based and has a policy of minimising foreign exchange exposures. The principal foreign currencies used are US dollars and Euro. Forward contracts in these and other currencies are utilised in order to reduce the risk of adverse exchange movements.

Credit risk

The company's credit risk is primarily attributable to its trade receivables. The company's client base principally comprises of large multinational organisations. As a result, the company has good visibility as to the standing and reputation of its clients. The company has also implemented policies that require appropriate credit checks on potential customers before sales are made.

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.

Directors' report (continued)

for the year ended 31 December 2006

Charitable donations

The company made charitable donations of £nil during the year (2005 £16,000)

Employment of disabled persons

The group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status and offers appropriate training and career development for disabled staff. If members of staff become disabled the group continues employment wherever possible and arranges retraining.

Employee involvement

The company keeps employees fully informed of company affairs and encourages their active participation. Briefing meetings are held for each division to give information on company matters and provide an opportunity for discussion. The company issues a company newsletter bi-annually.

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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.

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.

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



C White

Director

11 September 2007

Independent auditors' report

to the members of Novar ED&S Limited

We have audited the financial statements of Novar ED&S Limited for the year ended 31 December 2006 which comprise the profit and loss account, the note of historical cost profits and losses, 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) are 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 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 other 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

Chartered Accountants and Registered Auditors

Uxbridge

25 September 2007

Profit and loss account

for the year ended 31 December 2006

	Notes	2006 £000	2005 £000 as restated
Turnover	3	135,927	140,381
Cost of sales		(76,465)	(79,986)
Gross profit		59,462	60,395
Distribution costs		(9,015)	(8,702)
Exceptional administrative expenses	5	(1,029)	(28,984)
Other administrative expenses		(36,927)	(32,987)
Total administrative expenses		(37,956)	(61,971)
Operating profit/(loss)	5	12,491	(10,278)
Income from participating interests		-	106
Interest receivable and similar income	6	33	30
Interest payable and similar charges	7	(3,033)	(3,113)
Other finance income/(expense)	22	2,200	(1,100)
Profit/(loss) on ordinary activities before taxation		11,691	(14,355)
Taxation credit/(charge) on profit/(loss) on ordinary activities	8	1,507	(849)
Profit/(loss) for the financial year	20, 21	13,198	(15,204)

Note of historical cost profits and losses

for the year ended 31 December 2006

	2006 £000	2005 £000 as restated
Profit/(loss) on ordinary activities before taxation	11,691	(14,355)
Difference in the depreciation charge for the year calculated on the historical cost and revalued amounts	(85)	(85)
Historical cost profit/(loss) on ordinary activities before taxation	11,606	(14,440)
Historical cost profit/(loss) after taxation	13,113	(15,289)

Statement of total recognised gains and losses

for the year ended 31 December 2006

	Notes	2006 £000	2005 £000 as restated
Loss for the financial year		13,198	(15,204)
Actuarial gain/(loss)	22	7,400	(600)
Movement on deferred tax relating to pension deficit	8	(2,220)	180
Total recognised gains and losses relating to the year		18,378	(15,624)
Prior year adjustment - FRS 20	1	20	
		18,398	

The notes on pages 7 to 17 form part of these financial statements

Balance sheet

as at 31 December 2006

	Notes	2006 £000	2005 £000 <i>as restated</i>
Fixed assets			
Intangible assets	9	11,720	12,462
Tangible assets	10	20,130	21,150
Investments	11	20,903	20,903
		<u>52,753</u>	<u>54,515</u>
Current assets			
Stock	12	13,564	11,986
Debtors (including £13,117,000 (2005 £nil) due after more than one year)	13	43,662	34,164
Cash at bank and in hand		3,803	8,504
		<u>61,029</u>	<u>54,654</u>
Creditors: amounts falling due within one year	15	(60,990)	(34,039)
Net current (liabilities)/assets		<u>39</u>	<u>20,615</u>
Total assets less current liabilities		52,792	75,130
Creditors amounts falling due after more than one year	16	(40,441)	(44,719)
Provisions for liabilities and charges	18	(2,864)	(2,163)
Net assets excluding pension liability		<u>9,487</u>	<u>28,248</u>
Pension deficit	22	(9,730)	(47,040)
Net liabilities including pension liability		<u>(243)</u>	<u>(18,792)</u>
Capital and reserves			
Called up share capital	19	1,101	1,101
Share premium account	20	19,800	19,800
Profit and loss account	20	(21,858)	(40,407)
Revaluation reserve	20	714	714
Total equity shareholders' deficit	21	<u>(243)</u>	<u>(18,792)</u>

The financial statements on pages 4 to 17 were approved by the board of directors on 11 September 2007 and were signed on its behalf by



C White
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, as modified by the revaluation of certain tangible fixed assets, 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 the adoption of new accounting policies as 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 administration expenses by £187,000 (2005 £68,000) and increase deferred taxation credit by £53,000 (2005 £21,000) decreasing the profit for the year by £134,000 (2005 £47,000 increasing loss). The effect on net assets at 1 January 2006 was to increase creditors in respect of other tax and social security by £1,000 and increase the deferred tax asset by £21,000, a net increase in assets of £20,000.

In addition, in 2005 settlement discounts were shown within cost of sales. The directors consider that it is more appropriate to classify these discounts as a deduction from turnover, hence the comparatives have been restated accordingly, which has resulted in a reduction in turnover for the year ended 31 December 2005 of £2,425,000 with a corresponding decrease in cost of sales. There was no effect on either net assets at 31 December 2005 or the profit for the year then ended.

Profit and loss account statement presentation

The presentation of the profit and loss account has changed from Format 2 to Format 1 as defined by the Companies Act 1985 as the directors believe the current presentation is more appropriate to the company's circumstances.

In addition, the directors have considered the treatment of settlement discounts and have concluded that these are most appropriately shown as a deduction from turnover in accordance with FRS 5 Application Note G. In 2005 such discounts were included within cost of sales and hence the comparative figures have been restated to ensure that both years are presented on a consistent basis. The effect of the change was to decrease turnover and cost of sales for the year ended 31 December 2005 by £2,425,000. There was no impact on the profit for the year then ended or net assets at 1 January 2006.

Going concern

The financial statements have been prepared on a going concern basis and the ultimate parent company, Honeywell International Inc, has indicated it will provide financial support to the company for at least one year after these financial statements are signed.

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 and are publicly available.

Intangible fixed assets

Goodwill arises where the fair value of consideration for an acquired business differs from the fair value of net assets acquired. The goodwill arising is capitalised and depreciated over its anticipated useful life of 20 years. Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may be impaired.

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 fixed assets are stated at historic purchase cost with the exception of freehold properties, which are stated at valuation less accumulated depreciation. These assets are depreciated using the straight line method and subject to an impairment review.

No depreciation is provided on freehold land. Long leasehold buildings are depreciated over 50 years.

Short leasehold properties are depreciated over the life of the lease.

For all other assets, depreciation is provided to write off the cost or valuation of those assets over their expected useful economic lives at the following rates per annum:

Notes to the accounts (continued)

for the year ended 31 December 2006

1. Accounting policies (continued)

Tangible fixed assets and depreciation (continued)

Freehold buildings and long leasehold buildings	2 - 3%
Plant and machinery	10 - 33%
Fixtures and fittings	10 - 14%
Motor vehicles	20 - 33%

Following the implementation of FRS 15 "Tangible fixed assets" the company has adopted a policy of not revaluing fixed assets. The directors have taken advantage of the transitional arrangements of FRS 15 to freeze the revaluation at 1 January 2000 and not perform any further revaluations.

Leases

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

Stock and work in progress

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value. The cost of raw materials, consumables and goods for resale represents purchase cost on a first-in, first-out basis. The cost of work in progress and finished goods is the cost of direct materials and labour plus attributable overheads based on a normal level of activity. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Provisions for obsolete and slow moving stocks are made where appropriate.

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.

Turnover and revenue recognition

Turnover comprises sales to customers and service revenues net of value added tax. Revenue from sales of products is recognised on delivery to the customer. Revenue on service work is recognised on the completion of the repair or overhaul.

Pensions

Defined benefit schemes

The company operates 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.

Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the schemes' assets and the increase during the year in the present value of the schemes' liabilities arising from the passage of time are included in other finance income or expense. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

Defined contribution schemes

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge disclosed in note 22 represents contributions payable by the company to the fund.

Notes to the accounts (continued)

for the year ended 31 December 2006

1. Accounting policies (continued)

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 currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange gains or losses resulting from the year's trading are reflected in the operating result for the year.

Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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 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.

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

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. Turnover

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.

Turnover by geographical market

	2006	2005
	£000	£000
United Kingdom	107,860	111,700
Rest of Europe	12,875	17,875
North and South America	134	374
Rest of world	15,058	12,857
	<u>135,927</u>	<u>142,806</u>

4. Employees and directors

Average number of persons employed during the year

	2006	2005
	Number	Number
Administration, selling and distribution	414	434
Manufacturing	461	486
	<u>875</u>	<u>920</u>

Notes to the accounts (continued)

for the year ended 31 December 2006

4. Employees and directors (continued)

<i>Staff costs</i>	<u>£000</u>	<u>£000</u> <i>as restated</i>
Wages and salaries	24,849	32,319
Social security costs	1,524	1,354
Other pension costs (note 22)	3,160	1,793
Share based payments	187	68
	<u>29,720</u>	<u>35,534</u>
<i>Directors' remuneration</i>		
Aggregate emoluments	<u>757</u>	<u>639</u>

Five directors (2005 all) were members of defined benefit pension schemes. During the year no directors exercised share options (2005 2)

<i>Highest paid director</i>	<u>£000</u>	<u>£000</u> <i>as restated</i>
Emoluments of the highest paid director were		
Aggregate emoluments	<u>229</u>	<u>151</u>

At the end of the year the highest paid director's accrued pension was £79,000 (2005 £69,000)

5. Operating profit/(loss)

<i>Operating profit/(loss) is stated after charging/(crediting)</i>	<u>2006</u> <u>£000</u>	<u>2005</u> <u>£000</u> <i>as restated</i>
Amortisation of intangible fixed assets (note 9)	742	752
Depreciation of tangible fixed assets - owned (note 10)	3,911	3,920
Loss on disposal of tangible fixed assets	57	46
<i>Rental charges under operating leases</i>		
Plant and machinery	392	831
Other operating leases	560	1,371
Research and development	4,020	4,062
<i>Share-based payment expense (note 23)</i>		
Stock options	84	39
Restricted stock units	103	29
Foreign currency gains	(129)	(693)
Auditors' remuneration - audit services	<u>70</u>	<u>54</u>

Exceptional administrative expenses of £1,029,000 (2005 £28,984,00) comprise severance payments made during the year as a result of continued restructuring of the business. The corresponding amount for 2005 relates to changes made to estimation methods following the acquisition of the Novar group by Honeywell International Inc in order to align accounting estimates with those used by the Honeywell group.

6. Interest receivable and similar income

Interest on bank deposits	<u>33</u>	<u>30</u>
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7 Interest payable and similar charges

Interest on bank overdraft	-	80
Preference share dividend 7 5p (2005 7 5p) per £1 share	<u>3,033</u>	<u>3,033</u>
	<u>3,033</u>	<u>3,113</u>

8. Taxation on profit/(loss) on ordinary activities

<i>Current tax</i>		
UK corporation tax at 30% (2005 30%)	-	-
Adjustment in respect of prior years	<u>544</u>	-
Total current tax	<u>544</u>	-
<i>Deferred taxation</i>		<i>as restated</i>
Pension cost relief in excess of pension cost charge	13,770	870
Accelerated capital allowances	(3,775)	-
Prior year losses now recognised	(2,485)	-
Origination and reversal of timing differences	<u>(9,561)</u>	<u>(21)</u>
Total deferred tax (note 14)	<u>(2,051)</u>	<u>849</u>
Total tax (credit)/charge on profit/(loss) on ordinary activities	<u>(1,507)</u>	<u>849</u>

Notes to the accounts (continued)

for the year ended 31 December 2006

8. Taxation on profit/(loss) on ordinary activities (continued)

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

	2006 £000	2005 £000 <i>as restated</i>
Profit/(loss) on ordinary activities before tax	11,691	(14,355)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 30%)	3,507	(4,306)
<i>Effects of</i>		
Expenses not deductible for tax purposes and other permanent differences	1,433	1,084
Capital allowances in excess of depreciation	(1,737)	(1,733)
Other timing differences	9,561	21
Group relief surrendered for nil consideration	1,006	4,064
Adjustment in respect of prior years	544	-
Pension contribution relief in excess of net pension cost charge	(13,770)	870
Total current tax charge for the year	544	-

A number of changes to the UK corporation tax system were announced in the March 2007 Budget Statement and are expected to be enacted in the 2007 Finance Acts. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the changes to be enacted in the Finance Act 2007 would be to reduce the deferred tax asset recognised at 31 December 2006 by £1,335,000. This decrease in deferred tax would decrease profit for the year by £81,000 and decrease other recognised gains by £1,254,000. 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.

In addition, the reduction to industrial buildings allowances will result in a further decrease in the deferred tax asset of £1,120,000, decreasing the profit for the year accordingly.

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

9. Intangible fixed assets

	Goodwill £000
<i>Cost</i>	
At 1 January 2006 and 31 December 2006	14,850
<i>Amortisation</i>	
At 1 January 2006	2,388
Charge for the year	742
At 31 December 2006	3,130
<i>Net book value</i>	
At 31 December 2006	11,720
At 31 December 2005	12,462

10. Tangible fixed assets

	Freehold land and buildings £000	Long leasehold buildings £000	Fixtures and fittings £000	Motor vehicles, plant and machinery £000	Total £000
<i>Cost</i>					
At 1 January 2006	11,532	1,326	354	8,342	21,554
Additions	28	222	1,800	841	2,891
At 31 December 2006	11,560	1,548	2,154	9,183	24,445
<i>Depreciation</i>					
At 1 January 2006	34	33	9	328	404
Charge for the year	349	361	959	2,242	3,911
At 31 December 2006	383	394	968	2,570	4,315
<i>Net book value</i>					
At 31 December 2006	11,177	1,154	1,186	6,613	20,130
At 31 December 2005	11,498	1,293	345	8,014	21,150

Notes to the accounts (continued)

for the year ended 31 December 2006

10. Tangible fixed assets (continued)

Freehold land and buildings were valued as at 31 December 1997 by Healey & Baker, International Surveyors & Valuers, on an existing use basis. The transitional rules of FRS 15 have been followed and the valuation of previously revalued freehold land and buildings have accordingly not been updated.

If the freehold land and buildings had not been revalued they would have been included on a historical cost basis at the following amounts

	2006	2005
	£000	£000
Net book amount	8,690	9,063
Depreciation in year	373	373

Freehold land and buildings includes freehold land not subject to depreciation amounting to £3,714,000 (2005 £3,714,000)

11. Fixed asset investments

Cost and net book value

At 1 January 2006 and 31 December 2006

2006

£000

20,903

Investments in subsidiary undertakings

Name	Country of incorporation	Shares held	Proportion of issued share capital held
MK Electric (India) Ltd	India	869,100 ordinary shares of Rs 10 each	87%
Friedland Limited	England and Wales	200,000 ordinary shares of £1 each	100%
Ackermann Limited	England and Wales	50,000 ordinary shares of £1 each	100%

The principal activity of MK Electric (India) Limited is the manufacture and sale of wiring devices. Friedland Limited and Ackermann Limited are dormant.

Investments in participating interests

Name	Country of incorporation	Shares held	Proportion of issued share capital held
Hawa-MK Electrical Accessories Limited	Saudi Arabia	2,440 ordinary shares of SR 1,000 each	40%

The principal activity of Hawa-MK Electrical Accessories Limited is the supply of electric wiring devices.

12. Stock

	2006	2005
	£000	£000
Raw materials and consumables	3,027	3,026
Work in progress	2,147	2,378
Finished goods and goods for resale	8,390	6,582
	13,564	11,986

13. Debtors

Amounts falling due within one year

	2006	2005
	£000	£000
Trade debtors	19,657	23,588
Amounts owed by group undertakings	7,305	9,304
Other debtors	201	258
Corporation tax recoverable	-	544
Deferred tax asset (note 14)	2,725	21
Prepayments and accrued income	657	449
	30,545	34,164

Amounts falling due after more than one year

Deferred tax asset (note 14)	13,117	-
	43,662	34,164

Amounts owed by group undertakings are interest-free, unsecured and repayable on demand.

Notes to the accounts (continued)

for the year ended 31 December 2006

14. Deferred tax asset	2006 £000	2005 £000 <i>as restated</i>
At 1 January	21	-
Credit to the profit and loss account	15,821	21
At 31 December	15,842	21

Tax effect of timing differences because of		
Differences between capital allowances and depreciation	3,775	-
Other timing differences transferred in	9,582	21
Tax losses	2,485	-
Included in debtors (note 13)	15,842	21

Amounts included within pension deficit relating to deferred tax

At 1 January	20,160	20,850
Charge to the profit and loss account	(13,770)	(870)
Charge to the statement of total recognised gains and losses	(2,220)	180
At 31 December (note 22)	4,170	20,160

The deferred tax asset of £4,170,000 (2005 £20,160,000) has been deducted in arriving at the net pension deficit on the balance sheet

The following deferred tax assets are unprovided	2006 £000	2005 £000
Capital allowances in excess of depreciation	-	(954)
Short term timing differences	-	115
Capital losses	2,989	2,989
	2,989	2,150

In 2006 the deferred tax asset has been recognised (with the exception of the capital losses element) as in the director opinion the company will make sufficient profits in future years to enable the recovery of this asset

15. Creditors: amounts falling due within one year	2006 £000	2005 £000 <i>as restated</i>
Trade creditors	10,208	6,667
Amounts owed to group undertakings	33,597	8,800
Other tax and social security	2,928	1,334
Accrued preference share dividends in respect of 2005 and 2006	6,066	3,033
Accruals	7,641	8,880
Other creditors	550	5,325
	60,990	34,039

Amounts owed to group undertakings are interest-free, unsecured and repayable on demand

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

Amounts owed to Group undertakings	-	4,278
7 5% cumulative redeemable preference shares of £1 each (note 17)	40,441	40,441
	40,441	44,719

17. Loans and other borrowings

7 5% cumulative redeemable preference shares of £1 each	40,441	40,441
In more than five years	40,441	40,441

Preference share capital

Authorised

45,000,000 redeemable cumulative preference shares of £1 each	45,000	45,000
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Called up, allotted and fully paid

40,440,536 redeemable cumulative preference shares of £1 each	40,441	40,441
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The holders of the redeemable cumulative preference shares have the right to be paid a fixed cumulative preference dividend at the rate of 7 5% per annum payable annually in arrears

The company shall, subject to the requirements of the Companies Act, be entitled to redeem all or part of the preference shares in issue at any time after 1 January 2005 and the amount payable shall be £1 per share, together with any arrears of dividends

Notes to the accounts (continued)

for the year ended 31 December 2006

18. Provisions for liabilities and charges

	Litigation provision £000	Warranty provision £000	Total £000
At 1 January 2006	-	2,163	2,163
Utilised during the year	-	257	257
Charged to profit and loss account	660	(216)	444
At 31 December 2006	660	2,204	2,864

Litigation

A number of claims have arisen out of the termination of a joint venture between the company and its co-venturer approximately twelve years ago. The matters are subject to continued legal proceedings in Saudi Arabia and at present it is unclear when the claims will be resolved. A provision of £660,000 has been made in respect of debit notes raised against the company by the joint venture, being the directors' best estimate of the eventual settlement.

Warranty

The warranty provision relates to expected costs to be incurred under product warranty obligations. The amount of the provision is based on historical experience of warranty claims from customers. It is expected to be utilised over a period between 2 and 10 years depending on the product group.

19. Share capital

	2006 £000	2005 £000
<i>Authorised</i>		
1,500,000 Ordinary shares of £1 each	1,500	1,500
<i>Called up, allotted and fully paid</i>		
1,100,605 Ordinary shares of £1 each	1,101	1,101

20. Reserves

	Revaluation reserve £000	Share premium £000	Profit & loss account £000
At 1 January 2006 as previously stated	714	19,800	(40,427)
Prior year adjustment - FRS20	-	-	20
At 1 January 2006 as restated	714	19,800	(40,407)
Profit for the financial year	-	-	13,198
Capital contribution in respect of share options	-	-	171
Actuarial gain on pension scheme	-	-	7,400
Movement on deferred tax relating to pension scheme	-	-	(2,220)
At 31 December 2006	714	19,800	(21,858)
Pension deficit (note 22)			9,730
Profit and loss reserve excluding pension deficit	714	19,800	(12,128)

21. Reconciliation of movements in equity shareholders' deficit

	2006 £000	2005 £000 <i>as restated</i>
Opening equity shareholders' deficit as previously stated	(18,812)	(3,235)
Prior year adjustment - FRS20	20	-
Opening equity shareholders' deficit as restated	(18,792)	(3,235)
Profit/(loss) for the financial year	13,198	(15,204)
Capital contribution in respect of share options	171	67
Actuarial gain/(loss) on pension scheme (note 22)	7,400	(600)
Movement on deferred tax relating to pension scheme (note 14)	(2,220)	180
Closing equity shareholders' deficit	(243)	(18,792)

22. Pension commitments

The company provides pension arrangements to its employees through two defined benefit schemes, the MK Pension Fund ("MKPF") and the MK Executive Pension Fund ("MKEPF") (together, "the schemes"), for which the related costs are assessed in accordance with the advice of professionally qualified independent actuaries. Both schemes are closed to new entrants, hence under the projected unit method the current service cost of the schemes will increase in future periods as a proportion of pensionable salary as the members of the scheme approach retirement.

A full actuarial valuation was carried out as at 31 March 2003 by Hewitt Bacon & Woodrow Limited, a qualified independent actuary. The valuation has been updated by the actuaries based on the most recent actuarial valuations to assess the liabilities of the schemes at 31 December 2006.

Notes to the accounts (continued)

for the year ended 31 December 2006

22. Pension commitments (continued)

The shortfall in the schemes is being addressed by way of company contributions of £10.9m in January each year from 2007 to 2012 inclusive and £2.7m in January each year from 2013 to 2016 inclusive

<i>Actuarial assumptions having the most significant effect on the results of the valuation</i>	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%
Property	8.3%	n/a	n/a
Government bonds	4.5%	4.3%	4.5%
Other	5.0%	4.5%	4.8%

Fair value of assets by class of asset

	£000	£000	£000
Equities	123,300	101,580	86,882
Property	13,600	n/a	n/a
Government bonds	40,700	20,613	17,865
Other	15,000	2,007	1,853
Total market value of assets	192,600	124,200	106,600
Present value of plan liabilities	(206,500)	(191,400)	(176,100)
Deficit in schemes	(13,900)	(67,200)	(69,500)
Related deferred tax asset	4,170	20,160	20,850
Net pension deficit	(9,730)	(47,040)	(48,650)

Amounts charged to operating profit

	2006 £000	2005 £000
Current service cost	3,100	2,800

Amounts credited/(charged) to other finance expense

Expected return on pension scheme assets	11,300	7,400
Interest on pension scheme liabilities	(9,100)	(8,500)
Net credit/(charge) to other finance income/(expense)	2,200	(1,100)

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

Actual return less expected return on pension scheme assets	17,600	10,200
Experience gains and losses arising on scheme liabilities	(800)	21,300
Changes in assumptions underlying the value of the scheme liabilities	(9,400)	(32,100)
Actuarial gain/(loss) recognised in STRGL	7,400	(600)

History of experience gains and losses

<i>Difference between the expected and actual return on scheme assets</i>	2006 £000	2005 £000	2004 £000	2003 £000
Amount	17,600	10,200	2,100	9,000
as % of plan's assets at the year end	9.1%	8.2%	2.0%	9.5%
<i>Experience gains and losses on scheme liabilities</i>				
Amount	(800)	21,300	-	100
as % of the plan's liabilities at the year end	0.4%	11.1%	-	0.1%
<i>Total amount recognised in the STRGL</i>				
Amount	7,400	(600)	(2,300)	(8,200)
as % of the plan's liabilities at the year end	3.6%	0.3%	1.3%	5.0%

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 £60,423.59 (2005 £26,976.48). There were no outstanding or prepaid amounts at 31 December 2006 (2005 £nil).

Notes to the accounts (continued)

for the year ended 31 December 2006

22. Pension commitments (continued)

	2006	2005
	£000	£000
Analysis of the movement in deficit in the scheme during the year		
Deficit in scheme at beginning of year	(67,200)	(69,500)
Movement in year		
Current service cost	(3,100)	(2,800)
Contributions	46,800	6,800
Other finance income/(expense)	2,200	(1,100)
Actuarial gain/(loss)	7,400	(600)
Deficit in scheme at end of year	(13,900)	(67,200)

23. 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. The Monte Carlo simulation model was used 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	2006	2005	2005
	number	price*	number	price*
Outstanding at 1 January	21,500	£20.34	-	-
Granted	12,500	£23.63	21,500	£20.34
Cancelled	(1,500)	£20.67	-	-
Outstanding at 31 December	32,500	£21.59	21,500	£20.34
Exercisable at 31 December	8,000	£20.31	-	-

*The price is the weighted average exercise price

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	2006	2005	2005
	number	price*	number	price*
Outstanding at 1 January	12,000	£20.67	-	-
Granted	11,850	£20.72	12,000	£20.67
Outstanding at 31 December	23,850	£20.69	12,000	£20.67
Exercisable at 31 December	-	-	-	-

*The price is the weighted average exercise price

The charge for the year relating to share based payment plans was £171,000 (2005 restated £67,000), the charge for employers national insurance contributions in respect of share based payments was £16,000 (2005 restated £1,000). After deferred tax the total charge was £134,000 (2005 restated £47,000).

Notes to the accounts (continued)

for the year ended 31 December 2006

24. Operating lease commitments

Annual commitments under non-cancellable operating leases

Leases which expire

- Within one year
- Within two to five years
- After five years

	Land and buildings		Other	
	2006	2005	2006	2005
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
- Within one year	-	49	136	3
- Within two to five years	-	-	256	650
- After five years	560	533	-	-
	<u>560</u>	<u>582</u>	<u>392</u>	<u>653</u>

25. Contingent liabilities and other commitments

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).

The company has entered into a number of forward contracts for foreign currencies, principally to buy/sell US Dollar and Euro. At 31 December 2006 the value of contracts outstanding was £6,300,000 (2005 £5,000,000). At 31 December 2006 there was an unrealised loss of £10,872 (2005 gain £137,421).

26. Ultimate parent undertaking

The immediate parent company is Novar Electrical Holdings Limited. The ultimate parent 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.