

# **Lochinvar Limited**

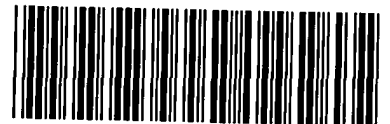
Directors' Report and Financial Statements

Year Ended

31 December 2020

Company Number 03453820

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# Lochinvar Limited

## Company Information

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**Directors**

J F Stern  
H H H Meelen  
T J G M Van Der Hamsvoor  
C T Lauber

**Company secretary**

J F Stern  
Gravitas Company Secretarial Services Limited

**Registered number**

03453820

**Registered office**

One, New Change  
London  
EC4M 9AF

**Independent auditor**

BDO LLP  
Thames Tower  
Station Road  
Reading  
Berkshire  
RG1 1LX

# **Lochinvar Limited**

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# **Lochinvar Limited**

## **Directors' Report For the Year Ended 31 December 2020**

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The directors present their report together with the audited financial statements for the year ended 31 December 2020.

### **Principal activity**

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

### **Results and dividends**

The profit for the year, after taxation, amounted to £926,731 (2019 - £1,209,192).

The company paid an interim dividend of £750,000 for the year (2019 - £1,250,000).

The directors believe that the company is well placed to cope with the new free trade deal with the EU as the majority of purchases are from inter-group companies. As a precaution, inventory levels have been increased for all products, so the directors are comfortable that current equipment availability will be maintained throughout the transition period.

The directors also believe that the imposition of import duties on its European purchases will only have a negligible effect on its competitive position, as the vast majority of competitive manufactures and distributors import badged finished products and/or major componentry from European suppliers.

### **Qualifying third party indemnity provisions**

The company has indemnified the directors of the company against liability in respect of proceedings brought about by third parties, subject to conditions set out in the Companies Act 2006. Such qualifying third-party indemnity provision was in force throughout the period and at the date of signing of these accounts.

### **Going concern**

In preparing the financial statements, the directors have considered the ability of the company to continue as a going concern and have prepared cash flow forecasts to inform their decisions. At the date of approval of these financial statements, the world is in the midst of the Covid-19 global pandemic with some countries only now starting to release lockdown measures introduced to contain the spread of the virus. The extent of the impact on the global economy is uncertain but there is an expectation of recessions in economies across the globe. The impact of Covid-19 and any subsequent recession on the company's business is uncertain.

Services provided by the company are classified as essential by the UK government as they provide hot water systems to hospitals and care homes. Therefore the company has been able to continue to trade throughout the lockdown period. The directors expect this to continue during any future restrictions. The key risk to the business is its ability to operate under government health and safety guidelines. To date all necessary measures have been put in place to ensure the safe guarding of staff with minimal disruption to the operation. Using the above information management have prepared cash flow forecasts identifying all contractual cash commitments for the next twelve months and compared this to current cash holdings. For the reasons discussed above and based on stress tests performed, the directors believe that it remains appropriate to prepare the financial statements on the going concern basis.

# Lochinvar Limited

## Directors' Report (continued) For the Year Ended 31 December 2020

### Furlough

As the UK economy effectively closed in the second quarter of 2020, customers and active construction sites largely closed, therefore the decision was made to take advantage of the Coronavirus Job Retention (Furlough) Scheme. As the A O Smith group, including Lochinvar are classified as an essential business, providing clean and hot water, deemed an indispensable requirement in combatting the spread of the virus.

All staff continued working with reduced hours and the company topped up salaries to full-time equivalent. No redundancies were made in the year, and the headcount has increased for the year ended December 31, 2020.

Furlough grant funds received have been treated as other income as per FRS 102 requirements.

### Directors

The directors who served during the year were:

J F Stern  
H H H Meelen  
T J G M Van Der Hamsvoor  
C T Lauber

### Disclosure of information to auditor

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

### Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board on *June 9, 2021* and signed on its behalf.

  
C T Lauber  
Director

# **Lochinvar Limited**

## **Directors' Responsibilities Statement For the Year Ended 31 December 2020**

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The directors are responsible for preparing 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**

## **Independent Auditor's Report to the Members of Lochinvar Limited**

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### **Opinion on the 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 2020 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.

We have audited the financial statements of Lochinvar Limited ("the Company") for the year ended 31 December 2020 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, and notes to the financial statements, 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 Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

### **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. 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.

### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the Directors' report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

# **Lochinvar Limited**

## **Independent Auditor's Report to the Members of Lochinvar Limited (continued)**

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### **Other Companies Act 2006 reporting**

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

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

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 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; or
- The Directors were not entitled to take advantage of the small companies' exemptions from the requirement to prepare a Strategic report.

### **Responsibilities of directors**

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, 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.



# Lochinvar Limited

## Independent Auditor's Report to the Members of Lochinvar Limited (continued)

### Auditor's responsibilities for the audit of the financial statements (continued)

#### *Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- Enquiring of management, including obtaining and reviewing supporting documentation, concerning the Company's policies and procedures relating to:
  - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.
- Obtaining an understanding of the legal and regulatory frameworks that the Company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Company. The key laws and regulations considered in this context included the UK Companies Act, and relevant tax legislation.
- Challenging assumptions made by management in their significant accounting estimates in particular relation to estimation of warranty provision, and valuation of inventory.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, journals posted by senior management and manual journals posted to revenue.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available 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.

DocuSigned by:  
**Chris Pooler**  
F751029A07451

**Christopher Pooler** (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
Reading, UK

Date: 09 June 2021

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

# Lochinvar Limited

## Statement of Comprehensive Income For the Year Ended 31 December 2020

	Note	2020 £	2019 £
Turnover	4	11,779,320	12,372,255
Cost of sales		(6,916,420)	(7,233,795)
<b>Gross profit</b>		<b>4,862,900</b>	<b>5,138,460</b>
Administrative expenses		(3,785,150)	(3,637,385)
Other operating income	5	72,335	-
<b>Operating profit</b>	6	<b>1,150,085</b>	<b>1,501,075</b>
Tax on profit	9	(223,354)	(291,883)
<b>Profit and total comprehensive income for the financial year</b>		<b>926,731</b>	<b>1,209,192</b>

The results stated above are derived from continuing activities.

The notes on pages 10 to 21 form part of these financial statements.


**Lochinvar Limited**  
Registered number: 03453820

**Statement of Financial Position**  
**As at 31 December 2020**

	Note	2020 £	2020 £	2019 £	2019 £
<b>Fixed assets</b>					
Tangible assets	11		93,479		112,719
			<u>93,479</u>		<u>112,719</u>
<b>Current assets</b>					
Stocks	12	1,804,226		1,768,760	
Debtors: amounts falling due within one year	13	2,410,088		2,370,455	
Cash at bank and in hand		2,923,449		1,869,211	
		<u>7,137,763</u>		<u>6,008,426</u>	
Creditors: amounts falling due within one year	14	(3,707,108)		(2,770,685)	
<b>Net current assets</b>			<u>3,430,655</u>		<u>3,237,741</u>
<b>Total assets less current liabilities</b>			<u>3,524,134</u>		<u>3,350,460</u>
<b>Provisions for liabilities</b>					
Deferred tax	15		(12,183)		(15,240)
<b>Net assets</b>			<u><u>3,511,951</u></u>		<u><u>3,335,220</u></u>
<b>Capital and reserves</b>					
Called up share capital	17	400,002		400,002	
Profit and loss account	18	3,111,949		2,935,218	
<b>Total equity</b>			<u><u>3,511,951</u></u>		<u><u>3,335,220</u></u>

The company's financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

  
**C T Lauber**  
Director

Date: June 9, 2021

The notes on pages 10 to 21 form part of these financial statements.

# Lochinvar Limited

## Statement of Changes in Equity For the Year Ended 31 December 2020

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2020	400,002	2,935,218	3,335,220
<b>Comprehensive Income for the year</b>			
Profit for the year	-	926,731	926,731
<b>Total comprehensive income for the year</b>	-	926,731	926,731
Dividends: equity capital	-	(750,000)	(750,000)
<b>Total transactions with owners</b>	-	(750,000)	(750,000)
<b>At 31 December 2020</b>	<b>400,002</b>	<b>3,111,949</b>	<b>3,511,951</b>

## Statement of Changes in Equity For the Year Ended 31 December 2019

	Called up share capital	Profit and loss account	Total equity
	£	£	£
At 1 January 2019	400,002	2,976,026	3,376,028
<b>Comprehensive income for the year</b>			
Profit for the year	-	1,209,192	1,209,192
<b>Total comprehensive income for the year</b>	-	1,209,192	1,209,192
Dividends: Equity capital	-	(1,250,000)	(1,250,000)
<b>Total transactions with owners</b>	-	(1,250,000)	(1,250,000)
<b>At 31 December 2019</b>	<b>400,002</b>	<b>2,935,218</b>	<b>3,335,220</b>

The notes on pages 10 to 21 form part of these financial statements.

# **Lochinvar Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2020**

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### **1. General information**

Lochinvar Limited is a private company limited by shares and incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activity is set out in the directors' report.

### **2. Accounting policies**

#### **2.1 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company accounting policies (see note 3).

The presentational and functional currency of these financial statements is GBP. Values are rounded to the nearest pound.

The following principal accounting policies have been applied:

#### **2.2 Financial reporting standard 102 - reduced disclosure exemptions**

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of A O Smith Corporation as at 31 December 2020 and these financial statements may be obtained from PO Box 245008, Milwaukee, Wisconsin, 53224, USA.

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2020

### 2. Accounting policies (continued)

#### 2.3 Going concern

In preparing the financial statements, the directors have considered the ability of the company to continue as a going concern and have prepared cash flow forecasts to inform their decisions. At the date of approval of these financial statements, the world is in the midst of the Covid-19 global pandemic with some countries only now starting to release lockdown measures introduced to contain the spread of the virus. The extent of the impact on the global economy is uncertain but there is an expectation of recessions in economies across the globe. The impact of Covid-19 and any subsequent recession on the company's business is uncertain.

Services provided by the company are classified as essential by the UK government as they provide hot water systems to hospitals and care homes. Therefore the company has been able to continue to trade throughout the lock down period. The directors expect this to continue during any future restrictions. The key risk to the business is its ability to operate under government health and safety guidelines. To date all necessary measures have been put in place to ensure the safe guarding of staff with minimal disruption to the operation. Using the above information management have prepared cash flow forecasts identifying all contractual cash commitments for the next twelve months and compared this to current cash holdings. For the reasons discussed above and based on stress tests performed, the directors believe that it remains appropriate to prepare the financial statements on the going concern basis.

#### 2.4 Revenue

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.

#### 2.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives.

Depreciation is provided on the following basis:

Leasehold property	- over the term of the lease
Plant and machinery	- 25% Reducing balance
Motor vehicles	- 25% Reducing balance
Fixtures, fittings and equipment	- 25% Reducing balance
Computer equipment	- 33% Straight line

#### 2.6 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.

# **Lochinvar Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2020**

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### **2. Accounting policies (continued)**

#### **2.7 Debtors**

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

#### **2.8 Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

#### **2.9 Financial instruments**

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable and loans to and from related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate, which is an approximation of the amount that the company would receive for the asset if it were to be sold at the reporting date.

#### **2.10 Creditors**

Short term creditors are measured at the transaction price. Other financial liabilities are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

# **Lochinvar Limited**

## **Notes to the Financial Statements For the Year Ended 31 December 2020**

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### **2. Accounting policies (continued)**

#### **2.11 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 statement of financial position date. Any differences are taken to profit or loss.

#### **2.12 Operating leases: the company as a lessee**

Rentals paid under operating leases are charged to the statement of comprehensive income on a straight line basis over the term of the lease.

#### **2.13 Pensions - defined contribution pension plan**

Contributions to the company's defined contribution pension scheme are charged to statement of comprehensive income in the year in which they become payable.

#### **2.14 Dividends**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

#### **2.15 Current and deferred taxation**

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.



# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2020

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### 3. Judgements in applying accounting policies and key sources of estimation uncertainty

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.

Critical judgements made in applying the entity's accounting policies are as follows:

#### (i) Leases

Determine whether leases entered into by the company either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

#### (ii) Impairment of tangible assets

Determine whether there are no indicators of impairment of the company's tangible assets. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performances of that unit. Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

#### (iii) Stocks (see note 12)

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value. In calculating net realisable value stocks are assessed for impairment. If stock is deemed to be impaired an estimate is made of the value of the impairment and the carrying amount is reduced to selling price less costs to complete and sell.

#### (iv) Trade debtors impairment loss (see note 13)

Trade debtors are reviewed for impairment loss on an annual basis and provision made for any balances where there is uncertainty against the recoverability of the balance. This methodology is applied on a customer by customer basis.

#### (v) Creditors, provisions and liabilities (see note 14)

Liabilities are recognised at the statement of financial position date and include amounts for warranty costs based on an estimate of the costs of satisfying any warranty claims. Although these amounts are reviewed on a regular basis and adjusted to reflect management's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided.

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2020

### 4. Turnover

Analysis of turnover by country of destination:

	2020 £	2019 £
United Kingdom	11,232,628	12,001,292
Rest of the World	546,692	370,963
	<u>11,779,320</u>	<u>12,372,255</u>

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

### 5. Other operating income

	2020 £	2019 £
Furlough grant income	<u>72,335</u>	<u>-</u>

### 6. Operating profit

The operating profit is stated after charging/(crediting):

	2020 £	2019 £
Depreciation of tangible fixed assets	26,200	28,068
Exchange differences	(62,248)	(6,602)
Other operating lease rentals	135,661	160,035
Auditor's remuneration - audit services	26,000	24,500
Auditor's remuneration - non audit services	<u>8,500</u>	<u>7,950</u>

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2020

### 7. Employees

The average monthly number of employees, including directors, during the year was 41 (2019 - 39).

Staff costs were as follows:

	2020 £	2019 £
Wages and salaries	2,000,365	2,025,265
Social security costs	217,850	214,290
Cost of defined contribution scheme	74,051	65,024
	<u>2,292,266</u>	<u>2,304,579</u>

### 8. Directors' remuneration

The directors are employees of other companies within the AO Smith group and receive remuneration in these companies.

There were nil directors in the company's defined contribution pension scheme during the year (2019 - none).

### 9. Taxation

	2020 £	2019 £
<b>Corporation tax</b>		
Current tax on profits for the year	230,382	296,015
Adjustments in respect of previous periods	(3,971)	(1,547)
<b>Total current tax</b>	<u>226,411</u>	<u>294,468</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(4,850)	(2,670)
Adjustments in respect of prior periods	-	85
Effect of tax rate change on opening balance	1,793	-
<b>Total deferred tax</b>	<u>(3,057)</u>	<u>(2,585)</u>
<b>Taxation on profit on ordinary activities</b>	<u>223,354</u>	<u>291,883</u>

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2020

### 9. Taxation (continued)

#### Factors affecting tax charge for the year

The tax assessed for the year is higher than (2019 - higher than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £	2019 £
Profit on ordinary activities before tax	<u>1,150,085</u>	<u>1,501,075</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	218,516	285,204
Effects of:		
Fixed asset differences	530	633
Expenses not deductible for tax purposes	6,487	7,194
Adjustments to tax charge in respect of prior period	(3,971)	(1,547)
Adjustments to tax charge in respect of prior period - deferred tax	1,792	85
Adjust closing deferred tax to average rate of 19%	-	(1,793)
Adjust opening deferred tax to average rate of 19%	-	2,107
Total tax charge for the year	<u>223,354</u>	<u>291,883</u>

#### Factors that may affect future tax charges

The effects of changes to the corporation tax rates, substantively enacted as part of the Finance Act 2016 on 15 September 2016, made a reduction of UK corporation tax to 17% effective 1 April 2020. On 11 March 2020, it was announced that this change was to be reversed and the rate remains at 19% from 1 April 2020. This change was substantively enacted on 17 March 2020. Deferred taxes at the reporting date have been measured and reflected in these financial statements using the substantively enacted tax rate at the year end of 19%.

### 10. Dividends

	2020 £	2019 £
Dividends	<u>750,000</u>	<u>1,250,000</u>

There was an interim dividend paid of £1.87 per share (2019 - £3.125)

## Lochinvar Limited

### Notes to the Financial Statements For the Year Ended 31 December 2020

#### 11. Tangible fixed assets

	Computer equipment £	Plant and machinery £	Motor vehicles £	Fixtures, fitting & equipment £	Leasehold property £	Total £
<b>Cost</b>						
At 1 January 2020	100,600	134,058	43,916	121,167	209,764	609,505
Additions	-	8,263	-	-	597	8,860
Disposals	(1,900)	-	-	-	-	(1,900)
At 31 December 2020	98,700	142,321	43,916	121,167	210,361	616,465
<b>Depreciation</b>						
At 1 January 2020	98,700	84,984	39,919	118,396	154,787	496,786
Charge for the year	-	14,170	998	692	10,340	26,200
At 31 December 2020	98,700	99,154	40,917	119,088	165,127	522,986
<b>Net book value</b>						
At 31 December 2020	-	43,167	2,999	2,079	45,234	93,479
At 31 December 2019	1,900	49,074	3,997	2,771	54,977	112,719

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2020

### 12. Stocks

	2020 £	2019 £
Finished goods and goods for resale	<u>1,804,226</u>	<u>1,768,760</u>

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

### 13. Debtors: amounts falling due within one year

	2020 £	2019 £
Trade debtors	2,295,953	2,265,123
Other debtors	-	1,000
Prepayments and accrued income	100,053	104,332
Tax recoverable	14,082	-
	<u>2,410,088</u>	<u>2,370,455</u>

The impairment loss recognised in the profit for the year in respect of bad and doubtful trade debtors was £52,000 (2019 - credit of £17,228).

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

	2020 £	2019 £
Trade creditors	412,665	335,151
Amounts owed to group undertakings	1,595,636	1,304,350
Corporation tax	-	210,212
Taxation and social security	1,009,872	488,507
Accruals and deferred income	688,935	432,465
	<u>3,707,108</u>	<u>2,770,685</u>

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2020

### 15. Deferred taxation

	2020 £
At beginning of year	15,240
Charged to profit or loss	(3,057)
<b>At end of year</b>	<b><u>12,183</u></b>

The provision for deferred taxation is made up as follows:

	2020 £	2019 £
Accelerated capital allowances	12,183	15,240
	<b><u>12,183</u></b>	<b><u>15,240</u></b>

### 16. 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 £74,051 (2019 - £65,024). Contributions amounting to £10,926 (2019 - £Nil) were payable to the fund and are included in creditors.

### 17. Share capital

	2020 £	2019 £
400,002 ordinary shares of £1 each	<b><u>400,002</u></b>	<b><u>400,002</u></b>

### 18. Reserves

The company's capital and reserves are as follows:

#### Called up share capital

The called up share capital represents the nominal value of the shares issued.

#### Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

# Lochinvar Limited

## Notes to the Financial Statements For the Year Ended 31 December 2020

### 19. Commitments under operating leases

At 31 December 2020 the company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2020 £	2019 £
Not later than 1 year	150,125	158,035
Later than 1 year and not later than 5 years	390,347	487,748
Later than 5 years	-	37,628
	<u>540,472</u>	<u>683,411</u>

### 20. Related party transactions

The company has taken advantage of the exemption available in Section 33.1A of FRS 102 whereby it has not disclosed transactions with the ultimate parent company or any wholly owned subsidiary undertaking of the group.

### 21. 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. A O Smith Corporation is the parent undertaking of the smallest and largest group to consolidate the results of the company. Copies of the consolidated financial statements of this company are available in the public and can be obtained from A O Smith Corporation, PO Box 245008, Milwaukee, 53224, USA.