

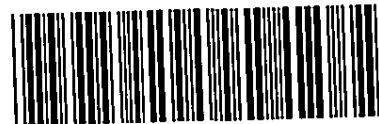
# Novar ED&S Limited

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## Report and accounts for the year ended 31 December 2007

Company registration number 189291

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# Directors' report

for the year ended 31 December 2007

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The directors of Novar ED&S Limited present their report and audited financial statements of the company for the year ended 31 December 2007

## 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 2007 was 3.6% down on 2006 at £131m. The main factors affecting the business results for the year and the future outlook for the company are as follows:

Sales performance was impacted by wholesaler destocking in the first half of the year, and withdrawal of some low margin product lines from the retail channel. Trading was stronger in the second half of the year and this is expected to continue in 2008.

### Operating profit

The operating result for 2007 incorporates pension costs of £2.4m (2006 £3.1m). Pension costs are expected to continue at the 2007 level for the foreseeable future.

The directors have assessed the value of the underlying subsidiaries and have decided to recognise an impairment of £2,843,000 within these financial statements. The impairment makes a provision of £2,843,000 against the investment held in Friedland Limited.

## 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
- 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 2007

### Key performance indicators

Management monitors the business using the following key indicators

		2007 (3.6%)	2006 (3.2%)
<u>Turnover</u>	% increase/(decrease) year on year		

Growth impacted by wholesaler destocking in the first half of the year, and withdrawal of some low margin product lines from the retail channel

<u>Gross profit</u>	% of turnover	29.1%	30.6%
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The negative impact of some selling price pressure and an increase in commodity prices was largely offset by factory efficiency programmes

<u>Staff numbers</u>	% increase/(decrease) year on year	2.4%	(4.9%)
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Staff numbers have increased with a reorganisation of the company's administrative activities

<u>Working capital</u>	% of turnover	10.6%	16.9%
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Working capital is based on trade debtors, creditors and inventory and excludes intercompany balances, deferred tax, and other debtors and creditors. The decrease of £9.4m is largely due to an improvement in accounts receivable and accounts payable

### Results and dividends

The company's profit for the financial year was £538,000 (2006 £13,198,000) which will be transferred to reserves. The directors do not recommend the payment of a dividend (2006 Nil)

### 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	D Cohen
C J White	E Malcherek
S P Box (resigned 31 December 2007)	S Molzahn (resigned 1 September 2007)
D A Chorlton	A Stearns (resigned 24 May 2007)
M A Hill	A Richards (appointed 1 March 2007)

### Directors' indemnities

Pursuant to the Company's articles of association, the directors were throughout the year to 31 December 2007 and are at the date of this report entitled to qualifying indemnity provision as defined in section 236 of the Companies Act 2006

### 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 hedges exchange rate risk for key foreign currencies.

#### 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 2007

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### 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 £4,074,000 (2006 £4,020,000).

### 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. The directors have elected to prepare the financial statements in accordance with the 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 apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in the 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 to 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
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

### Independent Auditors

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

By order of the board



C J White

Director

12 June 2008

# Independent auditors' report

*to the members of Novar ED&S Limited*

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We have audited the financial statements of Novar ED&S Limited for the year ended 31 December 2007 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**

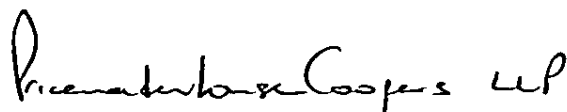
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- 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  
West London

18 June 2008

## Profit and loss account

for the year ended 31 December 2007

	Notes	2007 £000	2006 £000 as restated
<b>Turnover</b>	3	130,983	135,927
Cost of sales		(92,808)	(94,323)
<b>Gross profit</b>		<u>38,175</u>	<u>41,604</u>
Distribution costs		(12,622)	(12,035)
Exceptional administrative expenses	5	-	(1,029)
Provision for impairment of fixed asset investments	11	(2,843)	-
Other administrative expenses		<u>(15,709)</u>	<u>(16,049)</u>
Total administrative expenses		<u>(18,552)</u>	<u>(17,078)</u>
<b>Operating profit</b>	5	<u>7,001</u>	<u>12,491</u>
Interest receivable and similar income	6	361	33
Interest payable and similar charges	7	(3,041)	(3,033)
Other finance income	21	3,000	2,200
<b>Profit on ordinary activities before taxation</b>		<u>7,321</u>	<u>11,691</u>
Taxation (charge)/credit on profit on ordinary activities	8	(6,783)	1,507
<b>Profit for the financial year</b>	20	<u><u>538</u></u>	<u><u>13,198</u></u>

All results derive from continuing operations

## Note of historical cost profits and losses

for the year ended 31 December 2007

	2007 £000	2006 £000 as restated
Profit on ordinary activities before taxation	7,321	11,691
Difference in the depreciation charge for the year calculated on the historical cost and revalued amounts	(85)	(85)
Historical cost profit on ordinary activities before taxation	<u>7,236</u>	<u>11,606</u>
Historical cost profit after taxation	<u><u>453</u></u>	<u><u>13,113</u></u>

## Statement of total recognised gains and losses

for the year ended 31 December 2007

	Notes	2007 £000	2006 £000
<b>Profit for the financial year</b>		538	13,198
Actuarial gain recognised in pension scheme	21	12,800	7,400
Movement on deferred tax relating to pension surplus/deficit	14	(3,619)	(2,220)
<b>Total recognised gains and losses relating to the year</b>		<u><u>9,719</u></u>	<u><u>18,378</u></u>

# Balance sheet

as at 31 December 2007

	Notes	2007 £000	2006 £000
<b>Fixed assets</b>			
Intangible assets	9	10,978	11,720
Tangible assets	10	18,609	20,130
Investments	11	18,060	20,903
		<u>47,647</u>	<u>52,753</u>
<b>Current assets</b>			
Stock	12	12,955	13,564
Debtors (including £10,023,000 (2006 £13,117,000) due after more than one year)	13	33,227	43,662
Cash at bank and in hand		<u>19,372</u>	<u>3,803</u>
		65,554	61,029
<b>Creditors: amounts falling due within one year</b>	15	(67,392)	(60,990)
Net current (liabilities)/assets		<u>(1,838)</u>	<u>39</u>
<b>Total assets less current liabilities</b>		45,809	52,792
Creditors amounts falling due after more than one year	16	(40,441)	(40,441)
Provisions for liabilities and charges	18	(3,664)	(2,864)
<b>Net assets excluding pension asset/ liability</b>		<u>1,704</u>	<u>9,487</u>
Pension surplus/(deficit)	21	7,936	(9,730)
<b>Net assets/(liabilities) including pension asset/(liability)</b>		<u>9,640</u>	<u>(243)</u>
<b>Capital and reserves</b>			
Called up share capital	19	1,101	1,101
Share premium account	20	19,800	19,800
Profit and loss account	20	(11,975)	(21,858)
Revaluation reserve	20	714	714
<b>Total equity shareholders' funds/(deficit)</b>	20	<u>9,640</u>	<u>(243)</u>

The financial statements were approved by the board of directors on *16* June 2008 and were signed on its behalf by



**C J White**  
Director



# Notes to the accounts

for the year ended 31 December 2007

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## 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 in the United Kingdom. The accounting policies which have been applied consistently throughout the year

### *Restatement of 2006 accounts*

The 2006 profit and loss account has been restated in line with new classifications adopted by Honeywell in 2007 that report costs into the functions they relate to. These requirements have been defined to ensure that a consistent financial reporting methodology is used across the company. The amounts disclosed in the 2006 statutory accounts were Cost of Sales £76,465,000, Distribution Costs £9,015,000, Administrative expenses £36,927,000, there was no impact on profit

### *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:

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 FRS15 "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 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.

## Notes to the accounts (continued)

for the year ended 31 December 2007

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### 1. Accounting policies (continued)

#### *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

#### *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

#### *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

#### *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

#### *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 21 represents contributions payable by the company to the fund

# Notes to the accounts (continued)

for the year ended 31 December 2007

## 1. Accounting policies (continued)

### 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

	2007 £000	2006 £000
United Kingdom	104,605	107,860
Rest of Europe	11,707	12,875
North and South America	144	134
Rest of world	14,527	15,058
	<u>130,983</u>	<u>135,927</u>

## 4. Employees and directors

### Average number of persons employed during the year

	2007 Number	2006 Number
Administration, selling and distribution	406	414
Manufacturing	490	461
	<u>896</u>	<u>875</u>

### Staff costs

	£000	£000
Wages and salaries	25,294	24,849
Social security costs	1,584	1,524
Other pension costs (note 21)	292	3,160
Share based payments	216	187
	<u>27,386</u>	<u>29,720</u>

### Directors' remuneration

Aggregate emoluments	<u>719</u>	<u>757</u>
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Five directors (2006: five) were members of defined benefit pension schemes. During the year no directors exercised share options (2006: nil).

## Notes to the accounts (continued)

for the year ended 31 December 2007

	2007	2006
	<u>£000</u>	<u>£000</u>
<b>4. Employees and directors (continued)</b>		
<i>Highest paid director</i>		
Emoluments of the highest paid director were		
Aggregate emoluments	185	229

At the end of the year the highest paid director's accrued pension was £103,000 (2006 £79,000)

<b>5. Operating profit</b>	2007	2006
<i>Operating profit is stated after charging/(crediting)</i>	<u>£000</u>	<u>£000</u>
Amortisation of intangible fixed assets (note 9)	742	742
Depreciation of tangible fixed assets - owned (note 10)	3,451	3,911
Profit/(loss) on disposal of tangible fixed assets	(51)	57
<i>Rental charges under operating leases</i>		
Plant and machinery	204	392
Other operating leases	553	560
Research and development	4,074	4,020
Foreign currency gains	(166)	(129)
<i>Auditors' remuneration</i>		
Audit fees - statutory audit	66	70

Exceptional administrative expenses of £nil (2006 £1,029,000) comprise severance payments made during the year as a result of continued restructuring of the business

<b>6. Interest receivable and similar income</b>	2007	2006
	<u>£000</u>	<u>£000</u>
Interest on bank deposits	361	33

<b>7 Interest payable and similar charges</b>		
Interest on bank overdraft	8	-
Preference share dividend 7 5p (2006 7 5p) per £1 share	3,033	3,033
	<u>3,041</u>	<u>3,033</u>

<b>8. Taxation on profit on ordinary activities</b>		
<i>Current tax</i>		
UK corporation tax at 30% (2006 30%)	-	-
Adjustment in respect of prior years	-	544
Total current tax	-	<u>544</u>

<i>Deferred taxation</i>		
Pension cost relief in excess of pension cost charge	3,660	13,770
Accelerated capital allowances	1,248	(3,775)
Impact of change in Industrial Buildings Allowances	(886)	-
Prior year losses now recognised	124	(2,485)
Impact of change in tax rate on deferred tax relating to pension scheme	728	-
Origination and reversal of timing differences-current year	2,881	(9,561)
Origination and reversal of timing differences-prior year	(972)	-
Total deferred tax (note 14)	<u>6,783</u>	<u>(2,051)</u>
Total tax charge/(credit) on profit on ordinary activities	<u>6,783</u>	<u>(1,507)</u>

## Notes to the accounts (continued)

for the year ended 31 December 2007

### 8. Taxation on profit on ordinary activities (continued)

The tax assessed for the year is lower (2006 lower) than the standard rate of UK corporation tax rate of 30% (2006 30%) and the differences are explained below

	2007 £000	2006 £000
Profit on ordinary activities before tax	7,321	11,691
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	2,196	3,507
<i>Effects of</i>		
Expenses not deductible for tax purposes and other permanent differences	2,508	1,433
Capital allowances in excess of depreciation	(1,248)	(1,737)
Other timing differences	(2,881)	9,561
Group relief surrendered for nil consideration	3,085	1,006
Adjustment in respect of prior years	-	544
Pension contribution relief in excess of net pension cost charge	(3,660)	(13,770)
Total current tax charge for the year	-	544

### 9. Intangible fixed assets

	Goodwill £000
<i>Cost</i>	
At 1 January and at 31 December 2007	14,850
<i>Accumulated amortisation</i>	
At 1 January 2007	3,130
Charge for the year	742
At 31 December 2007	3,872
<i>Net book value</i>	
At 31 December 2007	10,978
At 31 December 2006	11,720

### 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 2007	11,560	1,548	2,154	9,183	24,445
Additions	62	21	62	1,826	1,971
Transfer between categories	-	-	(193)	193	-
Disposals	-	-	(57)	(18)	(74)
At 31 December 2007	11,622	1,569	1,966	11,184	26,342
<i>Accumulated depreciation</i>					
At 1 January 2007	383	394	968	2,570	4,315
Charge for the year	354	376	613	2,107	3,451
Transfer between categories	-	-	(292)	292	-
Disposals	-	-	(22)	(11)	(33)
At 31 December 2007	737	770	1,267	4,959	7,733
<i>Net book value</i>					
At 31 December 2007	10,885	799	699	6,226	18,609
At 31 December 2006	11,177	1,154	1,186	6,613	20,130

## Notes to the accounts (continued)

for the year ended 31 December 2007

### 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:

	2007	2006
	<u>£000</u>	<u>£000</u>
Net book amount	8,317	8,690
Depreciation in year	373	373

Freehold land and buildings includes freehold land not subject to depreciation amounting to £3,714,000 (2006: £3,714,000).

### 11. Fixed asset investments

Cost	2007
	<u>£000</u>
At 1 January 2007 and 31 December 2007	20,903

#### Provision for impairment

At 1 January 2007	-
Additions during the year	2,843
At 31 December 2007	2,843

Net book value at 31 December 2007	18,060
Net book value at 31 December 2006	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.

The aggregate amount of capital and reserves as at 31 December 2007 and the profit or loss for the year then ended of the principal subsidiaries is disclosed in the 2007 accounts of Honeywell Group Holding UK.

#### 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.

The directors have assessed the value of the underlying subsidiaries and have decided to recognise an impairment of £2,843,000 within these financial statements. The impairment makes a provision of £2,843,000 against the investment held in Friedland Limited.

### 12. Stock

	2007	2006
	<u>£000</u>	<u>£000</u>
Raw materials and consumables	2,972	3,027
Work in progress	1,896	2,147
Finished goods and goods for resale	8,087	8,390
	12,955	13,564

## Notes to the accounts (continued)

for the year ended 31 December 2007

13. Debtors	2007	2006
	<u>£000</u>	<u>£000</u>
<i>Amounts falling due within one year</i>		
Trade debtors	14,050	19,657
Amounts owed by group undertakings	4,994	7,305
Other debtors	120	201
Deferred tax asset (note 14)	2,752	2,725
Prepayments and accrued income	1,288	657
	<u>23,204</u>	<u>30,545</u>
<i>Amounts falling due after more than one year</i>		
Deferred tax asset (note 14)	10,023	13,117
	<u>33,227</u>	<u>43,662</u>

Amounts owed by group undertakings consist of the following non interest bearing loans of £2,727,000 (2006 £3,036,000) and non interest bearing current accounts amounting to £2,267,000 (2006 £4,269,000) All amounts owed by group undertakings are unsecured and repayable on demand

14. Deferred tax asset	2007	2006
	<u>£000</u>	<u>£000</u>
At 1 January	15,842	21
Credit to the profit and loss account	(3,067)	15,821
At 31 December	<u>12,775</u>	<u>15,842</u>
<i>Tax effect of timing differences because of</i>		
Differences between capital allowances and depreciation	4,676	3,775
Other timing differences transferred in	5,738	9,582
Tax losses	2,361	2,485
Included in debtors (note 13)	<u>12,775</u>	<u>15,842</u>

*Amounts included within pension surplus/deficit relating to deferred tax*

At 1 January	4,170	20,160
Charge to the profit and loss account	(3,715)	(13,770)
Charge to the statement of total recognised gains and losses	(3,619)	(2,220)
At 31 December (note 21)	<u>(3,164)</u>	<u>4,170</u>

The deferred tax liability of £3,164,000 (2006 £4,170,000 asset) has been deducted in arriving at the net pension surplus (2006 deficit) on the balance sheet

The following deferred tax assets are unprovided	2007	2006
	<u>£000</u>	<u>£000</u>
Capital losses	2,791	2,989
	<u>2,791</u>	<u>2,989</u>

In 2007 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

During the year as a result of the change in UK Corporation Tax rates which will be effective from 1 April 2008, deferred tax balances have been remeasured. Deferred tax relating to timing differences which are expected to reverse in 2008 is measured at an average rate for 2008 of 28½%, and deferred tax relating to timing differences which are expected to reverse after 2008 is measured at 28%, as these are the tax rates which will apply on reversal. This has resulted in a charge to the profit and loss account of £56,000 and a credit to the STRGL of £221,000.

## Notes to the accounts (continued)

for the year ended 31 December 2007

### 15. Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	13,176	10,208
Amounts owed to group undertakings	36,829	33,597
Other tax and social security	4,009	2,928
Accrued preference share dividends	9,099	6,066
Accruals	4,118	7,641
Other creditors	161	550
	<u>67,392</u>	<u>60,990</u>

Amounts owed by group undertakings consist of the following non interest bearing loans of £31,856,000 (2006 £31,856,000) and non interest bearing current accounts amounting to £4,973,000 (2006 £1,741,000). All amounts owed to group undertakings are unsecured and repayable on demand.

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

	2007 £000	2006 £000
7 5% cumulative redeemable preference shares of £1 each (note 17)	<u>40,441</u>	<u>40,441</u>

### 17. Loans and other borrowings

	2007 £000	2006 £000
7 5% cumulative redeemable preference shares of £1 each	<u>40,441</u>	<u>40,441</u>
In more than five years	<u>40,441</u>	<u>40,441</u>

#### Preference share capital

##### Authorised

45,000,000 (2006 45,000,000) redeemable cumulative preference shares of £1 each	<u>45,000</u>	<u>45,000</u>
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##### Called up, allotted and fully paid

40,440,536 (2006 40,440,536) redeemable cumulative preference shares of £1 each	<u>40,441</u>	<u>40,441</u>
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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.

### 18. Provisions for liabilities and charges

	Onerous lease provision £000	Litigation provision £000	Warranty provision £000	Total £000
At 1 January 2007	-	660	2,204	2,864
Charged to profit and loss account	798	-	213	1,011
Utilised during the year	-	-	(211)	(211)
At 31 December 2007	<u>798</u>	<u>660</u>	<u>2,206</u>	<u>3,664</u>

#### Onerous lease

The onerous lease provision was established to cover anticipated rental costs or termination costs, whichever being the lesser, arising from a property at Kimmel Bay Rhyll. The lease was originally assigned in 1987 by Ega Ltd, the trading asset and liabilities of that company were transferred to Novar ED&S Limited on the 1st January 1993. Since then the company to whom the lease was assigned have gone into administration and the lease reverted back to the company.

#### 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.



## Notes to the accounts (continued)

for the year ended 31 December 2006

19. Share capital	2007	2006
Authorised	£000	£000
1,500,000 ordinary shares of £1 each	1,500	1,500

Called up, allotted and fully paid	2007	2006
1,100,605 ordinary shares of £1 each	1,101	1,101

### 20. Reconciliation of shareholders' funds and movements on reserves

	Share capital	Share premium	Revaluation reserve	Profit & loss account	2007 Total	2006 Total
	£000	£000	£000	£000	£000	£000
At 1 January	1,101	19,800	714	(21,858)	(243)	(18,792)
Profit for the financial year	-	-	-	538	538	13,198
Capital contribution in respect of share options	-	-	-	164	164	171
Actuarial gain on the pension plan	-	-	-	12,800	12,800	7,400
Movement on deferred tax relating to pension deficit	-	-	-	(3,619)	(3,619)	(2,220)
<b>At 31 December</b>	<b>1,101</b>	<b>19,800</b>	<b>714</b>	<b>(11,975)</b>	<b>9,640</b>	<b>(243)</b>
Pension surplus/(liability)	-	-	-	7,936	7,936	(9,730)
Equity shareholders' funds/(deficit) excluding pension liability	1,101	19,800	714	(4,039)	1,704	9,487

### 21. 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 2005 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.

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.

Actuarial assumptions having the most significant effect on the results of the valuation	31 December 2007	31 December 2006	31 December 2005
Inflation rate	3.3%	3.0%	2.9%
Rate of increase in salaries	4.3%	4.0%	3.9%
Rate of increase for pensions	3.3%	3.0%	2.8%
Discount rate for plan liabilities	5.8%	5.1%	4.8%

#### Expected return on assets by class of asset

	31 December 2007	31 December 2006	31 December 2005
Equities	8.5%	8.3%	8.0%
Property	8.5%	8.3%	n/a
Government bonds	4.5%	4.5%	4.3%
Other	6.0%	5.0%	4.5%

#### Fair value of assets by class of asset

	£000	£000	£000
Equities	124,600	123,300	101,580
Property	15,800	13,600	n/a
Government bonds	42,500	40,700	20,613
Other	22,600	15,000	2,007
<b>Total market value of assets</b>	<b>205,500</b>	<b>192,600</b>	<b>124,200</b>
<b>Present value of plan liabilities</b>	<b>(194,400)</b>	<b>(206,500)</b>	<b>(191,400)</b>
<b>Surplus/(deficit) in schemes</b>	<b>11,100</b>	<b>(13,900)</b>	<b>(67,200)</b>
<b>Related deferred tax (liability)/asset</b>	<b>(3,164)</b>	<b>4,170</b>	<b>20,160</b>
<b>Net pension surplus/(deficit)</b>	<b>7,936</b>	<b>(9,730)</b>	<b>(47,040)</b>

## Notes to the accounts (continued)

for the year ended 31 December 2007

### 21. Pension commitments (continued)

	2007 £000	2006 £000
<i>Amounts charged to operating profit</i>		
Current service cost	2,400	3,100
<i>Amounts credited to other finance income</i>		
Expected return on pension scheme assets	13,400	11,300
Interest on pension scheme liabilities	(10,400)	(9,100)
Net credit to other finance income	3,000	2,200
<i>Amounts recognised within the statement of total recognised gains and losses (STRGL)</i>		
Actual return less expected return on pension scheme assets	(4,500)	17,600
Experience gains and losses arising on scheme liabilities	(400)	(800)
Changes in assumptions underlying the value of the scheme liabilities	17,700	(9,400)
Actuarial gain recognised in STRGL	12,800	7,400

	2007 £000	2006 £000	2005 £000	2004 £000
<i>History of experience gains and losses</i>				
<u>Gain</u>				
Amount	(4,500)	17,600	10,200	2,100
as % of plan's assets at the year end	(2.2%)	9.1%	8.2%	2.0%
<u>Experience loss/(gain)</u>				
Amount	(400)	(800)	21,300	-
as % of the plan's liabilities at the year end	0.2%	0.4%	11.1%	-
<u>Total actuarial loss/(gain)</u>				
Amount	12,800	7,400	(600)	(2,300)
as % of the plan's liabilities at the year end	6.6%	3.6%	0.3%	1.3%

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 £292,000 (2006 £60,000). There were no outstanding or prepaid amounts at 31 December 2007 (2006 £nil).

	2007 £000	2006 £000
<i>Analysis of the movement in deficit in the scheme during the year</i>		
Deficit in scheme at beginning of year	(13,900)	(67,200)
Movement in year		
Current service cost	(2,400)	(3,100)
Contributions	11,600	46,800
Other finance income	3,000	2,200
Actuarial gain	12,800	7,400
Surplus/ (deficit) in scheme at end of year	11,100	(13,900)

### 22. 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 2007 was estimated on the grant date using the Black-Scholes model using the following weighted-average assumptions consistent with the requirements of FRS20

## Notes to the accounts (continued)

for the year ended 31 December 2007

### 22. Share-based payments (continued)

	2007 £000	2006 £000
Expected volatility	20.18%	22.32%
Expected annual dividend yield	2.09%	2.15%
Risk-free rate of return	4.66%	4.63%
Expected option term (years)	5.3	5.0

Share options outstanding during the year	2007 number	2007 price*	2006 number	2006 price*
Outstanding at 1 January	32,500	£21.59	21,500	£20.34
Granted	8,000	£20.51	12,500	£23.63
Exercised	(1,575)	£20.67	-	-
Cancelled	(1,000)	£20.67	(1,500)	£20.67
Outstanding at 31 December	37,925	£21.42	32,500	£21.59
Exercisable at 31 December	1,575	£20.67	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	2007 number	2007 price*	2006 number	2006 price*
Outstanding at 1 January	23,850	£20.69	12,000	£20.67
Granted	3,700	£26.77	11,850	£20.72
Outstanding at 31 December	27,550	£21.51	23,850	£20.69
Exercisable at 31 December	1,575	£20.67	8,000	£20.31

\*The price is the weighted average exercise price

The charge for the year relating to share based payment plans was £164,000 (2006 £171,000), the charge for employers national insurance contributions in respect of share based payments was £52,000 (2006 £16,000).

After deferred tax the total charge was £148,000 (2006 £134,000).

### 23 Operating lease commitments

Annual commitments under non-cancellable operating leases

	Land and buildings		Other	
	2007 £000	2006 £000	2007 £000	2006 £000
Leases which expire				
- Within one year	-	-	169	136
- Within two to five years	141	-	35	256
- After five years	412	560	-	-
	553	560	204	392

### 24. 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 £575,487,000 (2006 £359,501,000). Positive cash balances held in the group exceeded the overdraft balances in 2007 and 2006.

The company has entered into a number of forward contracts for foreign currencies, principally to buy/sell US Dollar and Euro. At 31 December 2007 the value of contracts outstanding was £3,526,184 (2006 £6,300,000). At 31 December 2007 there was an unrealised gain of £2,082 (2006 loss £10,872).

At 31 December 2007, there is a £1,400,000 (2006 £1,400,000) guarantee in favour of HM Customs and Exercise

## **Notes to the accounts (continued)**

*for the year ended 31 December 2007*

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### **25. Ultimate parent undertakings**

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](http://www.honeywell.com)