

Watts Industries UK Limited

Annual report and financial statements

Registered number 02642521

31 December 2018

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Strategic Report

Principal activities and business review

The principal activity of the company during the year was that of the trade of components, parts and devices to serve applications and/or installations in the field of plumbing, heating, the manufacture of valves, manifolds and controls for the water quality, gas and general industries.

Loss for the year after taxation amounted to £619,028 (2017: profit after tax of £44,153, as restated).

Due to weakness in the market place we saw a drop in turnover, together with a small drop in the gross margin percentage. In light of this, selling prices are constantly under review although the possibility of increasing prices and margins is extremely limited.

Future Developments

2019 is expected to be a similar picture as the background of uncertainty created by Brexit is making trading conditions very difficult.

Financial key performance indicators

The Directors use key performance indicators (KPI's) to monitor the financial position of the Company as noted below:

	2018	2017 (Restated*)
Revenue	9,570,899	11,797,663
Gross profit	3,173,319	4,088,963
(Loss)/Profit before tax	(657,722)	44,153

The Directors report that for the KPI's of Gross profit, profit before tax and revenue the Company are disappointing but in the current economic climate not unexpected.

Principal risks and uncertainties

One of the key areas of the Company's business strategies is its ability to identify and manage effectively the risks to its business and operations. The Company's approach, through its Integrated Management Systems, is to identify the key risks and then assess the effectiveness of controls to mitigate the impact and likelihood of these risks occurring. The principal risks are set out below, together with a summary of the actions taken to mitigate each risk:

Reputation and business conduct	The Company's ability to tender for new work is dependent on its relationship with its customers and other stakeholders.	The Company monitors performance through customer feedback and complies with the Bribery Act 2010.
Project delivery	The Company has many projects at any point in time and the risks that the Company is exposed to are dependent on the nature of the work undertaken.	Projects in progress are managed through the Company's operating structure and procedures. Risks are monitored and updated by dedicated project teams.

The Board and senior management is committed to the management of these risks through the consistent application of an effective risk management process, augmented where necessary by insurance.

*refer to note 21

Strategic Report (continued)

Brexit

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We continue to assess the company's future prospects and performance, however it is complex to predict the unknowable factors or all possible future implications for a business and this is particularly the case in relation to Brexit.

Financial risk management objectives and policies

Overview

In common with other businesses, the company aims to minimise financial risk. The measures used by the Directors to manage this risk include the preparation of profit forecasts and regular monitoring of actual performance against these forecasts.

Currency Risk

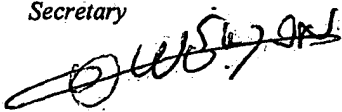
The Group is exposed to foreign exchange risk. Transaction exposures, including those associated with forecast transactions, are offset where possible through matching liabilities to assets of the same currency.

Credit Risk

The Group's principal financial assets are cash, trade debtors and stock. The principal credit risk therefore arises from its trade debtors. In order to manage credit risk, the directors set limits for customers based on a combination of payment history, current knowledge and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

By order of the board

O. Giverdon
Secretary



Ambuscade Road
Colmworth Business Park
Eaton Socon
Cambridgeshire
PE19 8YX

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2018.

Directors

The directors who served during the year and up to the date of the approval of the financial statements were as follows:

N. Wood
R. van Bergen (resigned 10/10/2018)
O. Giverdon

Result and Dividends

The loss for the year, after taxation, amounted to £619,028 (2017: £44,153 profit, as restated). A dividend of £1,800,000 was paid for the year ended 31 December 2018 (2017: £1,730,966).

Donations

The Company made no political donations or charitable donations during the year (2017: £nil).

Going concern

The directors are confident that the Company will continue as a going concern for the foreseeable future as set out in note 1.

Matters covered in the strategic report

The Strategic Report includes the following disclosures that would otherwise have been included in the Directors' Report:

- Business review
- Key performance indicators
- Principal risks and uncertainties
- Financial risk management policies and objectives

Disclosure of information to auditor

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 auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will, therefore, continue in office.

By order of the board



N. Wood
Director
10th December 2019

Ambuscade Road
Colmworth Business Park
Eaton Socon
Cambridgeshire
PE19 8YX

Statement of directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice) including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Watts Industries UK Limited

Opinion

We have audited the financial statements of Watts Industries UK Limited ("the company") for the year ended 31st December 2018 which comprise the *Profit and Loss Account, Balance Sheet, Statement of Changes in equity* and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as recoverability of debtors, valuation of stock and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Independent auditor's report to the members of Watts Industries UK Limited *(continued)*

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report to the members of Watts Industries UK Limited
(continued)

The purpose of our audit work and to whom we owe our responsibilities

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.



Michael Scrivener (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Botanic House
100 Hills Road
Cambridge
CB2 1AR
17 December 2019

Profit and Loss Account
for the year ended 31 December 2018

	<i>Note</i>	2018	2017
		£	(Restated*)
			£
Turnover	2	9,570,899	11,797,663
Cost of sales		(6,397,580)	(7,708,700)
Gross profit		3,173,319	4,088,963
Administration costs		(3,829,906)	(3,899,026)
Operating (Loss) / Profit	3	(656,587)	189,937
(Loss) on disposal of operations		-	(136,480)
Interest receivable and similar income	6	5,290	6
Interest payable and similar charges	7	(6,425)	(7,778)
(Loss) / Profit before taxation		(657,722)	45,685
Tax on (Loss) / Profit	8	38,694	(1,532)
(Loss) / Profit for the financial year		(619,028)	44,153

The profit and loss account has been prepared on the basis that all operations are continuing operations.

The company has no recognised gains or losses other than the total comprehensive income for the current or preceding year.

The notes on pages 11 to 24 form an integral part of these financial statements.

*Refer to note 21

Balance sheet
At 31 December 2018

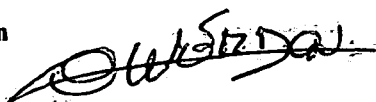
	Note	2018		2017 (Restated*)
		£	£	£
Fixed assets				
Intangible assets	9	177,983		203,408
Tangible assets	10	91,292		95,596
Investments	11	3,854,463		3,854,463
			<u>4,123,738</u>	<u>4,153,467</u>
Current assets				
Stocks	12	2,112,421		2,344,725
Debtors	13	2,034,828		2,186,895
Cash at bank		4,535,759		2,624,205
		<u>8,683,008</u>		<u>7,155,825</u>
Creditors: Amounts falling due within one year	14	<u>(10,360,103)</u>		<u>(6,443,621)</u>
Net current (liabilities)/assets			<u>(1,677,095)</u>	<u>712,204</u>
Net Assets			<u>2,446,643</u>	<u>4,865,671</u>
Capital and reserves				
Called up share capital	17	10,000		10,000
Profit and loss account		2,436,643		4,855,671
Shareholders' funds		<u>2,446,643</u>		<u>4,865,671</u>

These financial statements were approved by the board of directors on 10th December 2019 and were signed on its behalf by:

N. Wood
Director



O. Giverdon
Director



Company registered number: 02642521

The notes on pages 11 to 24 form an integral part of these financial statements.

*Refer to note 21

Statement of Changes in Equity
at 31 December 2018

	Called up share capital £	Profit and loss account £	Total equity £
Balance at 1 January 2017 (as previously reported)	10,000	6,742,849	6,752,849
Impact of prior year adjustments*	-	(200,365)	(200,365)
Restated balance at 1 January 2017	10,000	6,542,484	6,552,484
Total comprehensive income for the period			
Profit for the year (restated*)	-	44,153	44,153
Transactions with owners, recorded directly in equity			
Dividend Payment	-	(1,730,966)	(1,730,966)
Restated Balance at 31 December 2017	10,000	4,855,671	4,865,671
	Called up share capital £	Profit and loss account £	Total equity £
Balance at 1 January 2018	10,000	4,855,671	4,865,671
Total comprehensive income for the period			
Profit for the year	-	(619,028)	(619,028)
Total comprehensive income for the period			
	10,000	4,236,643	4,246,643
Transactions with owners, recorded directly in equity			
Dividend Payment	-	(1,800,000)	(1,800,000)
Balance at 31 December 2018	10,000	2,436,643	2,446,643

The notes on pages 11 to 24 form an integral part of these financial statements.

*Refer to note 21

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Basis of preparation

Watts Industries UK Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1, unless otherwise stated.

The Company's ultimate parent undertaking, Watts Water Technologies Inc. includes the Company in its consolidated financial statements. The consolidated financial statements of Watts Water Technologies Inc. are available to the public and may be obtained from Corporate Headquarters, 815 Chestnut Street, North Andover, MA 01845-6098, USA. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) (see back page) has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Watts Water Technologies Inc. include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Going concern

Notwithstanding net current liabilities of £1,677,095 as at 31 December 2018, a loss for the year then ended of £619,028, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through funding from its immediate parent company, Watts EMEA Holding B.V., to meet its liabilities as they fall due for that period.

Notes (continued)

1 Accounting policies (continued)

1.2 Going concern (continued)

Those forecasts are dependent on Watts EMEA Holding B.V. not seeking repayment of the amounts currently due to the group, which at 31 December 2018 amounted to £4,550,880, and providing additional financial support during that period. Watts EMEA Holding B.V. has indicated its intention to continue to make available such funds as are needed by the company, and that it does not intend to seek repayment of the amounts due at the balance sheet date, for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no 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.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

1.4 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

1.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Tangible fixed assets include investment property whose fair value cannot be measured reliably without undue cost or effort.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.10 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Notes (continued)

1 Accounting policies (continued)

1.5 Tangible fixed assets (continued)

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

- Warehouse equipment - straight line over 10 years
- Fixtures, fittings and equipment - straight line over 10 years
- Motor vehicles - straight line over 4 years
- Office and exhibition equipment - straight line over 3 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

1.6 Intangible assets, goodwill and negative goodwill

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Negative goodwill

Negative goodwill arising on business combinations in respect of acquisitions is included on the balance sheet immediately below any positive goodwill and released to the profit and loss account in the periods in which the non-monetary assets arising on the same acquisition are recovered. Any excess exceeding the fair value of non-monetary assets acquired shall be recognised in profit or loss in the periods expected to benefit.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Goodwill on acquisition of business 20 years

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

Notes (continued)

1 Accounting policies (continued)

1.7 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

1.8 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.9 Turnover

Turnover is the total amount receivable by the company for goods supplied, excluding VAT and trade discounts. Revenue from the sale of goods is only recognised when the company has transferred the significant risks and rewards of ownership of the goods to the buyer and the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity.

1.10 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

1.11 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Notes *(continued)*

1 **Accounting policies** *(continued)*

1.11 **Taxation** *(continued)*

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Notes (continued)

2 Turnover

The turnover and profit before tax are attributable to the one principal activity of the company (sales of goods).

An analysis of turnover by geographical market is given below:

	2018 £	2017 £
UK	8,950,227	11,298,425
Europe	487,609	353,221
Rest of world	133,063	146,017
	<u>9,570,899</u>	<u>11,797,663</u>

3 Operating profit

	2018 £	2017 (Restated*) £
Operating profit is stated after charging/(crediting)		
<i>Depreciation:</i>		
Owned assets	27,707	24,999
Goodwill amortisation	25,425	25,425
Profit on sale of goodwill	-	(39,221)
Foreign exchange differences	81,713	34,305
Operating leases expenses*	510,977	537,787
	<u>510,977</u>	<u>537,787</u>
<i>Auditor's remuneration</i>		
Audit of these financial statements	39,000	35,700
Non-audit services	2,500	2,500
	<u>39,000</u>	<u>35,700</u>

*Refer to note 21

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was as follows:

	Number of employees	
	2018	2017
Sales and distribution	38	44

The aggregate payroll costs of these persons were as follows:

	£	£
Wages and salaries	1,334,895	1,680,114
Social security costs	154,776	174,062
Other pension costs	51,118	67,670
	<u>1,540,789</u>	<u>1,921,846</u>

5 Directors' remuneration

	£	£
Directors' emplacements	141,295	140,499
Directors' pension contributions to money purchase scheme	11,278	10,692

The number of directors to whom retirement benefits were accruing was as follows:

	Number of directors	
Defined contribution schemes	1	1

6 Interest receivable and similar income

	2018	2017
	£	£
Bank and group interest	13	6
Other Interest	5,277	-
	<u>5,290</u>	<u>6</u>

7 Interest payable and similar charges

	2018	2017
	£	£
Interest payable	6,425	7,778

Notes (continued)

8 Taxation

Analysis of charge in year	2018	2017 (Restated*)
	£	£
Current Tax		
Current tax on income for period	(28,246)	40,567
Adjustments in respect of prior years	(12,321)	(2,255)
	<u>(40,567)</u>	<u>38,312</u>
Deferred Tax (note 15)		
Origination and reversal of timing differences	(10,448)	(24,459)
Adjustment in respect of PYA (see note 21)	12,321	(12,321)
	<u>1,873</u>	<u>(36,780)</u>
Tax on profit on ordinary activities	<u>(38,694)</u>	<u>1,532</u>

Factors affecting the tax charge for the current year

The current tax charge for the year is different to the standard rate of corporation tax in the UK. The differences are explained below:

	2018	2017 (Restated)
	£	£
Current tax reconciliation		
Profit/loss on ordinary activities before tax	(657,722)	45,685
Current tax at 19 % (2017: 19.25%)	<u>(124,967)</u>	<u>8,794</u>
Effects of:		
Expenses not deductible for tax purposes	874	1,441
Current year losses for which no deferred tax asset was recognised	84,381	-
Adjustment in relation to prior period	-	(2,255)
Change in tax rates	(137)	(1,309)
Capital allowances in excess of depreciation/(capital allowances claimed)	1,155	(5,139)
Total current tax charge (see above)	<u>(38,694)</u>	<u>1,532</u>

Factors affecting future tax charge

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2018) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2017. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2018 has been calculated based on these rates.

Certain presentational changes in comparatives to the tax reconciliation above have been made in line with FRS 102 requirements and consistency with the current year presentation.

Notes (continued)

9 Intangible fixed assets

	Goodwill £
Cost	
Balance at 1 January 2018	508,508
	<hr/>
Balance at 31 December 2018	508,508
	<hr/>
Amortisation	
Balance at 1 January 2018	305,100
Amortisation for year	25,425
	<hr/>
Balance at 31 December 2018	330,525
	<hr/>
Net book value	
At 1 January 2018	203,408
	<hr/>
At 31 December 2018	177,983
	<hr/>

10 Tangible fixed assets

	Leasehold Improvements £	Plant and equipment £	Total £
Cost			
Balance at 1 January 2018	55,466	482,026	537,492
Additions	-	23,403	23,402
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	55,466	505,429	560,894
	<hr/>	<hr/>	<hr/>
Depreciation			
Balance at 1 January 2018	14,792	427,104	441,896
Charge for the year	3,698	24,009	27,707
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	18,490	451,113	469,603
	<hr/>	<hr/>	<hr/>
Net book value			
At 1 January 2018	40,674	54,922	95,596
	<hr/>	<hr/>	<hr/>
At 31 December 2018	36,976	54,316	91,292
	<hr/>	<hr/>	<hr/>

Notes (continued)

11 Fixed asset investments

	Shares in group undertakings £
Cost	
Balance at 1 January 2018	4,714,233
	<hr/>
Balance at 31 December 2018	4,714,233
	<hr/>
Provision	
Balance at 1 January 2018	(859,770)
	<hr/>
Balance at 31 December 2018	(859,770)
	<hr/>
Net book value	
At 1 January 2018	3,854,463
	<hr/>
At 31 December 2018	3,854,463
	<hr/>

The net book value of £3,854,463 relates entirely to the company's investment in Black Teknigas and Electro Controls Limited. All other fixed asset investments have been written off in prior periods.

The company's investments at the balance sheet date in the share capital of companies include the following:

Electro Controls Limited

Country of incorporation: England and Wales
Colmworth Business Park, Eaton Socon
Cambridgeshire, PE19 8 YX
Nature of business: Dormant
Class of shares: Ordinary
Holding: 100%

Black Teknigas and Electro Controls Limited

Country of incorporation: England and Wales
Colmworth Business Park, Eaton Socon,
Cambridgeshire, PE19 8 YX
Nature of business: Dormant from 1st April 2015
Class of shares: Ordinary
Holding: 100%

12 Stock

	2018 £	2017 £
Raw Materials	432,332	135,628
Work in progress	25,456	37,166
Finished goods	1,654,633	2,171,931
	<hr/>	<hr/>
	2,112,421	2,344,725
	<hr/>	<hr/>

Notes (continued)

13 Debtors

	2018	2017 (Restated*)
	£	£
Trade debtors	1,696,301	1,931,666
Amounts owed by group undertakings	47,166	78,596
Prepayments	161,619	110,585
Deferred Tax asset (note 15)	-	1,873
Corporation tax debtors	129,742	64,175
	<u>2,034,828</u>	<u>2,186,895</u>

14 Creditors: Amounts falling due within one year

	2018	2017 (Restated*)
	£	£
Trade creditors	469,791	539,962
Amounts owed to group undertakings	9,117,094	5,048,660
Social security and other taxes	38,659	44,572
VAT	275,164	336,633
Accrued expenses	459,395	473,794
	<u>10,360,103</u>	<u>6,443,621</u>

15 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2018	2017*	Liabilities 2018	2017	Net 2018	2017 (Restated*)
	£	£	£	£	£	£
Carried forward losses recognised	(10,333)	-	-	-	(10,333)	-
Accelerated capital allowances	-	-	10,333	10,448	10,333	10,448
Adjustment in relation to PYA (note 21)	-	(12,321)	-	-	-	(12,321)
	<u>(10,333)</u>	<u>(12,321)</u>	<u>10,333</u>	<u>10,448</u>	<u>-</u>	<u>(1,873)</u>
Net tax (assets) /liabilities	(10,333)	(12,321)	10,333	10,448	-	(1,873)

In addition to the deferred tax asset above, the Company has additional unrecognised gross tax losses of £444,108 (2017: £200,365*).

16 Pension commitments

The company operates a defined contribution pension scheme in respect of the employees. The scheme and its assets are held by independent managers. The pension charge represents contributions due from the company and amounted to £51,118 (2017: £67,670). £7,552 (2017: £7,837) was outstanding at the end of the year.

*Refer to note 21

Notes (continued)

17 Called up share capital

	2018 £	2017 £
<i>Allotted, issued and fully paid:</i>		
10,000 ordinary shares of £1 each	10,000	10,000

18 Operating lease commitments

At 31 December 2018, non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Other operating leases	
	2018	2017 (Restated*)	2018	2017
	£	£	£	£
Within one year	452,412	448,055	34,724	29,601
Between one and five years	1,864,142	1,809,648	61,373	43,576
In more than five years	2,545,061	3,051,967	-	-
	<u>4,861,615</u>	<u>5,309,670</u>	<u>96,097</u>	<u>73,177</u>

*Restated to take into account minimum rent escalating fees

19 Related party disclosures

The company is exempt from the requirement to disclose transactions with other Watts group undertakings on the grounds that it is a wholly owned subsidiary of Watts EMEA Holding B.V. and its results are included in the company's financial statements.

20 Ultimate parent company and controlling party

The ultimate parent company and controlling party is Watts Water Technologies Inc. A company incorporated in the United States of America. Copies of the consolidated financial statements of this company are available from its offices at:

Corporate Headquarters
815 Chestnut Street
North Andover
MA 01845-6098
USA

The immediate parent company is Watts EMEA Holding B.V., a company incorporated in Holland. Copies of the consolidated financial statements of this company are available from its offices at:

Strawinskylaan 3099
1077 ZX
Amsterdam
Netherlands

21 Prior year adjustments

During 2018, the company discovered that rent expenses related to minimum rent escalating fees, which were not structured to compensate the lessor for expected general inflation (based on published indexes or statistics), had been recorded as per the rent contract rather than been included as an expense over the lease term on a straight line basis as per Section 20 of FRS102. As a consequence, rent expenses and related liabilities have been understated. The prior year comparative information has been adjusted by restating each of the affected financial statement line items.

The following table summarise the impact on the financial statements:

(i) Balance Sheet

At 31 December 2017

In £

	As previously reported £	Adjustments £	As restated £
Debtors	2,185,022	1,873	2,186,895
Total Current Assets	7,153,952	1,873	7,155,825
Creditors: Amounts falling due within one year	(6,179,240)	(264,381)	(6,443,621)
Net Current Assets	974,712	(262,508)	712,204
Deferred Tax liabilities	(10,448)	10,448	-
Net Assets	5,117,731	(252,060)	4,865,671
Profit and Loss account	5,107,731	(252,060)	4,855,671
Shareholder's funds	5,117,731	(252,060)	4,865,671

(ii) Profit and Loss Account

For the year ended 31 December 2017

In £

	As previously reported £	Adjustments £	As restated £
Administration Costs	(3,835,010)	(64,016)	(3,899,026)
Tax on profit	(13,853)	12,321	(1,532)
Profit for the financial year	95,848	(51,695)	44,153