Registered No. 00993167

Truflo Marine Limited

Strategic Report, Directors' Report and financial statements

For the year ended 31 December 2019

(Registered in England and Wales - number 00993167)

CONTENTS

The directors of Truflo Marine Limited (the 'Company') submit their Strategic Report for the year ended 31 December 2019.

1. Principal activities

The Company is a wholly-owned subsidiary of IMI plc and operates as part of IMI plc's Critical Engineering division.

The Company's principal activities are the design, manufacture and sale of control valves for naval marine and civil nuclear applications.

There have not been any significant changes in the Company's principal activities in the year under review. The directors are not, at the date of this report, aware of any likely major changes in the Company's activities in the next year. To offset any potential future decline in the principal activities the Company continues to take its knowledge and expertise into new markets.

2. Business review

Turnover for 2019 was £30.4m compared with £29.3m last year. The balance sheet on page 9 of the financial statements shows that the Company's financial position at the year-end is, in terms of net assets, above the prior year.

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

Market place

Naval Marine

The Naval marine sector is seeing significant growth on a global basis as NATO countries seek to combat the high levels of investment in this technology within China and Russia in particular. This is also seeing emerging markets appear as developing countries, particularly in Asia look to implement their own standalone capability.

The global addressable market is therefore projected to grow to a global £25bn spend by 2027 for combat ships and submarines.

The Company is well positioned to take advantage of this growth given its ability to leverage the global capabilities of IMI Plc especially within the US, Australia and India.

Within the UK the government are committed to a £32bn project to replace the current Vanguard class submarine fleet. The Dreadnought project will see the first of 4 vessels entering service in June 2028 with Boat 4 targeted for delivery in 2034. The Company is already engaged on Boats 1 and 2 and this project supports a revenue stream for new construction and aftermarket that extends beyond 2050.

Turnover from export business represents 22.9% of revenue in 2019. The Company is already engaged on build projects in mainland Europe and developing projects in Asia. Further growth will be supported by leveraging the global footprint of IMI and by the marketing of the collective product capability of the group. The combined capabilities of the Critical Engineering Division have already been exploited to support an increased scope of supply with new export customers

Product development

The Company is engaged on IMI's Growth Accelerator program as part of its new product development initiatives. There is also joint activity with other IMI businesses to support development of new products for application within the sector. Design and development activity for new customers has become an increasing revenue opportunity for the Company as it looks to use its significant sector experience to the benefit of a developing customer base.

The Company is also assessing new tools and capabilities required to support the market growth and provision for this is included within the strategic plans.

Key performance indicators

IMI plc manages its operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Critical Engineering division of IMI plc, which includes the Company, is discussed in IMI plc's Annual Report and Accounts which does not form part of this report.

3. Future developments

The Company anticipates that it will continue to pursue its principal activities for the foreseeable future. It will seek to build on current capabilities by extending its offering in the repair and overhaul sector to improve its through life support offering.

4. Principal risks and uncertainties

Projects on which the Company are currently engaged have long term commitments from the relevant governments. Within the UK significant investments are committed in support of the national programs within submarines and surface ships. These are recognised as projects of national interest.

The Company is aware of that spending programs can be modified with changes of national leadership and global economic pressures. A high level of engagement with its key customers and senior stakeholders is maintained.

The business has a significant order backlog and engagement on key projects.

Continued growth in the Export business means sales occur in currencies other than Sterling, primarily Euros. The Group's treasury function takes out contracts to manage this risk at the Group level to mitigate any material exposure.

Any potential impacts of the ongoing Brexit process are monitored by the business via its Risk Management process.

The Company is financed by IMI plc, the details of which can be found in the IMI plc Annual Report and Financial Statements, which do not form part of this report. The risks facing the IMI Group are discussed in IMI plc's annual report.

By order of the Board

Stephen Robins

S Robins
Director
23/07/2020

The directors of Truflo Marine Limited (the 'Company') submit their Directors' Report together with the audited financial statements for the year ended 31 December 2019.

1. Profits and dividends

The results for the financial year are shown in the financial statements. The profit after tax for the year of £ 4,172,000 (2018: £ 3,506,000) has been transferred to reserves.

The aggregate amount of dividends paid in 2019 is £3,434,000 (2018: £2,100,000). The directors have recommended a final dividend of £4,098,000 (2018: £3,434,000).

2. Directors

The directors who held office during the year and since 31 December 2019 were as follows:-

L Neilson	
M Bloxham	(appointed 27 March 2020)
S Robins	(appointed 27 March 2020)

The Company's ultimate parent, IMI plc, maintained directors' and officers' liability insurance for all directors.

3. Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they should have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

4. Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Business review and Principal risks and uncertainties sections of the Strategic Report.

The financial statements have been prepared on a going concern basis. The directors have prepared forecasts including cash flow forecasts which are for a period in excess of 12 months from the date of approval of these financial statements. These demonstrate that the Company has sufficient headroom within its facilities to meet its liabilities as they fall due.

The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company's financial forecasts, taking into consideration the current environment, show that the Company is expected to remain profitable and generate positive cash flows, giving the Company the ability to continue to operate for the foreseeable future. Furthermore, the parent entity, IMI Group Limited, has confirmed they will continue to provide financial support to the Company for a period of not less than 12 months from the date of approval of these financial statements. As with any Company placing reliance on its parent for financial support, the directors acknowledge that there can be no absolute certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The Directors have considered the impact of the COVID-19 crisis on the Company's business operations and future prospects. Business disruption, so far, has been modest as the Company is well diversified and maintains a balanced portfolio of customers, with no single dependency. Additionally, given the critical nature of the work being performed, there has been little to no impact impact on the financial performance and operations of the Company this is expected to continue throughout the going concern period. Financial support is available from the parent if it is required and based on the latest forecasts this is not expected to be called upon. Furthermore, specific measures have been implemented to increase the workforce resilience, and to ensure adequate protection for employees. Whilst it is difficult to predict the full extent of the impact of COVID-19, the directors note that events such as announcements or the enactment of new measures to contain the virus are considered to be non-adjusting events subsequent to the 2019 results reported. Therefore, there have been no adjustments made in these financial statements in respect of such developments.

Accordingly, the directors of the Company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

5. Auditors

Pursuant to Section 485 of the Companies Act 2006, the auditors will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

6. Disclosure requirements

In accordance with the Companies Act 2006 section 414C(11), the Company's Strategic Report contains certain disclosures required in the Directors' Report. The requirements are included within the principal activities, business review and principal risks and uncertainties sections of the Strategic Report.

7. Environment

The Company recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to mitigate any adverse impact that might be caused by its activities. The Company operates in accordance with IMI plc policies, as noted in IMI plc's annual report, which does not form part of this report. Initiatives aimed at minimising the Company's impact on the environment include safe disposal of manufacturing waste, recycling and reducing energy consumption and are managed by its ISO14001 policy.

8. Research and development

During the year the Company continued to pursue it's policy of developing existing and new products.

By order of the Board

S Robins
Director
23/07/2020

Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable UK 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 '*Reduced Disclosure Framework*' (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- *select suitable accounting policies and then apply them consistently;*
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditor's report to the member of Truflo Marine Limited

Opinion

We have audited the financial statements of Truflo Marine Limited for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 25 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw attention to Note 2 of the financial statements, which describes the economic and social consequences the Company is facing as a result of COVID-19. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Strategic Report and the Directors' Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Independent auditor's report to the member of Truflo Marine Limited

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic Report or directors' Report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's *responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of *assurance, but is not a guarantee that an audit conducted in accordance with* ISAs (UK) *will always detect a material* misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. *Our audit work has been undertaken so that we might state to the company's members those matters we are required to* state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Stephen Kirk (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Birmingham
23/07/2020

Income statement and statement of comprehensive income for the year ended 31 December 2019

Income statement

	Notes	2019 £000	2018 £000
Revenue	3	30,368	29,299
Cost of sales		(19,553)	(20,412)
Gross profit		10,815	8,887
Distribution costs		(1,494)	(1,001)
Administrative expenses		(4,466)	(3,794)
Other operating (expenses)/income		(74)	49
Operating profit	4	4,781	4,141
Interest receivable and similar income	7	1	-
Interest payable	8	-	(8)
Other finance income	19	681	96
IFRS 16 finance expense	13	(23)	-
Profit on ordinary activities before taxation		5,440	4,229
Income tax expense	9	(1,268)	(723)
Profit for the financial year		4,172	3,506

Statement of comprehensive income

	2019 £000	2018 £000
Profit for the financial year	4,172	3,506
Total comprehensive income for the year	4,172	3,506

All activities relate to continuing operations.

TRUFLO MARINE LIMITED
Balance sheet
as at 31 December 2019

	Notes	2019 £000	2018 £000
Fixed assets			
Intangible assets	11	**140**	149
Tangible assets	12	**1,836**	1,552
Right of use assets	13	**812**	-
		2,788	1,701
Current assets			
Stocks	14	**9,135**	6,181
Deferred tax asset	9	**-**	53
Debtors	15	**13,646**	2,811
Cash at bank and in hand		**1,308**	4,182
Other financial assets	19	**310**	-
		24,399	13,227
Creditors: amounts falling due within one year	16	**(21,120)**	(10,134)
Other financial liabilities	19	**-**	(371)
Current lease liabilities	13	**(147)**	-
		(21,267)	(10,505)
Net current assets		**3,132**	2,722
Total assets less current liabilities		**5,920**	4,423
Provision for liabilities	17	**(60)**	(46)
Non-current lease liabilities	13	**(675)**	-
Deferred tax liability	9	**(70)**	-
Net assets		**5,115**	4,377
Capital and reserves			
Called up share capital	18	**500**	500
Share premium account		**62**	62
Profit and loss account		**4,553**	3,815
Total equity shareholders' funds		**5,115**	4,377

These financial statements were authorised for issue by the board of directors on 23/07/2020 and were signed on its behalf by:

S Robins
Director

TRUFLO MARINE LIMITED
Statement of changes in equity
for the year ended 31 December 2019

	Called up share capital	Share premium account	Profit and loss account	Total equity shareholders funds
	£000	£000	£000	£000
At 1 January 2018	500	62	2,409	2,971
Profit for the financial year	-	-	3,506	3,506
Total comprehensive income for the year	-	-	3,506	3,506
Equity dividends paid	-	-	(2,100)	(2,100)
At 31 December 2018	500	62	3,815	4,377
Profit for the financial year	**-**	**-**	**4,172**	**4,172**
Total comprehensive income for the year	**-**	**-**	**4,172**	**4,172**
Equity dividends paid	**-**	**-**	**(3,434)**	**(3,434)**
At 31 December 2019	**500**	**62**	**4,553**	**5,115**

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Truflo Marine Limited for the year ended 31 December 2019 were authorised for issue by the board of directors on 23/07/2020 and the balance sheet was signed on the board's behalf by S Robins. Truflo Marine Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 '*Reduced Disclosure Framework*' (FRS 101) and in accordance with applicable accounting standards.

The financial statements are prepared in sterling and are rounded to the nearest thousand pounds (£000).

2. Accounting policies

Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2019.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of IAS 7 *Statement of Cash Flows*;
(b) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
(c) the requirements of IFRS7 'Financial Instruments';
(d) the requirements of paragraphs 91-99 of IFRS13 'Fair Value Measurement'; and
(e) the requirements of paragraph 17 of IAS24 'Related Party Disclosures'.

The impact of the new International Financial Reporting Standards effective for the entity as of 1 January 2019 is set out below:

IFRS 16 'Leases' (note 13) – this standard was adopted with effect from 1 January 2019 using the modified retrospective approach and accordingly prior periods are not restated. The Company recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This resulted in no measurement adjustments to the finance leases held at 1 January 2019.

Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key judgements that have had the most significant effect on amounts recognised in the financial statements are in relation to the level of provision held against stocks and debtors.

Significant accounting policies

(a) **Revenue recognition**

Revenue is recognised when obligations under the terms of a contract with our customer are satisfied. This generally occurs when the goods are transferred, or the services are provided, to our customer. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Sales and other taxes collected from customers are excluded from revenue. The nature of the equipment, valve and other contracts into which the Company enters means that:

• the contracts usually contain distinct performance obligations, each of which transfers control of the goods to the customer. Where such distinct performance obligations are present, revenue is recognised on each element in accordance with the policy on the sale of goods

• the service element of the contract is usually insignificant in relation to the total contract value and is often provided on a short-term or one-off basis. Where this is the case, revenue is recognised when the service is complete

As a result of the above, the significant majority of the Company's revenue is recognised on a sale of goods basis. The specific methods used to recognise the different forms of revenue earned by the Company are set out below:

Sale of goods

Revenue from the sale of goods is recognised in the income statement net of returns, trade discounts and volume rebates when control has been transferred to our customer. No revenue is recognised where recovery of the consideration is not probable or there are significant uncertainties regarding associated costs, or the possible return of goods. The amount of considered received and the revenue recognised varies in line with discounts and promotions offered to our customers.

The timing of the transfer of control to our customer varies depending on the nature of the products sold and the individual terms of the contract of sale. Sales made under internationally accepted trade terms, Incoterms 2010, are recognised as revenue when the Company has completed the primary duties required to transfer control as defined by the International Chamber of Commerce Official Rules for the Interpretation of Trade Terms. Sales made outside Incoterms 2010 are generally recognised on delivery to the customer. In limited instances, a customer may request that the Company retains physical possession of an asset for a period after control has been transferred to the customer. In these circumstances, the Company provides this storage as a service to the customer and therefore revenue is recognised prior to delivery of the asset.

Rendering of services

Revenue from the rendering of services is usually insignificant in relation to the total contract value and is generally provided on a short-term or one-off basis. Accordingly, revenue is usually recognised when the service is complete.

Where this is not the case, revenue from services rendered is recognised in proportion to the stage of completion of the service at the balance sheet date.

The stage of completion is assessed by reference to the contractual performance obligations with each separate customer and the costs incurred on the contract to date in comparison to the total forecast costs of the contract. Revenue recognition commences only when the outcome of the contract can be reliably measured. Installation fees are similarly recognised by reference to the stage of completion on the installation unless they are incidental to the sale of the goods, in which case they are recognised when the goods are sold.

(b) **Fixed assets and depreciation**

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in IAS 23 are capitalised as part of the cost of that asset.

Fixed assets and depreciation (continued)

Depreciation is provided on all property, plant and equipment, other than land, on a straight-line basis over its expected useful life as follows:

Plant and machinery	3–10 years
Motor vehicles	4 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Assets in the course of construction are not depreciated until they are available to be used for their intended purpose.

(c) **Intangible assets and amortisation**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible assets, with the exception of goodwill, are amortised on a straight-line basis over their estimated useful lives:

Software	3-5 years
Development costs	3-5 years

The carrying values of intangible assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives are reviewed annually and where adjustments are required these are made prospectively.

(d) **Goodwill**

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions is capitalised. Goodwill is not amortised but is tested annually for impairment.

(e) **Stocks**

Stocks are valued at the lower of cost and net realisable value. In determining the cost of the raw materials, consumables and goods purchased for resale, the FIFO method is used. In respect of work in progress and finished goods, cost includes all production overheads and the appropriate proportion of related works overheads.

(f) **Research and development expenditure**

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is capitalised only where there is a clearly defined project, the expenditure is separately identifiable, the outcome of the project can be assessed with reasonable certainty, aggregate costs are expected to exceed related future sales and adequate resources exist to enable the project to be completed.

(g) **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. All differences are taken to the income statement.

(h) **Pensions**

The company participates in a Group defined contribution scheme. Contributions are charged to the income statement in the year in which they are payable.

(i) **Taxation**

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

Deferred tax is measured at the tax rates that are expected to apply when the temporary differences reverse, based on the tax laws that have been enacted or substantively enacted by the balance sheet date. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

(j) **Leases**

Rental contracts are negotiated individually and have a range of initial terms and may have extension options. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of:

i. fixed payments less any lease incentives receivable;
ii. variable lease payments that are based on an index or a rate;
iii. amounts expected to be payable by the Company under residual value guarantees; and
iv. the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
v. payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

The lease payments are discounted using the Company's incremental borrowing rate, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising:

i. the amount of the initial measurement of lease liability;
ii. any lease payments made at or before the commencement date less any lease incentives received; and
iii. restoration costs.

Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

There are no future cash outflows that the Company is potentially exposed to in relation to the measurement of lease liabilities which have not been reflected.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

i. reliance on previous assessments on the identification of a lease (per IAS 17) for all existing contracts on the date of initial application;
ii. the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
iii. reliance on previous assessments on whether leases are onerous;
iv. the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
v. the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

No practical expedient has been applied in relation to short term leases and low value assets and is not expected to be used in subsequent periods.

(k) **Dividends on shares presented within shareholder's funds**

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

(l) **Equity and equity related compensation benefits**

The Company participates in a Performance Share Plan (PSP) and a Share Option Plan (SOP). For options granted on or after 7 November 2002, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense each year.

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

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

(m) **Derivatives**

The Company uses forward foreign currency contracts to reduce exposure to foreign exchange rates. Such derivative financial instruments are initially recognised at cost and are subsequently fair valued at each balance sheet date.

The criteria for forward currency contracts are:

a) the instrument must be related to a firm foreign currency commitment;
b) it must involve the same currency as the hedged item; and
c) it must reduce the risk of foreign currency exchange movements on the Company's operations.

On maturity any subsequent gains or losses are taken to the income statement.

(n) **Going concern**

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Business review and Principal risks and uncertainties sections of the Strategic Report.

The financial statements have been prepared on a going concern basis. The directors have prepared forecasts including cash flow forecasts which are for a period in excess of 12 months from the date of approval of these financial statements. These demonstrate that the Company has sufficient headroom within its facilities to meet its liabilities as they fall due.

The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company's financial forecasts, taking into consideration the current environment, show that the Company is expected to remain profitable and generate positive cash flows, giving the Company the ability to continue to operate for the foreseeable future. Furthermore, the parent entity, IMI Group Limited, has confirmed they will continue to provide financial support to the Company for a period of not less than 12 months from the date of approval of these financial statements. As with any Company placing reliance on its parent for financial support, the directors acknowledge that there can be no absolute certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The Directors have considered the impact of the COVID-19 crisis on the Company's business operations and future prospects. Business disruption, so far, has been modest as the Company is well diversified and maintains a balanced portfolio of customers, with no single dependency. Additionally, given the critical nature of the work being performed, there has been little to no impact impact on the financial performance and operations of the Company this is expected to continue throughout the going concern period. Financial support is available from the parent if it is required and based on the latest forecasts this is not expected to be called upon. Furthermore, specific measures have been implemented to increase the workforce resilience, and to ensure adequate protection for employees. Whilst it is difficult to predict the full extent of the impact of COVID-19, the directors note that events such as announcements or the enactment of new measures to contain the virus are considered to be non-adjusting events subsequent to the 2019 results reported. Therefore, there have been no adjustments made in these financial statements in respect of such developments.

Accordingly, the directors of the Company believe that it is appropriate to adopt the going concern basis in preparing the financial statements.

3. Revenue

	2019	2018
	£000	£000
Sale of goods	30,368	29,299

Revenue recognised by geographical area is as follows:

	2019	2018
	£000	£000
UK	23,403	23,459
Rest of Europe	4,336	4,400
North America	828	594
Pacific Rim	1,433	472
Rest of World	368	374
	30,368	29,299

4. Operating profit

Operating profit is stated after charging:

	2019	2018
	£000	£000
Depreciation of Property, Plant and Equipment	334	307
Amortisation of intangible fixed assets	39	23
Operating Lease Payments -		
Plant and Machinery	-	31
Other Assets	-	140
IFRS 16 lease depreciation	156	-
Foreign exchange losses	65	127

5. Auditor's remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company.

	2019	2018
	£000	£000
Audit of the financial statements	37	22

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of its parent IMI plc.

6. Staff costs and directors' remuneration

(a) Staff costs

	2019 £000	2018 £000
Wages and salaries	6,621	5,349
Share-based payments	10	15
Social security costs	819	674
Other pension costs	323	226
	7,773	6,264

The average monthly number of employees during the year was made up as follows:

	2019 Number	2018 Number
Production	128	116
Selling and administration staff	31	32
	159	148

Included in other pension costs are £323,000 (2018: £229,000) in respect of defined contributions to the Group's defined contribution scheme.

b) Directors' remuneration

	2019 £000	2018 £000
Directors' emoluments	456	285
Company contributions to defined contribution pension schemes	34	15
	490	300

The disclosed remuneration relates solely to three paid directors and one director who resigned during the year.

The Company made contributions to defined contribution pension schemes for three directors during the year (2018: two).

In respect of the highest paid director:

	2019 £000	2018 £000
Aggregate remuneration	127	180
Company contributions to defined contribution pension schemes	12	9
	139	189

7. Interest receivable and similar income

	2019	2018
	£000	£000
Interest receivable from group undertakings	1	-
	1	-

8. Interest payable

	2019	2018
	£000	£000
Interest payable to group undertakings	-	8

9. Taxation

(a) Tax charged in the income statement	**2019**	2018
	£000	£000
Current income tax:		
UK Corporation tax	**1,222**	792
Adjustments in respect of prior years	**(77)**	(84)
Total current income tax	**1,145**	708
Deferred tax		
Origination and reversal of timing differences	**118**	15
Adjustment in respect of prior years	**5**	-
Total deferred tax	**123**	15
Tax expense in the income statement	**1,268**	723

(b) Reconciliation of the total tax charge

The tax charge recognised in the income statement for the year is different to the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are reconciled below:

	2019	2018
	£000	£000
Profit on ordinary activities before tax	**5,440**	4,229
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	**1,034**	804
Effects of		
Rate change	**(14)**	(3)
Expenses not deductible for tax purposes	**13**	6
Adjustments in respect of prior years	**(73)**	(84)
Double tax relief	**308**	-
Total tax charge	**1,268**	723

(c) Change in Corporation Tax rate

Changes to the rate of UK corporation tax were announced in the budget of 16 March 2016 to reduce the rate to 17% from 19% from 1 April 2020. This change was substantively enacted on 6 September 2016.

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to reduce the deferred tax liability by £4k.

(d) Deferred Taxes

The deferred tax included in the balance sheet is as follows:

	2019	2018
	£000	£000
Accelerated capital allowances	**(18)**	(14)
Other temporary differences	**(52)**	67
Deferred tax (liability)/asset	**(70)**	53
Deferred tax asset at start of year	**53**	68
Deferred tax charge in profit and loss account for year	**(123)**	(15)
Deferred tax (liability)/asset at end of year	**(70)**	53

10 *Dividends paid and proposed*

The aggregate amount of dividends comprises:

	2019 £000	2018 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	3,434	2,100
Aggregate amount of dividends authorised in the financial year	3,434	2,100

The directors have recommended a final dividend of £4,098,000 (2018: £3,434,000), representing £8.20 per ordinary share (2018: £6.87), which will be paid in 2020.

11. Intangible assets

	Software £000	Development costs £000	Goodwill £000	Total £000
Cost				
At 1 January 2019	338	38	12	388
Additions	30	-	-	30
At 31 December 2019	368	38	12	418
Amortisation				
At 1 January 2019	201	38	-	239
Amortisation charge for the year	39	-	-	39
At 31 December 2019	240	38	-	278
Net book value at 31 December 2019	128	-	12	140
Net book value at 31 December 2018	137	-	12	149

Goodwill relates to purchased goodwill on the acquisition of Orseal Limited and Maxseal Limited in 1994 and 1995 respectively. Upon transition to FRS 101, the net book value of goodwill at 1 January 2014 of £12,000 was taken to be the deemed cost.

12. Tangible fixed assets

	Plant & Machinery £000	Computer Equipment £000	Total £000
Cost at:			
1 January 2019	3,730	216	3,946
Additions	630	-	630
Disposals	(8)	(4)	(12)
31 December 2019	4,352	212	4,564
Depreciation at:			
1 January 2019	2,233	161	2,394
Charged in the year	300	34	334
31 December 2019	2,533	195	2,728
Net book value at 31 December 2019	1,819	17	1,836
Net book value at 31 December 2018	1,497	55	1,552

Assets under construction
Included in plant & machinery at 31 December 2019 was an amount of £nil (2018: £77,000) relating to expenditure for assets in the course of construction.

13. Leases

The reconciliation set out below demonstrates the movement from the operating lease commitments disclosed in the 2018 accounts to the opening lease liability recognised at 1 January 2019:

	2019 £000
Operating lease commitments disclosed as at 31 December 2018	1053
Discounted using the incremental borrowing rate at the date of initial application	(107)
Add: changes arising from review of critical lease terms	17
Lease liability recognised as at 1 January 2019	**963**
Of which are:	
Current lease liabilities	144
Non-current lease liabilities	819
	963

All right-of-use assets were measured at the amount equal to the lease liability. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	31 Dec 2018 (pre IFRS 16) £000	Impact of IFRS 16 £000	1 January 2019 (including IFRS 16) £000
Right of use assets	-	963	963
Total non-current assets	**1,701**	**963**	**2,664**
Lease liabilities	-	(144)	(144)
Total current liabilities	**(10,505)**	**(144)**	**(10,649)**
Lease liabilities	-	(819)	(819)
Total non-current liabilities	**(46)**	**(819)**	**(865)**
Net assets	**4,377**	**-**	**4,377**

The net impact on retained earnings on 1 January 2019 was £nil.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Land and buildings £000	Plant and equipment £000	Total £000
As at 1 January 2019	**866**	**97**	**963**
Additions	-	5	5
Depreciation expense	(128)	(28)	(156)
As at 31 December 2019	**738**	**74**	**812**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	Land and buildings £000	Plant and equipment £000	Total £000
As at 1 January	**866**	**97**	**963**
Additions	-	5	5
Accretion of interest	21	2	23
Payments	(140)	(29)	(169)
As at 31 December	**747**	**75**	**822**
Current	122	25	**147**
Non-current	625	50	**675**

The following are the amounts recognised in the income statement:

	2019 £000
Depreciation expense of right-of-use assets	(156)
Interest expense on lease liabilities	(23)
Expense relating to short-term leases	-
Expense relating to leases of low-value assets	-
Total amount recognised in profit or loss	**(179)**

14 Stocks

	2019 £000	2018 £000
Raw materials and consumables	**2,819**	2,538
Work in progress	**5,491**	3,323
Finished goods	**825**	320
	9,135	6,181

Inventories are stated after provisions for impairment of £845,000 (2018: £566,000).

15. Debtors

	2019 £000	2018 £000
External debtors	**4,009**	2,138
Amounts due from other group undertakings	**9,072**	-
Prepayments and accrued income	**276**	402
Advance payments to suppliers	**289**	271
	13,646	2,811

16. Creditors: amounts falling due within one year

	2019	2018
	£000	£000
Payments received on account	**13,605**	3,658
External creditors	**1,295**	947
Amounts owed to group undertakings	**-**	1,950
Corporation tax	**917**	794
Other taxation and social security costs	**2,414**	799
Other creditors	**207**	179
Accruals and deferred income	**2,682**	1,807
	21,120	10,134

Amounts owed to group undertakings are at arm's length terms and bear interest at LIBOR plus an appropriate margin

17 Provisions for liabilities

		Dilapidations	**Warranty provision**	**Total**
		£000	**£000**	**£000**
At 1 January 2019		46	-	46
	Current	-	-	-
	Non Current	46	-	46
Arising during the year		**14**		**14**
At 31 December 2019		**60**	**-**	**60**
Analysed as:				
	Current	**-**	**-**	**-**
	Non Current	**60**	**-**	**60**
		60	**-**	**60**

Dilapidations provisions relate to leased properties held by the company expected to be expensed prior to lease termination.

18. Share Capital

	2019	2018	**2019**	2018
	Number	Number	**£000**	£000
Authorised				
Ordinary shares of £1 each	**500,000**	500,000	**500**	500
Allotted, called up and fully paid				
At 1 January and 31 December	**500,000**	500,000	**500**	500

19. Derivative Financial Instruments

The Company purchases forward foreign currency contracts to hedge currency exposure on firm future commitments. The fair values of the derivatives held at the balance sheet date, determined by reference to their market values are as follows:

	2019	2018
	£000	£000
Forward foreign currency contracts asset/(liability)	**310**	(371)

The movement in the fair value of these derivatives between each balance sheet date is recognised in the income statement.

20. Pension scheme

The Company participates in two group-wide pension schemes providing benefits based on final pensionable pay (defined benefit scheme), which were closed to future accrual on 31 December 2019. As a result of a contractual arrangement, the total net defined benefit obligation of these Funds are now borne by IMI Kynoch Limited (a fellow IMI Group company) and therefore in accordance with IAS19 *'Employee Benefits'*, no net defined benefit costs are recognised in the Company's financial statements. The Company also operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

The latest full actuarial valuations for the two group-wide defined benefit pension schemes was carried out on 31 March 2018 and was updated for IAS 19 purposes to the year end by a qualified independent actuary. At 31 December 2019 the schemes surplus was £47.9m (2018: £27.8m). Full disclosure of the schemes is contained in the consolidated financial statements of IMI plc.

The Company made contributions of £323,000 (2018: £229,000) to the Group's defined contribution scheme.

21. Share-based payments

The Company participates in the following IMI plc group share-based payment schemes:

IMI Sharesave Scheme (SAYE)

This scheme is open to the majority of the Group's UK employees, including the IMI plc executive directors, and allows the grant of options to all participants at a discount of up to 20% below the market price. Such schemes are not subject to performance conditions and offer tax incentives to encourage employees to use their own money to purchase IMI shares. SAYE options may be exercised within six months of the date they first become exercisable.

IMI Share Option Plan (SOP)

Share option awards were made from 2009 to selected senior managers and certain other employees under the SOP. These awards are not subject to performance conditions, but are subject to a three-year vesting period. The purpose of the SOP is to give selected IMI employees (who are not executive directors of IMI plc) the opportunity to share in the benefits of share price growth and to increase their IMI shareholding.

IMI Incentive Plan (IIP)

The IIP was introduced to act as the Group's sole senior executive long-term incentive plan. The IIP acts as an umbrella plan which allows the Group to grant different types of award to different employee groups in an efficient way. The IIP is to be used annually to grant 'Performance Share Awards' in respect of ordinary shares to the executive directors and other members of senior management subject to performance conditions. The IIP will also be used annually to grant 'Bonus Share Awards' below board level. The IIP also gives the Group the ability to grant 'Restricted Stock Unit Awards' and 'Share Options'. It is currently intended that Restricted Stock Unit Awards and share options will only be granted in response to specific business requirements.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Analysis of options granted

	Number of options granted (thousand)	Weighted average option price	Normal exercisable date
IMI Sharesave Scheme			
2012	15	890p	2015-2017
2013	4	1196p	2016-2018
2014	1	1384p	2017-2019
2015	13	1075p	2018-2020
2016	14	845p	2019-2021
2017	2	1106p	2020-2023
2018	7	1013p	2021-2024
2019	**22**	**884p**	**2022-2025**
IMI Incentive Plan			
2015	1	-	2017

	Number of options granted (thousand)	Weighted average option price	Normal exercisable date
IMI Share Option Plan			
2012	3	981p	2015
2013	4	1323p	2016
2014	3	1467p	2017

21. Share based payments (continued)

The following table illustrates the number of share options exercised during the year:

	2019	2018
	Number of options (thousand)	Number of options (thousand)
Options not granted at nil cost	**6**	4
Options granted at nil cost	**-**	-

The following table illustrates the number and range of option prices of share options outstanding at the end of the year:

	2019		2018	
	Number of options (thousand)	**Range of option prices**	Number of options (thousand)	Range of option prices
Options not granted at nil cost	**35**	**845p-1106p**	23	845-1384p
Options granted at nil cost	**-**	**-**	-	-

The weighted average share price at the date of exercise for the options exercised during the year was £9.83 (2018: £11.77).

The weighted average remaining contractual life of share options outstanding at 31 December 2019 is 3.5 years (2018: 2.5 years).

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

	2019 £000	2018 £000
Equity settled share-based payment expense recognised in profit and loss	**46**	10

22. Contingent liabilities

Performance bonds amounting to £2,225,000 (2018: £2,226,000) have been issued on behalf of the Company.

The Company has overdraft facilities which form part of a composite accounting arrangement between IMI plc and certain of its subsidiaries. Accordingly, the Company, in concert with those other group companies has entered into arrangements whereby each has offered a limited guarantee in respect of others' overdraft borrowings from time to time. The Company's maximum liability is limited to the extent of its current account cash balances from time to time which at 31 December 2019 amounted to £1,308,000 (2018: £4,182,000).

23. Related party transactions

The Company has taken advantage of the exemption available under IAS24 'Related Party Transactions' not to disclose related party transactions entered into between two or more members of the Group, provided that any subsidiary which is party to the transaction is wholly owned by such a member.

24. Ultimate and immediate parent company

The immediate parent undertaking is Truflo International Limited which is registered in England and Wales.

The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is IMI plc. Copies of the IMI plc consolidated financial statements can be obtained from:

The Company Secretary
IMI plc
Lakeside
Solihull Parkway
Birmingham Business Park
Birmingham B37 7XZ

Or at www.imiplc.com

25. Events after the end of the reporting period

The above assessment and subsequent adoption of the going concern basis includes consideration of the impact of the COVID-19 pandemic.