

IMI Hydronic Engineering Limited

Report and Financial Statements

For the year ended 31 December 2018

(Registered in England and Wales - number 02945254)

TUESDAY



A8BRR2G

A09

13/08/2019

#116

COMPANIES HOUSE

IMI HYDRONIC ENGINEERING LIMITED
Report and financial statements
for the year ended 31 December 2018

Registered No. 02945254

CONTENTS

Strategic Report	1
Directors' Report	2
Statement of Directors' Responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements.	3
Independent auditor's report to the member of IMI Hydronic Engineering Limited	4-5
Income statement	6
Statement of comprehensive income	6
Balance sheet	7
Statement of changes in equity	8
Notes to the financial statements	9-19

IMI HYDRONIC ENGINEERING LIMITED
Registered No. 02945254
Strategic Report
for the year ended 31 December 2018

The directors of IMI Hydronic Engineering Limited (the 'Company') submit their Strategic Report for the year ended 31 December 2018.

1. Principal activities

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

The Company's principal activities are the supply of products and services to improve the hydronic performance of building services and the distribution of water conditioning products to the same sector. There have not been any significant changes in the Company's principal activities in the year under review.

The Company has now established a successful distribution partnership with a growing independent distributor that continues to go from strength to strength as well as enabling the Company's products to reach new end user markets.

Furthermore, the company has subsequently established in the year a further new route to market via the domestic sales channel market i.e. selling direct to installers. This continued to show growth over the year as well as into 2019.

Alongside this the Company continues to undertake strategic reviews with group of the existing supply chain operation.

2. Business review

The Company's key financial and other performance indicators during the year are as follows:

	2018	2017
Revenue (£'000)	8,220	7,790
Gross profit margin (%)	32.1	31.5
Operating profit (£'000)	309	110

Revenues increased to £8,220,000 (2017: £7,790,000) due to existing project income remaining strong combined with the continued success of both our distribution partnership and the new domestic sales channel. Sales secured during 2018 achieved gross margins of 32.1% (2017: 31.5%) and operating profit increased to £309,000 (2017: £110,000).

IMI plc manages its operations on a divisional basis, the Company's directors believe that further analysis using key performance indicators for the Company is neither necessary nor appropriate for an understanding of the development, performance or position of the business of the Company. The performance of the Hydronic Engineering division of IMI plc, which includes the Company, is discussed in IMI plc's annual report which does not form part of this report.

3. Future developments

The Company anticipates that it will continue to pursue its principal activities for the foreseeable future. The Company will remain competitive and will continue to introduce new products to try and improve market share.

4. Principal risks and uncertainties

The Company operates in a competitive environment and the most significant risks to future business are the delay and cancellation of building projects and price pressure exerted by competitors in trying to secure new business.

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

On behalf of the Board



N Bunning
Director
30 April 2019

IMI HYDRONIC ENGINEERING LIMITED
Registered No. 02945254
Directors' Report
for the year ended 31 December 2018

The director of IMI Hydronic Engineering Limited (the 'Company') submit their Directors' Report together with the audited financial statements for the year ended 31 December 2018.

1. Profits and dividends

The results for the financial year are shown in the financial statements.

The aggregate amount of dividends that was declared for the year was £50,000. The aggregate amount of dividends paid in 2017 was £126,000. The directors have recommended a dividend payment of £423,000 in respect of 2018 (2017: £50,000), which will be paid in 2019.

2. Directors

The director who held office during the year and since 31 December 2018 was as follows:

N Bunning

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

3. Disclosure of information to auditors

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

4. Going concern

The Company participates in the group's centralised treasury function and so shares funding arrangements with its parent and fellow subsidiaries. Having assessed the responses of the directors of IMI plc, the Company's ultimate parent, to their enquiries, the directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of IMI plc to continue as a going concern or its ability to continue with the current funding arrangements.

On the basis of their assessment of the Company's financial position, review of its forecasts and of the enquiries made of the directors of IMI plc, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence in the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

5. Auditors

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

6. Disclosure requirements

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

7. Environment

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

On behalf of the Board



N Bunning
Director
30 April 2019

IMI HYDRONIC ENGINEERING LIMITED**Statement of Directors' Responsibilities in respect of the Strategic Report,
the Directors' Report and the financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable UK law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 '*Reduced Disclosure Framework*' (FRS 101).

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

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

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

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

Independent auditor's report to the member of IMI Hydronic Engineering Limited

Opinion

We have audited the financial statements of IMI Hydronic Engineering Limited for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of changes in equity and the related notes¹ to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Independent auditor's report to the member of IMI Hydronic Engineering Limited (continued)

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst & Young LLP

Farzin Radfar (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton
30 April 2019

IMI HYDRONIC ENGINEERING LIMITED**Income statement and statement of comprehensive income
for the year ended 31 December 2018****Income statement**

	Notes	2018 £000	2017 £000
Revenue	3	8,220	7,790
Cost of sales		<u>(5,580)</u>	<u>(5,340)</u>
Gross Profit		<u>2,640</u>	<u>2,450</u>
Distribution Costs		(1,819)	(1,815)
Administrative expenses		<u>(512)</u>	<u>(525)</u>
Operating profit	4	<u>309</u>	<u>110</u>
Interest payable	7	<u>(14)</u>	<u>(12)</u>
Profit on ordinary activities before taxation		<u>295</u>	<u>98</u>
Income tax charge	8	<u>(63)</u>	<u>(43)</u>
Profit for the financial year		<u>232</u>	<u>55</u>

Statement of comprehensive income

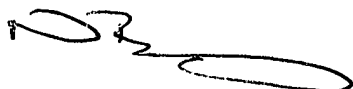
	2018 £000	2017 £000
Profit for the financial year	232	55
Total comprehensive income for the year	<u>232</u>	<u>55</u>

All activities relate to continuing operations.

Balance sheet
as at 31 December 2018

	Notes	2018 £000	2017 £000
<i>Fixed assets</i>			
Tangible assets	10	37	50
		<u>37</u>	<u>50</u>
<i>Current assets</i>			
Stocks	11	857	1,215
Deferred tax assets	8	37	10
Debtors	12	1,995	2,084
Cash at bank and in hand		1,459	1,073
		<u>4,348</u>	<u>4,382</u>
Creditors: amounts falling due within one year	13	<u>(3,452)</u>	<u>(3,681)</u>
<i>Net current assets</i>		896	701
<i>Total assets less current liabilities</i>		933	751
Provisions	14	(63)	(63)
<i>Net Assets</i>		<u>870</u>	<u>688</u>
<i>Capital and reserves</i>			
Called up share capital	15	400	400
Profit and loss account		470	288
Shareholder's Funds		<u>870</u>	<u>688</u>

These financial statements were authorised for issue by the board of directors on 30 April 2019 and were signed on its behalf by:



N Bunning
Director

IMI HYDRONIC ENGINEERING LIMITED**Statement of changes in equity
for the year ended 31 December 2018**

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 January 2017	400	359	759
Profit for the financial year	-	55	55
Total comprehensive income for the year	-	55	55
Equity dividends paid	-	(126)	(126)
At 31 December 2017	400	288	688
Profit for the financial year	-	232	232
Total comprehensive income for the year	-	232	232
Equity dividends paid	-	(50)	(50)
At 31 December 2018	<u>400</u>	<u>470</u>	<u>870</u>

IMI HYDRONIC ENGINEERING LIMITED

Notes to the financial statements

for the year ended 31 December 2018

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

The financial statements of IMI Hydronic Engineering Limited for the year ended 31 December 2018 were authorised for issue by the board of directors on 30 April 2019 and the balance sheet was signed on the board's behalf by N Bunning. IMI Hydronic Engineering Limited is incorporated and domiciled in England and Wales.

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

The financial statements are prepared in sterling which is also the company's functional currency and are rounded to the nearest thousand pounds (£000).

2. Accounting policies

Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018.

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

- (a) the requirements of IAS 7 'Statement of Cash Flows';
- (b) the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- (c) the requirement in paragraph 38 of IAS1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS1;
- (d) the requirements of paragraphs 10(d), 10(f) and 134-136 of IAS1;
- (e) the requirements of paragraphs 30 and 31 of IAS8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- (f) the requirements of paragraph 17 of IAS24 'Related Party Disclosures'; and
- (g) the requirements of paragraphs 45(b) and 46-52 of IAS 2 'Share Based Payment'.

The impact of the new International Financial Reporting Standards effective for the entity as of 1 January 2018 is set out below:

- IFRS 9 'Financial Instruments' - The effect of adopting this standard was not material and no accounting policies have been amended following the adoption of the standard.
- IFRS 15 'Revenue from Contracts with Customers' - this standard was adopted from the date of initial application - 1 January 2018. The five step model for revenue recognition has been applied to each significant revenue stream. The accounting policy for revenue recognition has been updated below in order to identify when each performance obligation has been completed for each revenue stream. No material impact on the financial statements following adoption of the standard has been identified.

Judgements and key sources of estimation uncertainty

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

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

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

IMI HYDRONIC ENGINEERING LIMITED**Notes to the financial statements****for the year ended 31 December 2018**

2. Accounting policies (continued)**Significant accounting policies****(a) Revenue recognition**

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

- the contracts usually contain distinct performance obligations, each of which transfers control of the goods to the customer. Where such distinct performance obligations are present, revenue is recognised on each element in accordance with the policy on the sale of goods
- the service element of the contract is usually insignificant in relation to the total contract value and is often provided on a short-term or one-off basis. Where this is the case, revenue is recognised when the service is complete

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

Sale of goods

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

The timing of the transfer of control to our customer varies depending on the nature of the products sold and the individual terms of the contract of sale. Sales made under internationally accepted trade terms, Incoterms 2010, are recognised as revenue when the entity has completed the primary duties required to transfer control as defined by the International Chamber of Commerce Official Rules for the Interpretation of Trade Terms. Sales made outside Incoterms 2010 are generally recognised on delivery to the customer.

Rendering of services

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

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

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

(b) Stocks

Stocks are valued at the lower of cost and net realisable value. Provision is made for obsolete, slow-moving or defective items where appropriate.

(c) Fixed assets and depreciation

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

IMI HYDRONIC ENGINEERING LIMITED**Notes to the financial statements
for the year ended 31 December 2018**

2. Accounting policies (continued)**Significant accounting policies (continued)****Fixed Assets and Depreciation (continued)**

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

Fixtures, fittings and equipment	3 – 5 years
----------------------------------	-------------

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

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

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

(d) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

(e) Pensions

The Company participates in two group-wide pension schemes providing benefits based on final pensionable pay (defined benefit schemes), which were closed to future accrual on 31 December 2010. As a result of a contractual arrangement, the total net defined benefit obligation of these Funds are now borne by IMI Kynoch Limited (a fellow IMI Group company) and therefore in accordance with IAS19 'Employee Benefits', no net defined benefit costs are recognised in the Company's financial statements. The Company also operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

(f) Taxation

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

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

(g) Leasing

Rentals payable under operating leases are charged in the income statement on a straight-line basis over the lease term.

(h) Dividends on shares presented within shareholder's funds

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

IMI HYDRONIC ENGINEERING LIMITED
Notes to the financial statements
for the year ended 31 December 2018

2. Accounting policies (continued)

Significant accounting policies (continued)

(i) Equity and equity related compensation benefits

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

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

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

(j) Going concern

The Company participates in the group's centralised treasury function and so shares funding arrangements with its parent and fellow subsidiaries. Having assessed the responses of the directors of IMI plc, the Company's ultimate parent, to their enquiries, the Company's directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of IMI plc to continue as a going concern or its ability to continue with the current funding arrangements.

On the basis of their assessment of the Company's financial position, review of its forecasts and of the enquiries made of the directors of IMI plc, the Company's directors have a reasonable expectation that the Company will be able to continue in operational existence in the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

3. Revenue

	2018	2017
	£000	£000
Sale of goods	<u>8,220</u>	<u>7,790</u>

Revenue recognised by geographical area is as follows:

	2018	2017
	£000	£000
UK	7,666	7,062
Rest of Europe	<u>554</u>	<u>728</u>
	<u>8,220</u>	<u>7,790</u>

Operating Profit

Operating profit is stated after charging:

	2018	2017
	£000	£000
Depreciation and other amounts written off owned tangible fixed assets	21	21
Loss on disposal of fixed assets	26	-
Operating lease costs - Buildings	79	87
- Motor vehicles	25	39
Amount of stock expensed in the income statement	5,534	5,107
Foreign exchange losses	<u>6</u>	<u>6</u>

IMI HYDRONIC ENGINEERING LIMITED
Notes to the financial statements
for the year ended 31 December 2018

5. Auditor's remuneration

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

	2018 £000	2017 £000
Audit of the financial statements	<u>15</u>	<u>15</u>

Amounts receivable by the Company's auditors and their associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, IMI plc.

6. Staff costs and directors' remuneration

(a) Staff costs	2018 £000	2017 £000
Wages and salaries	1,005	965
Social security costs	95	131
Pension costs	<u>88</u>	<u>89</u>
	<u>1,188</u>	<u>1,185</u>

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

	2018 Number	2017 Number
Management	1	1
Selling and administration staff	<u>19</u>	<u>18</u>
	<u>20</u>	<u>19</u>

(b) Directors' remuneration	2018 £000	2017 £000
Directors' emoluments	<u>138</u>	<u>169</u>

Included in directors' emoluments were pension contributions of £11,000 (2017: £14,000).

Retirement benefits are accruing to the following number of directors under:

	Number of directors 2018	2017
Defined contribution schemes	<u>1</u>	<u>2</u>

No directors exercised share options during the year (2017:nil).

7. Interest payable

	2018 £000	2017 £000
Interest payable to group undertakings	<u>14</u>	<u>12</u>

IMI HYDRONIC ENGINEERING LIMITED**Notes to the financial statements
for the year ended 31 December 2018****8. Taxation****(a) Tax charged in the income statement**

	2018 £000	2017 £000
<i>Current income tax:</i>		
UK Corporation tax	93	21
Adjustments in respect of prior years	(2)	-
Total current income tax	<u>91</u>	<u>21</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	(30)	-
Adjustment in respect of prior years	2	22
Total deferred tax	<u>(28)</u>	<u>22</u>
Tax charge in the income statement	<u>63</u>	<u>43</u>

(b) Reconciliation of the total tax charge

The tax charge recognised in the income statement for the year is different to the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are reconciled below:

	2018 £000	2017 £000
Profit on ordinary activities before tax	<u>295</u>	<u>98</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	56	19
Effects of:		
Rate change	2	-
Expenses not deductible for tax purposes	5	2
Adjustments in respect of prior years	-	22
Total tax charge	<u>63</u>	<u>43</u>

(c) Change in Corporation Tax rate

It was announced in the Budget of 16 March 2016 to reduce the rate of corporation tax to 17% from 1 April 2020. This change was substantively enacted on 6 September 2016. The deferred tax balance has been calculated using the substantively enacted rates applicable at the time when any deferred tax balances are expected to reverse.

(d) Deferred Taxes

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

	2018 £000	2017 £000
Accelerated capital allowances	13	10
Other timing differences	24	-
Deferred tax asset	<u>37</u>	<u>10</u>
Deferred tax asset at start of year	10	32
Deferred tax (charge)/credit in income statement for year	29	(22)
Adjustment in respect of prior years	(2)	-
Deferred tax asset at end of year	<u>37</u>	<u>10</u>

Deferred tax is recognised on the basis that there will be sufficient profits within the Company in future years against which the deferred tax asset can reverse.

IMI HYDRONIC ENGINEERING LIMITED
Notes to the financial statements
for the year ended 31 December 2018

9 Dividends paid and proposed

The aggregate amount of dividends comprises:

	2018 £000	2017 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	<u>50</u>	<u>126</u>
Aggregate amount of dividends authorised in the financial year	<u><u>50</u></u>	<u><u>126</u></u>

The aggregate dividends of £50,000 authorised during 2018 remained outstanding as at 31 December 2018. The aggregated dividends of £126,000 authorised in 2017 were paid during 2017.

The directors have recommended a final dividend of £423,000 (2017: £50,000), which will be paid in 2019.

10. Tangible fixed assets

	Plant & equipment £000	Total £000
Cost at:		
1 January 2018	392	392
Additions	34	34
Disposals	<u>(40)</u>	<u>(40)</u>
31 December 2018	<u><u>386</u></u>	<u><u>368</u></u>
Depreciation at:		
1 January 2018	342	342
Charged in the year	21	21
Disposals	<u>(14)</u>	<u>(14)</u>
31 December 2018	<u><u>349</u></u>	<u><u>349</u></u>
Net book value at 31 December 2018	<u><u>37</u></u>	<u><u>37</u></u>
Net book value at 31 December 2017	<u><u>50</u></u>	<u><u>50</u></u>

11 Stocks

	2018 £000	2017 £000
Finished goods and goods for resale	<u><u>857</u></u>	<u><u>1,215</u></u>

The difference between the carrying value of stock and its replacement cost is not material.

Inventories are stated after provisions for impairment of £152,000 (2017: £95,000).

IMI HYDRONIC ENGINEERING LIMITED
Notes to the financial statements
for the year ended 31 December 2018

12. Debtors

	2018	2017
	£000	£000
External debtors	1,921	2,005
Amounts due from other group undertakings	10	36
Other debtors	64	43
	<u>1,995</u>	<u>2,084</u>

Trade receivables are stated after provisions for doubtful debtors of £92,000 (2017: £53,000). Amounts due from group undertakings are at arm's length terms and bear interest at LIBOR plus an appropriate margin. Following a review of the historical collection of the amounts owed from group undertakings it has been concluded that no provision is required to reflect the requirements of the economic credit loss model pursuant to IFRS 9 which was adopted by the entity during the year.

13. Creditors: amounts falling due within one year

	2018	2017
	£000	£000
External creditors	68	106
Amounts owed to parent	1,015	504
Amounts owed to group undertakings	1,133	1,827
Corporation tax	93	23
Other taxation and social security costs	440	486
Accruals and deferred income	703	735
	<u>3,452</u>	<u>3,681</u>

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

14 Provisions for liabilities

	Property related provisions	Total
	£000	£000
At 1 January 2018	63	63
Arising during the year	-	-
At 31 December 2018	<u>63</u>	<u>63</u>

15. Share Capital

	2018	2017	2018	2017
	Number	Number	£000	£000
<i>Authorised</i>				
Ordinary shares of £1 each	<u>400,000</u>	400,000	<u>400</u>	400
<i>Allotted, called up and fully paid</i>				
At 1 January and 31 December	<u>400,000</u>	400,000	<u>400</u>	400

IMI HYDRONIC ENGINEERING LIMITED
Notes to the financial statements
for the year ended 31 December 2018

16. Capital Commitments

The Company had the following future minimum lease payments under non cancellable operating leases for each of the following periods:

	Plant and Machinery		Property	
	2018	2017	2018	2017
	£000	£000	£000	£000
Within one year	25	26	75	78
Between one and five years	38	38	-	75
	63	64	75	153

17. Pension scheme

The Company participates in two group-wide pension schemes providing benefits based on final pensionable pay (defined benefit scheme), which were closed to future accrual on 31 December 2010. As a result of a contractual arrangement, the total net defined benefit obligation of these Funds are now borne by IMI Kynoch Limited (a fellow IMI Group company) and therefore in accordance with IAS19 '*Employee Benefits*', no net defined benefit costs are recognised in the Company's financial statements. The Company also operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

The latest full actuarial valuations for the two group-wide defined benefit pension schemes was carried out on 31 March 2018 and was updated for IAS 19 purposes to the year end by a qualified independent actuary. At 31 December 2018 the schemes surplus was £27.8m (2017: £1.6m). Full disclosure of the schemes is contained in the consolidated financial statements of IMI plc.

The Company made contributions of £87,740 (2017: £88,981) to the Group's defined contribution scheme.

IMI HYDRONIC ENGINEERING LIMITED
Notes to the financial statements
for the year ended 31 December 2018

18. Share-based payments

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

IMI Sharesave Scheme (SAYE)

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

Share Incentive Plan (SIP)

This SIP is open to the majority of the Group's UK employees, including the IMI plc executive directors. This scheme covers two separate opportunities for employees to share in IMI's success. Partnership shares – allow employees to sacrifice up to the statutory maximum from pre-tax pay, which is used to buy IMI shares. Free shares – allows a grant of shares to employees each year, up to the statutory maximum. Both the Partnership and Free share schemes are not subject to performance conditions and offer tax incentives to encourage employees to build up their shareholdings with the Company.

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

Analysis of options granted

	Number of options granted (thousand)	Weighted average option price	Normal exercisable date
IMI Sharesave Scheme			
2010	2	511p	2013-2015
2011	2	849p	2014-2016
2012	3	890p	2015-2017
2013	1	1196p	2016-2018
2014	1	1384p	2017-2019
2015	2	1075p	2018-2020
2016	1	845p	2019-2021
2017	-	nil	n/a
2018	-	nil	n/a

IMI HYDRONIC ENGINEERING LIMITED
Notes to the financial statements
for the year ended 31 December 2018

18. Share based payments (continued)

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

	2018	2017
	Number of options (thousand)	Number of options (thousand)
Options not granted at nil cost	-	-

No share options were exercised during 2017 and 2018.

There are no share options outstanding as at 31 December 2018 (2017: nil).

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

	2018 £000	2017 £000
Equity settled share-based payment expense recognised in profit and loss	-	-

19. Related party transactions

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

20. Ultimate parent company

The immediate parent undertaking is IMI Kynoch Limited which is registered in England and Wales.

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

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

Or at www.imiplc.com