

Registrar's Copy

Lochinvar Limited

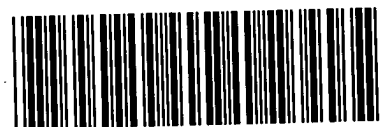
Report and Financial Statements

Period Ended

31 December 2014

Company Number 3453820

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Lochinvar Limited

Report and financial statements for the year ended 31 December 2014

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Directors

D J Pepper
J J Kita
J F Stern
D R Warren

Secretary and registered office

J F Stern, One New Change, London, EC4M 9AF

Company number

3453820

Auditors

BDO LLP, Kings Wharf, 20-30 Kings Road, Reading, Berkshire, RG1 3EX

Lochinvar Limited

Strategic report for the year ended 31 December 2014

The directors present their strategic report together with the audited financial statements for the year ended 31 December 2014.

Principal activities and review of the business

The principal activity of the business continues to be that of supplying heating and water heating equipment for commercial/industrial buildings. Our route to market is via specification and orders for equipment are placed by specialist distributors or contractors.

We saw the signs of a gradual improvement in the economy and specifically in the commercial/industrial construction sector in 2014. This was not fully demonstrated by our sales performance and that's largely because many projects can take 12 to 24 months from design to procurement stage. The positive sign is that the number of projects at design stage appears to have increased as we have secured a larger number of product specifications in 2014, compared with 2013.

There appears to have been a small increase in businesses proactively upgrading heating and hot water equipment, although there are still many who prefer to repair existing product and another strong year in spare parts sales reflect this.

A major success in 2014 was with our EcoCharger range of gas-fired condensing water heaters, which we launched in December 2013. We also launched our Squire range of indirect cylinders and hybrid solar water heaters during the year, and although progress has been slow to date with both ranges, the number of specifications for these products grew in the second half of the year.

Gross profit margin ("GPM") for the year ended at 40.8% which was below expectations and 1.1% above 2013 GPM. The main reason was a shift in terms of supply chain where a higher proportion of product was supplied via distributors rather than contractors. Part of this reason is due to credit risk and in particular the general down-grading of credit ratings on mechanical services contractors.

The net result of another challenging sales year and lower than anticipated GPM was a considerable shortfall in net profit (0.9% compared with 2.6% in 2013)

	2014	2013	% Change
Revenue (£)	6,501,086	6,231,684	4
Gross profit margin (%)	41	40	1
Profit before tax (£)	62,321	165,650	(63)
Profit before tax (%)	1	3	-

Lochinvar Limited

Strategic report for the year ended 31 December 2014 (*continued*)

Outlook

There are a number of reasons why we can look ahead with more confidence and expect a stronger 2015, including the continued economic recovery. We will also derive the benefit from the new product additions in 2014 and we have more planned for 2015. We also had a number of new employees join our external sales team during the last 18 months. 2014 was a year when they were finding their feet and these people should make a stronger impact in 2015. Finally we had an internal restructure during Q2 2014, which has provided better focus within various support functions. The process of carrying out this re-structure caused some disruption, which is now behind us.

Risks and uncertainties

There are a number of risks specific to the business, which are managed accordingly:

Supply Chain

Most of the products are supplied via group but the company conducts frequent review meetings with all major suppliers. Review meetings cover items such as quality, cost, logistics and product development.

Credit Control

The company uses the services of credit agencies and regularly reviews the details provided, along with specific customer payment history.

Foreign Exchange

Some products are purchased in either Dollars or Euro's. The company hedges 80% of anticipated annual exposure.

On behalf of the board



J J Kita
Director

12 June 2015

Lochinvar Limited

Report of the directors for the year ended 31 December 2014

The directors present their report together with the audited financial statements for the year ended 31 December 2014.

Results and dividends

The profit and loss account is set out on page 7 and shows the profit for the year.

Directors

The directors of the company during the year were:

D J Pepper
J J Kita
A G Rajendra (resigned 15 July 2014)
J F Stern
D R Warren (appointed 15 July 2014)

Directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Lochinvar Limited

Report of the directors for the year ended 31 December 2014 (*continued*)

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the board



J J Kita
Director

12 June 2015

Lochinvar Limited

Independent auditor's report

To the members of Lochinvar Limited

We have audited the financial statements of Lochinvar Limited for the year ended 31 December 2014 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair-view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Lochinvar Limited

Independent auditor's report (*continued*)

Matters on which we are required to report by exception

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

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

BDO LLP

*Christopher Pooles (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Reading
United Kingdom*

12 JUNE 2015

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Lochinvar Limited

Profit and loss account for the year ended 31 December 2014

	Note	2014 £	2013 £
Turnover	2	6,501,086	6,231,684
Cost of sales		<u>3,848,561</u>	<u>3,756,485</u>
Gross profit		2,652,525	2,475,199
Administrative expenses		<u>2,593,862</u>	<u>2,310,521</u>
Operating profit	3	58,663	164,678
Other income		1,449	2,214
Interest receivable		2,209	-
Interest payable and similar charges	6	-	(1,242)
Profit on ordinary activities before taxation		62,321	165,650
Taxation on profit on ordinary activities	7	<u>16,642</u>	<u>37,599</u>
Profit on ordinary activities after taxation		45,679	128,051

All amounts relate to continuing activities.

All recognised gains and losses in the current and prior year are included in the profit and loss account.

The notes on pages 10 to 19 form part of these financial statements.

Lochinvar Limited

Balance sheet at 31 December 2014

<i>Company number 3453820</i>	Note	2014 £	2014 £	2013 £	2013 £
Fixed assets					
Tangible assets	9		199,729		139,508
Current assets					
Stocks	10	1,255,832		1,455,445	
Debtors	11	1,412,984		1,250,706	
Cash at bank and in hand		939,120		947,726	
		<u>3,607,936</u>		<u>3,653,877</u>	
Creditors: amounts falling due within one year	12	<u>939,136</u>		<u>981,734</u>	
Net current assets			<u>2,668,800</u>		<u>2,672,143</u>
Total assets less current liabilities			<u>2,868,529</u>		<u>2,811,651</u>
Provisions for liabilities	13		<u>28,043</u>		<u>16,844</u>
			<u>2,840,486</u>		<u>2,794,807</u>
Capital and reserves					
Called up share capital	16		400,002		400,002
Profit and loss account	17		2,440,484		2,394,805
Shareholders' funds	18		<u>2,840,486</u>		<u>2,794,807</u>

The financial statements were approved by the board of directors and authorised for issue on 12 June 2015



J J Kita
Director

The notes on pages 10 to 19 form part of these financial statements.

Lochinvar Limited

Cashflow statement for the year ended 31 December 2014

	Note	2014 £	2014 £	2013 £	2013 £
Net cash inflow from operating activities	19		117,162		473,544
Returns on investments and servicing of finance					
Interest received		2,209		-	
Interest paid: lease finance		-		(1,242)	
Other income		1,449		2,214	
Net cash inflow from returns on investments and servicing of finance			3,658		972
Taxation					
Corporation tax paid			(32,775)		(187,598)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(109,252)		(54,504)	
Receipts from sales of tangible fixed assets		12,601		17,000	
Net cash outflow from capital expenditure and financial investment			(96,651)		(37,504)
Cash (outflow)/inflow before use of financing			(8,606)		249,414
Financing					
Capital element of finance leases repaid			-		(3,750)
(Decrease)/increase in cash	20		(8,606)		245,664

The notes on pages 10 to 19 form part of these financial statements.

Lochinvar Limited

Notes forming part of the financial statements for the year ended 31 December 2014

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

The following principal accounting policies have been applied:

Goodwill

Acquired goodwill is initially recognised at cost and then amortised over its estimated useful life of 20 years.

Where there is an indication that the value of the goodwill may have been impaired, an impairment review is carried out. If the impairment review indicates that the recoverable amount is lower than the current value, the goodwill is written down to the recoverable amount. The remaining recoverable amount is then amortised over the revised useful economic life.

Revenue recognition

Turnover represents amounts receivable for goods and services net of VAT and trade discounts. Turnover relating to the sale of goods is recognised when the risks and rewards of ownership have passed to the customer. Turnover relating to maintenance and installation services is recognised once the work has been completed.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computer equipment	- 33.3% Straight line
Leasehold property	- over the term of the lease
Plant and machinery	- 25% Reducing balance
Motor vehicles	- 25% Reducing balance
Fixtures, fittings & equipment	- 25% Reducing balance

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes all direct costs incurred in bringing the stocks to their present location and condition. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Foreign currency translation

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

Lochinvar Limited

Notes forming part of the financial statements for the year ended 31 December 2014 (*continued*)

1 Accounting policies (*continued*)

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account over the shorter of estimated useful economic life and the period of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Pension costs

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

2 Turnover

	2014 £	2013 £
Analysis by geographical market:		
United Kingdom	6,127,674	5,983,696
Rest of the world	373,412	247,988
	<hr/>	<hr/>
	6,501,086	6,231,684
	<hr/>	<hr/>

Turnover is wholly attributable to the principal activity of the company.

Lochinvar Limited

Notes forming part of the financial statements for the year ended 31 December 2014 (*continued*)

3 Operating profit

	2014 £	2013 £
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	32,829	38,861
Loss/(profit) on disposal of tangible fixed assets	3,601	(547)
Hire of plant and machinery - operating leases	107,304	126,228
Hire of other assets - operating leases	109,412	109,412
Exchange differences	7,066	7,962
Auditor's remuneration - audit services	17,500	19,625
Auditors' remuneration - non audit services	4,600	4,500
	<u> </u>	<u> </u>

4 Employees

Staff costs (including directors) consist of:

	2014 £	2013 £
Wages and salaries	1,353,340	1,185,784
Social security costs	142,018	138,638
Other pension costs	33,355	30,876
	<u> </u>	<u> </u>
	1,528,713	1,355,298
	<u> </u>	<u> </u>

The average number of employees (including directors) during the year was 33 (2013 - 32).

5 Directors' remuneration

	2014 £	2013 £
Directors' emoluments	128,147	114,119
Company contributions to money purchase pension schemes	10,550	7,194
	<u> </u>	<u> </u>

There was 1 director in the company's defined contribution pension scheme during the year (2013 - 1).

6 Interest payable and similar charges

	2014 £	2013 £
Lease finance charges	-	1,242
	<u> </u>	<u> </u>

Lochinvar Limited

Notes forming part of the financial statements for the year ended 31 December 2014 (*continued*)

7 Taxation on profit on ordinary activities

	2014 £	2013 £
<i>UK Corporation tax</i>		
Current tax on profits of the year	5,443	34,986
<i>Deferred tax</i>		
Origination and reversal of timing differences	11,199	2,613
	<hr/>	<hr/>
Taxation on profit on ordinary activities	16,642	37,599
	<hr/>	<hr/>

The tax assessed for the year is lower than the standard rate of corporation tax in the UK applied to profit before tax. The differences are explained below:

	2014 £	2013 £
Profit on ordinary activities before tax	62,321	165,650
	<hr/>	<hr/>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 21% (2013 - 23%)	13,395	38,508
Effect of:		
Fixed asset differences	811	-
Expenses not deductible for tax purposes	3,483	2,616
Marginal relief	(210)	-
Capital allowances in excess of depreciation	(12,151)	(5,915)
Other short term timing differences	115	(223)
	<hr/>	<hr/>
Current tax charge for the year	5,443	34,986
	<hr/>	<hr/>

8 Intangible fixed assets

	Goodwill £
<i>Cost</i>	
At 1 January 2014 and 31 December 2014	520,000
	<hr/>
<i>Amortisation</i>	
At 1 January 2014 and 31 December 2014	520,000
	<hr/>
<i>Net book value</i>	
At 31 December 2013 and 31 December 2014	-
	<hr/>

Lochinvar Limited

Note forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

9 Tangible fixed assets

	Computer Equipment £	Plant and machinery £	Motor vehicles £	Fixtures, fittings & equipment £	Leasehold property £	Total £
<i>Cost</i>						
At 1 January 2014	87,191	43,781	121,819	116,934	124,113	493,838
Additions	10,248	30,711	-	3,121	65,172	109,252
Disposals	-	-	(45,769)	-	-	(45,769)
At 31 December 2014	<u>97,439</u>	<u>74,492</u>	<u>76,050</u>	<u>120,055</u>	<u>189,285</u>	<u>557,321</u>
<i>Depreciation</i>						
At 1 January 2014	43,736	35,980	64,635	106,925	103,054	354,330
Provided for the year	12,957	3,020	11,480	3,121	2,251	32,829
Disposals	-	-	(29,567)	-	-	(29,567)
At 31 December 2014	<u>56,693</u>	<u>39,000</u>	<u>46,548</u>	<u>110,046</u>	<u>105,305</u>	<u>357,592</u>
<i>Net book value</i>						
At 31 December 2014	<u>40,746</u>	<u>35,492</u>	<u>29,502</u>	<u>10,009</u>	<u>83,980</u>	<u>199,729</u>
At 31 December 2013	<u>43,455</u>	<u>7,801</u>	<u>57,184</u>	<u>10,009</u>	<u>21,059</u>	<u>139,508</u>

Lochinvar Limited

Notes forming part of the financial statements for the year ended 31 December 2014 (*continued*)

9 Tangible fixed assets (*continued*)

The net book value of tangible fixed assets includes an amount of £Nil (2013 - £4,201) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge on these assets for the year was £Nil (2013 - £1,867).

10 Stocks

	2014 £	2013 £
Finished goods and goods for resale	1,255,832	1,455,445

There is no material difference between the replacement cost of stocks and the amounts stated above.

11 Debtors

	2014 £	2013 £
Trade debtors	1,235,896	1,118,712
Corporation tax recoverable	26,713	-
Other debtors	4,835	3,000
Prepayments and accrued income	145,540	128,994
	<u>1,412,984</u>	<u>1,250,706</u>

All amounts shown under debtors fall due for payment within one year.

12 Creditors: amounts falling due within one year

	2014 £	2013 £
Trade creditors	127,225	225,747
Amounts owed to group undertakings	200,349	131,372
Corporation tax	-	619
Other taxation and social security	208,166	165,582
Other creditors	3,590	3,097
Accruals and deferred income	399,806	455,317
	<u>939,136</u>	<u>981,734</u>

Lochinvar Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

13 Provisions for liabilities

	Deferred taxation £
At 1 January 2014	16,844
Charged to profit and loss account	11,199
	<hr/>
At 31 December 2014	28,043
	<hr/>

Deferred taxation

	2014 £	2013 £
Accelerated capital allowances	28,771	16,844
Short term timing differences	(728)	-
	<hr/>	<hr/>
	28,043	16,844
	<hr/>	<hr/>

14 Forward foreign exchange contracts

It is company policy to hedge its foreign exchange risk by taking out forward foreign exchange contracts. The fair value of forward exchange contracts, being the market price at the balance sheet date, is £1,197,440 (2013: £1,382,136). At 31 December 2014 there was £21,866 of unrecognised net losses (2013: £39,909 net gain) on forward foreign exchange contracts.

15 Pensions

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 charge amounted to £33,355 (2013 - £30,876). Contributions amounting to £3,590 (2013 - £3,097) were payable to the fund and are included in creditors.

16 Share capital

	2014 £	2013 £
<i>Allotted, called up and fully paid</i>		
400,002 Ordinary shares of £1 each	400,002	400,002
	<hr/>	<hr/>

Lochinvar Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

17 Reserves

	Profit and loss account £
At 1 January 2014	2,394,805
Profit for the year	45,679
	<hr/>
At 31 December 2014	2,440,484
	<hr/>

18 Reconciliation of movements in shareholders' funds

	2014 £	2013 £
Profit for the year	45,679	128,051
Opening shareholders' funds	2,794,807	2,666,756
	<hr/>	<hr/>
Closing shareholders' funds	2,840,486	2,794,807
	<hr/>	<hr/>

19 Reconciliation of operating profit to net cash inflow from operating activities

	2014 £	2013 £
Operating profit	58,663	164,678
Depreciation of tangible fixed assets	32,829	38,861
Loss/(profit) on sale of tangible fixed assets	3,601	(547)
Decrease in stocks	199,613	373,286
(Increase)/decrease in debtors	(134,869)	105,596
Decrease in creditors	(42,675)	(208,330)
	<hr/>	<hr/>
Net cash inflow from operating activities	117,162	473,544
	<hr/>	<hr/>

Lochinvar Limited

Notes forming part of the financial statements
for the year ended 31 December 2014 (*continued*)

20 Reconciliation of net cash flow to movement in net funds

	2014 £	2013 £
(Decrease)/increase in cash	(8,606)	245,664
Cash inflow from changes in debt	-	3,750
Movement in net funds	(8,606)	249,414
Opening net funds	947,726	698,312
Closing net funds	939,120	947,726

21 Analysis of net funds

	At 1 January 2014 £	Cash flow £	At 31 December 2014 £
Cash at bank and in hand	947,726	(8,606)	939,120
Total	947,726	(8,606)	939,120

22 Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2014 £	Other 2014 £	Land and buildings 2013 £	Other 2013 £
Operating leases which expire:				
In two to five years	-	110,878	-	110,878
After five years	115,062	-	115,208	-

Lochinvar Limited

Notes forming part of the financial statements for the year ended 31 December 2014 (*continued*)

23 Related party disclosures

The company is a wholly owned subsidiary of A O Smith Corporation and has taken advantage of the exemption conferred by Financial Reporting Standard 8 'Related party disclosures' not to disclose transactions with A O Smith Corporation or other wholly owned subsidiaries within the group.

24 Ultimate parent company and parent undertaking of larger group

The company is a subsidiary of A O Smith Corporation which is the ultimate parent company incorporated in the United States of America. Copies of the consolidated financial statements of this company are available to the public and can be obtained from A O Smith Corporation, PO Box 245008, Milwaukee, Wisconsin, 53224, USA.