Chubb Fire & Security Limited

Annual Report
for the year ended 31 December 2018

Registered number: **0524469**

Chubb Fire & Security Limited

Contents

Chubb Fire & Security Limited

Strategic Report

The directors present their Strategic Report for the company for the year ended 31 December 2018.

The directors, in preparing this Strategic Report, have complied with s414C of the Companies Act 2006.

Review of the business

The directors are satisfied with the operating results for the year and anticipate sustainable results in the future. The company's loss for the financial year is £5.18 million (2017: loss £0.1 million), which will be transferred to reserves. The net assets of the company at the end of the financial year are £161.2 million (2017: £166.4 million).

During the year, the directors have reviewed the value of goodwill. Considering the recent movements in revenue and the expected revenue forecasts, the directors have calculated that an impairment of goodwill for £13.8 million (2017: £8.2 million) is required. This has been shown in admin expenses in the year, but is also disclosed as an exceptional item for profit before taxation in the year.

The directors anticipate that economic conditions will remain challenging in 2019. The directors believe that the biggest challenge facing the company is the retention of its portfolio, which has declined over the past few years due to tough economic conditions. During the year the directors have taken steps to stabilise the portfolio and invest in the sales force.

On 2 April 2018, the company purchased the trading business and assets of John Moore Security Limited, a 100% owned subsidiary, for a consideration of £5.9million which was satisfied by cash.

On 1 August 2018, the company purchased the trading business and assets of Alarmfast Supervision Security Systems Limited, a 100% owned subsidiary, for a consideration of £3.7million which was satisfied by cash.

Following the purchase of the trading business and assets of Digi Security Limited in 2017 and John Moore Security Limited in 2018, these entities were placed in liquidation and as a result of this, the company has recognised an impairment of investments totalling £12.5 million.

During the financial year, the company received a repayment of an outstanding balance of £53 million from TG Products Limited, a related party. The company settled a balance of £133.0 million with another group company. This resulted in a reduction of the amount of cash held in the cash pool, Parkview Treasury Services (UK) Limited, whereby the company owes £8.4 million (2017 - was owed: £69.0 million).

Impairment review

Whilst considering whether the value of goodwill is impaired or not, the directors have used a calculated post tax weighted average cost of capital of 8.8% and a terminal growth rate of 2%. Using these assumptions, the directors have concluded that an impairment of £13.8 million (2017: £8.2 million) is required and is shown with admin expenses for the year.

Key performance indicators

Turnover shows an overall year on year increase of 1.8% from £184.5 million in 2017 to £187.8 million in 2018. This is due to the challenging situation of managing the company's portfolio which the directors are constantly reviewing.

Gross profit, at £68.5 million (2017: £68.9 million) shows a year on year decrease of 0.5%. At 36.4% of turnover (2017: 37.3% of turnover), this decrease is the result of the increase in cost of sales, at 3.2%, cost of sales has risen more than the increase in revenue.

Operating profit has decreased from a profit of £3.7 million in 2017 to an operating loss of £16.4 million in 2018. This is due to the impairment of investments recognised of £12.5 million (2017: £Nil) and also an increase in goodwill impairment which is £13.8 million, (2017: £8.2 million).

During the year, the company settled balances with group companies which resulted in a decrease in the amount of cash held in the cash pool, Parkview Treasury Services (UK) Limited, to a liability of £8.4million (2017 : asset of £69.0 million).

Principal risks and uncertainties

The directors and senior managers review the company's financial risk profile on a regular basis. This process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. Compliance with regulation, legal and ethical standards is of extreme importance not only within the company, but the United Technologies Corporation group as a whole. The key business risks affecting the company are considered to relate to the economic environment, including credit risk, and competition.

Business environment

The UK fire and security industry is highly competitive as many companies offer similar coverage. This gives rise to competitive pricing structures. The company regularly assesses the impact of market conditions and technological changes in relation to the products supplied, and strive to be ahead of the market in offering new and innovative fire and security solutions. The impact of brexit negotiations will be kept under review as the situation continues.

Credit risk

The company's principal financial assets are cash at bank, intercompany debt, trade debtors and other debtors. The credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of allowances for doubtful debts. Cash collections are monitored on a regular basis.

Liquidity and interest rate risk

Liquidity risk is managed centrally by the company's ultimate parent.

Foreign exchange risk

The majority of the company's transactions are denominated in sterling and the directors do not believe that there is a significant foreign exchange risk.

Future developments

The directors expect the general level of activity to remain consistent with 2018 in the forthcoming year. The fire and security market remains relatively static, and the directors believe they will be able to hold the value of the portfolio during 2019, with any attrition being offset by portfolio gains. The directors and senior managers will continue to reorganise the business where appropriate during the forthcoming year to ensure that the company is appropriately placed to provide customer satisfaction whilst controlling its cost base. The impact of the Brexit negotiations will be kept under review as the situation unfolds.

On November 26, 2018, the ultimate parent undertaking and controlling party, United Technologies Corporation, announced its intention to separate into three independent companies: (1) UTC, an aerospace company comprised of the Collins Aerospace Systems and Pratt & Whitney businesses, (2) Otis, and (3) Carrier.

The proposed separations are expected to be effected through spin-offs by UTC of Otis and Carrier that are intended to be tax-free for the Company's shareowners for U.S. federal income tax purposes.

The ultimate parent company expects to complete the separation transactions by mid-year 2020.

Separation of Otis and Carrier from UTC via spin-off transactions will be subject to the satisfaction of customary conditions, including, among others, final approval by the ultimate parent company's Board of Directors, receipt of tax rulings in certain jurisdictions and/or a tax opinion from external counsel (as applicable), the filing with the Securities and Exchange Commission (SEC) and effectiveness of Form 10 registration statements, and satisfactory completion of financing.

Events after the balance sheet date

The companies subsidiaries, John Moore Security Ltd and Digi Security Ltd, were placed into voluntary liquidation in December 2018, and it is hoped that they will be dissolved in 2019.

Approval

Approved by the Board and signed on its behalf by:

C Forbes
Director
30th September, 2019

Littleton Road
Ashford
Middlesex
TW15 1TZ

Directors' Report

The directors present their Report and audited financial statements of the company for the year ended 31 December 2018.

Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 3 and form part of this report by cross-reference.

Research and development

During 2018 the company's project to develop its existing ERP system continued according to plan. Further development will continue during 2019 as the Company continues to improve its business processes.

Going concern

At 31 December 2018 the company had net current liabilities of £155.9 million million (2017: £168.9 million). The company has received a letter of support from Carrier Corporation, therefore, the directors have a reasonable expectation that the company has adequate resources to continue in the operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in the notes to the financial statements.

Financial risk management objectives and policies

Details of the financial risk management objectives and policies can be found in the strategic report on page 2 and form part of this report by cross-reference.

Dividends

No dividend was proposed or paid in the year ended 31 December 2018 (2017: nil).

Directors

The directors, who served throughout the year, and up to the date of signing the financial statements were as follows:

C Forbes
A Brennan
Chubb Management Services Limited

Directors indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings, the company magazine and a special edition for employees of the annual financial statements. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

Disclosure of information to auditors

In the case if each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

PricewaterhouseCoopers LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditors in the absence of an Annual General Meeting.

Chubb Fire & Security Limited

Directors' Report

Approved by the Board and signed on its behalf by:

C Forbes
Director
30th September 2019

Littleton Road
Ashford
Middlesex
TW15 1TZ

Independent Auditors' Report to the Members of Chubb Fire & Security Limited

Report on the audit of the financial statements

Opinion

In our opinion, Chubb Fire & Security Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 December 2018; the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent Auditors' Report to the Members of Chubb Fire & Security Limited

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit: the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and the Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 5 , the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Edward Moss 30 September 2019

Edward Moss (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

Chubb Fire & Security Limited

Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	3	**187,837**	184,526
Cost of sales		**(119,313)**	(115,640)
Gross profit		**68,524**	68,886
Distribution costs		**(17,160)**	(16,580)
Administrative expenses		**(68,201)**	(49,113)
Other operating income	3	**439**	486
Operating (loss)/profit		**(16,398)**	3,679
Operating profit before exceptional items		**9,924**	11,854
Impairment of goodwill	4	**(13,765)**	(8,175)
Impairment of investments	13	**(12,557)**	—
Operating (loss)/profit		**(16,398)**	3,679
Loss on sale of tangible fixed assets		**(1,010)**	(786)
Income from shares in group undertakings		**12,803**	—
(Loss)/profit on ordinary activities before finance income		**(4,605)**	2,893
Finance income	5	**469**	255
(Loss)/profit on ordinary activities before taxation	6	**(4,136)**	3,148
Income tax on (loss)/profit on ordinary activities	10	**(1,045)**	(3,193)
Loss for the financial year		**(5,181)**	(45)
Other comprehensive income		**—**	—
Total comprehensive expense for the year		**(5,181)**	(45)

All results are derived from continuing operations.

Chubb Fire & Security Limited

Balance Sheet

As at 31 December 2018
Registered number: 0524469

	Note	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	*11*	**279,173**	284,213
Property, plant and equipment	*12*	**13,430**	13,393
Investments in subsidiaries	*13*	**25,758**	38,245
Deferred tax asset	*19*	**3,562**	3,366
		321,923	339,217
Current assets			
Inventory	*14*	**9,192**	7,251
Debtors			
- due within one year	*15*	**84,495**	199,341
Cash and cash equivalents		**472**	336
		94,159	206,928
Creditors: Amounts falling due within one year	*17*	**(250,034)**	(375,878)
Net current liabilities		**(155,875)**	(168,950)
Total assets less current liabilities		**166,048**	170,267
Creditors: Amounts falling due after more than one year	*18*	**(411)**	—
Provisions for liabilities	*20*	**(4,440)**	(3,907)
Net assets		**161,197**	166,360
Equity			
Called up share capital	*21*	**1**	1
Share premium account		**173,438**	173,438
Capital contribution		**657**	645
Retained deficit		**(12,899)**	(7,724)
Total shareholders' funds		**161,197**	166,360

The notes on pages 12 to 37 form part of these financial statements.

The financial statements on pages 9 to 37 were approved by the board of directors on and were signed on its behalf by:

C Forbes
Director
30th September, 2019

Chubb Fire & Security Limited

Statement of Changes in Equity

For the year ended 31 December 2018

	Called up share capital (Note 20) £'000	Share premium account £'000	Capital contribution £'000	Retained deficit £'000	Total shareholders' funds £'000
Balance as at 1 January 2017	1	173,438	632	(7,693)	**166,378**
Loss for the financial year	—	—	—	(45)	**(45)**
Total comprehensive expense for the year	—	—	—	(45)	**(45)**
Transfer between reserves	—	—	(22)	22	—
Share based payment contribution	—	—	35	—	**35**
Deferred tax credit	—	—	—	(8)	**(8)**
Total transactions with owners recognised directly in equity	—	—	13	14	**27**
Balance at 31 December 2017	**1**	**173,438**	**645**	**(7,724)**	**166,360**
Loss for the financial year	—	—	—	(5,181)	**(5,181)**
Total comprehensive expense for the year	—	—	—	(5,181)	**(5,181)**
Transfer between reserves	—	—	(10)	10	—
Share based payment contribution	—	—	22	—	**22**
Deferred tax credit	—	—	—	(4)	**(4)**
Total transactions with owners recognised directly in equity	—	—	12	6	**18**
Balance at 31 December 2018	**1**	**173,438**	**657**	**(12,899)**	**161,197**

1. Accounting Policies

Chubb Fire & Security Limited ('the company') is a provider of fire and security products and services, who installs, rents, services and maintains intruder detection systems and fire protection equipment.

The company is a private limited company, limited by shares, and is incorporated and domiciled in the England. The address of its registered office is Littleton Road, Ashford, Middlesex, TW15 1TZ.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and all the years presented, unless otherwise stated.

Basis of accounting

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. The financial statements are therefore prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

The financial statements have been prepared on a going concern basis, under the historical cost convention, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

The financial statements contain information about Chubb Fire & Security Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, United Technologies Corporation, a company incorporated in the United States of America.

As permitted by FRS 101, the company has taken advantage of some of the disclosure exemptions available under that standard. The key exemptions taken are as follows:

IFRS 3 – not to restate business combinations before the date of transition
IFRS 15 - requirements of paragraphs 110, second sentence, 113(a), 114, 115, 118. 119(a) to (c), 120 to 127 & 129
IAS 1 – Information on management of capital
IAS 7 – statement of cash flows
IAS 8 – disclosures in respect of new standards and interpretations that have been issued but are not yet effective
IAS 24 - disclosure of key management compensation and for related party disclosures entered into between two or more members of a group;
IAS 1 - the requirement to present roll forward reconciliations in respect of share capital and
IAS 16 - the requirement to present roll forward reconciliations in respect of property, plant and equipment

Where required, equivalent disclosures are given in the group financial statements of Chubb Group Security Limited. The group financial statements of United Technologies Corporation are available to the public and can be obtained as set out in note 26.

Adoption of new and revised Standards

No new accounting standards, or amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2018 have had a material impact on the company.

1. Accounting Policies (continued)

Going concern

At 31 December 2018 the company had net current liabilities of £155.9 million (2017: £168.9 million). The company has received a letter of support from Carrier Corporation and, therefore, the directors have a reasonable expectation that the company has adequate resources to continue in the operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Software - 5 - 10 years
Other intangibles - 6 - 10 years

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the company's software development is recognised if, and only if, all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible assets; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in the profit and loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

1. Accounting Policies (continued)

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost. Depreciation on buildings is charged to admin expenses.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Freehold land is not depreciated.

Plant and machinery are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset, less any residual value, on a straight-line basis over its expected useful life, as follows:

Freehold buildings	40 years
Short leasehold	Over term of lease
Plant and machinery	3-10 years
Equipment on lease and hire	3-10 years

Useful lives are reviewed, and adjusted if appropriate, at the end of every reporting period.

Goodwill

Goodwill is shown as the excess of purchase price less any value of intangible or tangible assets and liabilities. Goodwill is subject to an annual review for impairment.

Impairment of tangible and intangible assets

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

1. Accounting Policies (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investments

Fixed asset investments, including investments in subsidiaries and associates, are shown at cost less provision for impairment and any purchase price adjustments relating to a change to the cash paid. Current asset investments are stated at the lower of cost and net realisable value.

Inventories

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where appropriate.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Share capital

Ordinary shares are classified as equity. Preference shares are classified as liabilities.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

1. Accounting Policies (continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company recognises revenue when performance obligations have been satisfied and for the company this is when performance obligations have been satisfied and for the company this is when the goods or services have transferred to the customer and the customer has control of these. The company's activities are described in detail below. The company bases its estimate of the return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of goods

The company sells a range of fire extinguishers, fire alarms and security alarms and systems. Revenue from the sale of goods is recognised when the risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably and the recovery of the consideration is considered probable. For product sales with no installation requirements, revenue is recognised when the product is delivered to the customer in accordance with the agreed delivery terms. Where installation is also required, revenue on both the product and installation is recognised once the customer has confirmed its acceptance procedures.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

Sales of services - Fire protection and intruder detection systems installation and maintenance services.

The company provides fire and security alarm installation services under fixed price and variable price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on actual labour hours spent relative to the total expected labour hours.

1. Accounting Policies (continued)

Revenue recognition (continued)

Some contracts include multiple deliverables, such as the sale of equipment and related installation services. However, the installation is simple, does not include an integration service and could be performed by another party. It is therefore accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin. If contracts include the installation of equipment, revenue for the equipment is recognised at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the company exceeds the payment, a contract asset is recognised. If the payments exceeds the services rendered, a contract liability is recognised.

If the contract includes an hourly fee, revenue is recognised in the amount to which the company has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

<u>Rental income</u>

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

<u>Dividend and interest income</u>

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the company and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Pension costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

The company participates in a group defined benefit scheme which is the legal responsibility of a fellow group company as the sponsoring employer. There is no contractual agreement or stated policy for charging the net defined benefit cost. In accordance with IAS 19 (Revised 2011), the company recognises a cost equal to its contribution payable for the period, which is presented within other operating expenses in the profit and loss account.

Foreign currency

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the company operates (its functional currency).

1. Accounting Policies (continued)

Foreign currency (continued)

Transactions in currencies other than the functional currency are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Leases

The company as lessee

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

The company as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised in the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

Financial Assets

Financial assets are classified into the following specified categories: at fair value through profit or loss (FVTPL); and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss or at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) comprise:

- Equity securities which are not held for trading, and which the company has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the group considers this classification to be more relevant.
- Debt securities where contractual cash flows are solely principal and interest and the objective of the company's business model is achieved both by collecting contractual cash flows and selling financial assets

Financial assets at amortised cost

The company classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

1. Accounting Policies (continued)

Financial assets at fair value through profit and loss

The following financial assets are classified at fair value through profit or loss (FVPL):

- debt investments that do not qualify for measurement at either amortised cost
- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Impairment of financial assets

Assets carried at amortised cost

The company assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or group of financial assets is impaired.

Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from supplies.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

1. Accounting Policies (continued)

Borrowings (*continued*)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which do not have a redemption entitlement, have mandatory dividend payments paid half-yearly in arrears and are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction and production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary statement of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred .

Share-based payments

Where the company's parent company has granted rights to its equity instruments to employees of the company, such arrangements are accounted for as equity-settled share-based payment arrangements. In such instances a capital contribution is recognised to the extent that the company is not recharged by its parent.

Where the company grants to its employees rights to equity instruments of its parent, the company accounts for such arrangements as cash-settled share-based payment arrangements. Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the company's estimate of equity instruments that will eventually vest. At each balance sheet date, the company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

1. Accounting Policies (continued)

Provisions (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are discounted where the impact of discounting is material.

Restructurings

A restructuring provision is recognised when the company has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Exceptional Items

Exceptional items are recognised at the date at which they occur. Items are considered exceptional when they are unusual in nature and infrequent in occurrence.

2. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the company's accounting policies, which are described in note 1 above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the company's accounting policies

The directors do not believe there are any critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies.

Multi-employer defined benefit pension scheme

Certain employees participate in a multi-employer defined benefit pension scheme with other group undertakings. In the judgement of the directors, the company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit obligation and plan assets. Therefore the scheme is accounted for a defined contribution scheme, see note 24 for details.

2. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Revenue is recognised on long term contracts where the outcome of the contract can reliably be estimated. Revenue and costs are recognised based on the work performed at the date of the balance sheet. This is measured looking at the actual costs incurred to date as a percentage of the total estimated costs of the project. The estimated costs of a contract are based on detailed models of expected costs, which are regularly reviewed as the project progresses.

Adjustments to total expected costs are updated as required. Revenue is based on contracted amounts, and variations to the extent that they are considered reliable and receipt can be considered probable. Management assess the likelihood that variations will be recovered considering: the contractual position, success rate of similar claims and the ability of the customer to accept the variation.

Useful economic lives of properties, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in estimated useful economic lives of the assets. The useful lives of the assets are assessed on an annual basis and are amended when necessary to reflect current estimates. See note 12 for the carrying amount for the property, plant and equipment, and note 1 for the useful economic lives for each class of assets.

Inventory provisioning

The company supplies, installs and maintains fire and security equipment which are subject to changing customer demands and technological change. As a result it is necessary to consider the recoverability of the cost of the inventory and the associated provisioning required. Management consider the nature and condition of inventory, as well as apply assumptions around expected future demand for the inventory, when calculating the level of inventory provisioning. See note 14 for the net carrying value of inventory and associated provision.

Impairment of trade receivables

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the age profile of the receivable and historic experience. See note 15 for the net carrying amount of the receivables and the associated impairment provision.

Impairment of investments in subsidiaries

Determining whether the company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value in use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. The carrying amount of investments in subsidiaries at the balance sheet date was £25.8 million (2017: £38.2 million) with an impairment loss recognised in 2018 of £12.6 million (2017: £0.5 million). See note 13 for details.

2. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (continued)

Impairment of goodwill

Determining whether the company's goodwill has been impaired requires estimations of the companies values in use. The value in use calculations require the entity to estimate the future cash flows expected to arise and suitable discount rates in order to calculate present values. The carrying amount of goodwill at the balance sheet date was £269.7 million (2017: £278.4 million) with an impairment loss of £0.0 million recognised in 2018 (2017: £8.2million). Sensitivities and key assumptions used in the impairment review are described in note 11.

Useful economic lives of other intangible assets

The annual depreciation charge for customer relationships is sensitive to changes in the economy and business environment. The useful lives of the assets are assessed on an annual basis and are amended when necessary to reflect current estimates. See note 11 for the carrying amount for the other intangible assets, and note 1 for the useful economic lives for the assets.

3. Revenue

An analysis of the company's revenue is as follows:

	2018	2017
	£'000	£'000
Continuing operations		
Sales of goods	**18,342**	19,653
Rendering of services	**113,466**	114,470
Revenue from construction contracts	**56,029**	50,403
	187,837	184,526
Other operating income	**439**	486
	188,276	185,012

An analysis of the company's revenue by class of business is set out below:

	2018	2017
	£'000	£'000
Revenue:		
Fire revenue	**81,412**	81,699
Security revenue	**106,425**	102,827
	187,837	184,526

An analysis of the company's revenue by geographical market is set out below:

	2018	2017
	£'000	£'000
Revenue:		
Sales to the United Kingdom	**184,227**	181,914
Sales to Europe	**1,789**	1,073
Sales to the rest of world	**1,821**	1,539
	187,837	184,526

4. Exceptional Items

During the year, the directors have reviewed the value of goodwill. Considering the decline of revenue, the directors have calculated that an impairment of goodwill for £13.8 million (2017: £8.2 million) is required.

Following the purchase of the trading business and assets of John Moore Ltd and Digi Security Ltd, the subsidiaries were placed into voluntary liquidation and, as a result, a full impairment of the investments has been recognised.

The effects of the exceptional items reported, shown within admin expenses were:

	2018 £'000	2017 £'000
Impairment of investments (note 13)	**12,557**	—
Impairment of goodwill (note 11)	**13,765**	8,175
	26,322	8,175

5. Finance Income

	2018 £'000	2017 £'000
Other loans and receivables	**469**	255
	469	255

6. Profit/(loss) on Ordinary Activities Before Taxation

Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):

	2018 £'000	2017 £'000
Net foreign exchange losses	**41**	43
Depreciation of tangible fixed assets:		
- owned	**1,872**	2,227
- held under finance leases and hire purchase contracts	**33**	—
Loss on disposal of Plant, property and equipment	**1,010**	786
Exceptional impairment of intangible assets	**13,765**	8,175
Exceptional impairment of investments	**12,557**	—
Amortisation of intangible assets included in other operating expenses:		
- software	**—**	1,147
- other	**1,728**	1,006
Operating lease charges	**6,073**	5,867
Inventory recognised as expense	**33,729**	26,207
Impairment release of inventory	**(172)**	(107)
Impairment charge/(release) of trade receivables	**116**	(361)
Staff costs (see note 8)	**81,163**	79,986

7. Auditors' Remuneration

Fees payable to PricewaterhouseCoopers LLP for the audit of the company's annual financial statements were £82,000 (2017: £71,000). Some of the fees payable are for other group companies that are not recharged.

Fees payable to PricewaterhouseCoopers LLP for non-audit services to the company were £0 thousand (2017: £0 thousand).

8. Staff Costs

The average monthly number of employees (including executive directors) was:

	2018 Number	2017 Number
Production	**1,117**	1,092
Sales and distribution	**279**	290
Administration	**440**	471
	1,836	1,853

Their aggregate remuneration comprised:

	2018 £'000	2017 £'000
Wages and salaries	**67,622**	66,572
Social security costs	**7,644**	7,406
Share based payments	**22**	35
Other pension costs (see note 23)	**5,875**	5,973
	81,163	79,986

'Other pension costs' includes only those items included within operating costs. Items reported elsewhere have been excluded.

9. Directors' Remuneration and Transactions

	2018 £'000	2017 £'000
Directors' remuneration		
Emoluments	**222**	223
Company contributions to money purchase pension schemes	**13**	12
	235	235

	2018 Number	2017 Number
The number of directors who:		
Are members of a pension scheme	**1**	1

9. Directors' Remuneration and Transactions (continued)

	2018 £'000	2017 £'000
Remuneration of the highest paid director:		
Emoluments	**222**	223
Company contributions to money purchase pension schemes	**13**	12

The highest paid director exercised no share options in the year (2017: no share options) and had no shares receivable under long-term incentive schemes (2017: none).

No director received compensation for loss of office amounting during the year (2017: no director).

Directors' transactions

Details of transactions with directors during the year are disclosed in note 25.

10. Tax on Profit/(Loss) on Ordinary Activities

Tax expense included in profit or loss:

	2018 £'000	2017 £'000
Current tax		
UK corporation tax on profit/loss for the year	**1,281**	1,799
Adjustments in respect of prior years		
UK corporation tax	**(36)**	1,045
Total current tax	**1,245**	2,844
Deferred tax		
Origination and reversal of timing differences	**794**	370
Impact of rate change	**(84)**	(44)
Adjustment in respect of prior years	**(910)**	23
Total deferred tax (see note 18)	**(200)**	349
Total tax on profit/(loss) on ordinary activities	**1,045**	3,193

10. Tax on Profit/(Loss) on Ordinary Activities (continued)

The charge for the year can be reconciled to the loss in the profit and loss account as follows:

	2018 £'000	2017 £'000
Profit/(loss) on ordinary activities before tax	**(4,136)**	3,148
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 19.00% (2017: 19.25%)	**(786)**	606
Effects of:		
Expenses not deductible for tax purposes	**2,612**	273
Amortisation of intangibles	**2,885**	1,707
Transfer pricing adjustments	**(226)**	(415)
Re-measurement of deferred tax - changes in UK tax rates	**(84)**	(44)
Share option adjustment	**22**	(2)
Income not subject to tax	**(2,432)**	—
Adjustments to tax charge in respect of prior years	**(946)**	1,068
Total tax charge for year	**1,045**	3,193

The reduction in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) was substantively enacted on 26 October 2015. A further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The current tax rate used in the year ended 31 December 2018 is therefore 19% and the rate used for closing deferred tax balances is 17%.

11. Intangible Assets

	Goodwill	Other intangibles	Software	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2018	411,937	9,489	6,544	**427,970**
Additions (note 21)	5,036	5,417	—	**10,453**
Disposals	—	—	(95)	**(95)**
At 31 December 2018	**416,973**	**14,906**	**6,449**	**438,328**
Accumulated amortisation and impairment				
At 1 January 2018	133,521	3,692	6,544	**143,757**
Amortisation	—	1,728	—	**1,728**
Disposals	—	—	(95)	**(95)**
Impairment losses	13,765	—	—	**13,765**
At 31 December 2018	**147,286**	**5,420**	**6,449**	**159,155**
Net book value				
At 31 December 2018	**269,687**	**9,486**	—	**279,173**
At 31 December 2017	278,416	5,797	—	284,213

Amortisation has been included in the income statement within administration expenses. Other intangible assets relate to unregistered trade names and customer relationships, which were acquired.

As required, the directors have performed a review of the value of the company's goodwill at the year end. The directors and their management team review the company's performance on a geographic basis and can distinguish between different types of revenue streams. However the company structure does not allow identification of specific assets or groupings of assets that generate a specific revenue stream. On this basis the directors have performed the impairment review on the basis that the company as a whole is the smallest identifiable cash generating unit.

The recoverable amount of the cash generating unit has been determined based on a value-in-use calculation. This calculation used post-tax cash flow projections based on financial budgets approved by management covering the next financial year and estimates for the following four financial years. Cash flows beyond this period are extrapolated using the estimated growth rates stated below.

The company's organic revenue is assumed to increase by up to 3.3% over the five years, reflecting growth plans in the competitive segments the Company operates in. Gross margin has been assumed to be 34.0% as past results show margins of between 31.0% and 35.2%. The operating margin is assumed to improve year over year to 26.25% in 2023, on the basis that any increase in costs will be offset by the synergies received from its business combinations in the periods up to the balance sheet date and new cost saving initiatives being undertaken.

Whilst considering whether the value of goodwill is impaired or not, the directors have used a calculated post tax weighted average cost of capital of 8.8% and a terminal growth rate of 2%. Using these assumptions, the directors have concluded that an impairment of £13.7million (2017: £8.2million) is required and is shown as an exceptional item in the year.

A decrease of 0.5% in the terminal growth rate would lead to an increase in the impairment of £17,864,000, as a result of the carrying value decreasing. An increase in 0.1% in the weighted average cost of capital rate would create an increase in impairment of £2,634,000 as a result of the carrying value decreasing.

12. Property, Plant and Equipment

	Freehold land and buildings	Short leasehold	Plant and machinery	Assets under construction	Equipment on lease or hire	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2018	7,136	4,812	8,794	557	16,018	**37,317**
Additions	—	—	730	464	1,483	**2,677**
Disposals	(269)	(890)	(1,440)	(317)	(1,459)	**(4,375)**
Transfer in on purchase trade and assets (note 21)	—	124	33	—	76	**233**
Transfers	468	(142)	(31)	(295)	—	—
At 31 December 2018	**7,335**	**3,904**	**8,086**	**409**	**16,118**	**35,852**
Accumulated depreciation						
At 1 January 2018	588	2,983	7,638	70	12,645	**23,924**
Depreciation	162	371	470	—	902	**1,905**
Transfers	—	(91)	91	—	—	—
Disposals	(295)	(891)	(1,673)	(1)	(547)	**(3,407)**
At 31 December 2018	**455**	**2,372**	**6,526**	**69**	**13,000**	**22,422**
Net book value						
At 31 December 2018	**6,880**	**1,532**	**1,560**	**340**	**3,118**	**13,430**
At 31 December 2017	6,548	1,829	1,156	487	3,373	13,393

The value of assets held under finance leases included in plant and machinery is:

Net book value						
At 31 December 2018	—	—	668	—	—	**668**
At 31 December 2017	—	—	—	—	—	—

13. Investments

	£'000
Cost	
At 1 January 2018	38,781
Additions	—
Purchase price adjustments	70
At 31 December 2018	**38,851**
Provisions for impairment	
At 1 January 2018	536
Impairment	12,557
At 31 December 2018	**13,093**
Net book value at 31 December 2018	**25,758**
Net book value at 31 December 2017	38,245

13. Investments (continued)

The subsidiaries have been treated as subsidiary undertaking's because the Group exercises dominant Details of the company's directly owned subsidiaries at 31 December 2018 are as follows:

Name	Principal Activity	Registered Office	Class of share	Proportion of ownership interest %
Digi Security Limited	Dormant	Littleton Road, Ashford, Middlesex TW15 1TZ	Ordinary	100
John Moore Security Limited	Electronic fire and security system provider	Unit 6 Priory Tec Park, Saxon Way, Hull, East Yorkshire, HU13 9PB	Ordinary	100
Alarmfast Supervision Security Systems Limited	Electronic security system provider	5 Robroyston Oval, Glasgow, G33 1AP	Ordinary	100
Frontline Security Solutions Limited	Electronic security system provider	242-242a Farnham Road, Slough, Berkshire, SL1 4XE	Ordinary	100

In December 2018 Digi Security Limited and John Moore Security Limted were placed in voluntary liquidation. It is hoped that these subsidiaries will be dissolved in the coming year. As a result these investments have been fully impaired at 31 December 2018.

The investments in subsidiaries are all stated at cost including any adjustments to purchase price less provision for impairment.

14. Inventory

	2018	2017
	£'000	£'000
Work in progress	3,785	1,834
Finished goods and goods for resale	5,407	5,417
	9,192	7,251

Inventories are stated after provision for impairment of £325,000 (2017: £489,000)

15. Debtors

Amounts falling due within one year:

	2018	2017
	£'000	£'000
Trade receivables	38,790	35,369
Amounts due on construction contracts	5,607	5,527
Amounts owed by group undertakings	33,465	151,812
Other receivables	911	919
Prepayments and accrued income	5,722	5,714
	84,495	199,341

Trade receivables are stated after provision for impairment of £216,000 (2017: £278,000).

15. Debtors (continued)

Included in amounts owed by group undertakings is a receivable balance from Parkview Treasury Services (UK) Limited of £Nil (2017: £69.0 million). This represents surplus cash pooled with Parkview Treasury Services (UK) Limited. Interest is receivable on this balance at an average of 0.6% (2017: 0.4%) from 1 January to 31 December.

All other amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

16. Construction Contracts

	2018	2017
	£'000	£'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in debtors	5,607	5,527
	5,607	5,527
Contract costs incurred plus recognised profits less recognised losses to date	10,273	17,753
Less: progress billings	(4,666)	(12,226)
	5,607	5,527

At 31 December 2018, retentions held by customers for contract work amounted to £554,000 (2017: £515,000). Advances received from customers for contract work amounted to £Nil (2017: £143,000).

17. Creditors Amounts Falling Due Within One Year

	2018	2017
	£'000	£'000
Payments on account in respect of construction contracts	2,616	1,153
Trade creditors	1,456	1,466
Amounts owed to group undertakings	195,746	323,056
Finance leases	226	—
Other taxation and social security	8,416	9,178
Other creditors	449	780
Accruals and deferred income	41,125	40,244
	250,034	375,877

Included in amounts owed to group undertakings is a payable balance to Parkview Treasury Services (UK) Limited of £8.4 million (2017: £Nil). This represents cash pooled with Parkview Treasury Services (UK) Limited. Interest is payable on this balance at an average of 0.6% (2017: 0.4%) from 1 January to 31 December.

All other amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

18. Creditors Amounts Falling Due After More Than One Year

	2018 £'000	2017 £'000
Finance leases	**411**	—
	(411)	—

Obligations under finance leases are as follows:

	Minimum lease payments 2018 £'000	2017 £'000
Amounts payable under finance leases:		
Not later than one year	242	—
Later than one year and not later than five years	422	—
Total gross payments	664	—
Less: future finance charges	(28)	—
Carrying value of liability	636	—
Analysed as:		
Amounts due for settlement within 12 months	226	—
Amounts due for settlement after 12 months	411	—
	636	—

19. Deferred Tax

The analysis of deferred tax assets is as follows:

	2018 £'000	2017 £'000
Deferred tax assets due after more than 12 months	**3,562**	3,366
Total provision due after more than 12 months	**3,562**	3,366
Net deferred tax asset	**3,562**	3,366

The movement in deferred tax is as follows:

Notes to the financial statements for the year ended 31 December 2018

19. Deferred Tax (continued)

Deferred tax assets:

	Accelerated tax depreciation £'000	Short term timing differences £'000	Share options £'000	Total £'000
At 1 January 2017	3,645	39	39	**3,723**
Charged to profit and loss	(371)	—	1	**(370)**
Adjustment in respect of prior years	(26)	—	3	**(23)**
Charged directly to equity	—	—	(5)	**(5)**
Adjustment in respect of prior years charged directly to equity	—	—	(3)	**(3)**
Impact of rate change	44	—	—	**44**
At 1 January 2018	3,292	39	35	**3,366**
(Charge)/credit to profit and loss	(766)	(1)	(27)	**(794)**
Adjustment in respect of prior years	913	(3)	—	**910**
Charged directly to equity	—	—	(5)	**(5)**
Impact of rate change credited to profit and loss	81	—	3	**84**
Impact of rate change credited directly to equity	—	—	1	**1**
At 31 December 2018	**3,520**	**35**	**7**	**3,562**

20. Provisions for Liabilities

	Sheffield Attercliffe Road £'000	Vacant Property £'000	Litigation £'000	Total £'000
At 1 January 2017	61	4,360	62	**4,487**
Debits to the income statement	—	(532)	(11)	**(543)**
Unwinding of discount	—	167	—	**167**
Amounts utilised	6	(132)	—	**(130)**
Unused amounts reversed to the income statement	—	(74)	—	**(74)**
At 31 December 2017	67	3,789	51	**3,907**
Credits to the income statement	—	243	76	**319**
Additions to the statement of other comprehensive income	—	189	—	**189**
Unwinding of discount	—	147	—	**147**
Amounts utilised	6	(29)	(77)	**(100)**
Unused amounts reversed to the income statement	—	(7)	(15)	**(22)**
At 31 December 2018	**73**	**4,332**	**35**	**4,440**

20. Provisions for Liabilities (continued)

Sheffield Attercliffe Road
This provision arose as a property leased by the company was destroyed by fire.

Vacant property
This will be utilised over the period of various onerous leases held by the company, the longest being until November 2112.

Litigation
These balances are held to cover claims filed against the company. It is anticipated that the majority of these items will be settled within the next 12 months.

21. Called Up Share Capital

Ordinary shares

	2018	2017
	£'000	£'000
Allotted and fully-paid		
1,004 (2017: 1,004) ordinary shares of £1 each	1	1

22. Purchase of Trade and Assets

On 2 April 2018, the company purchased the trading business and assets of John Moore Security Limited, one of its subsidiaries, for a consideration of £5.9million which was satisfied by cash.

On 1 August 2018, the company purchased the trading business and assets of Alarmfast Supervision Security Systems Limited, one of its subsidiaries, for a consideration of £3.67million which was satisfied by cash.

	John Moore Security Ltd	Alarmfast Supervision Security Systems Ltd	Total
	£'000	£'000	£'000
Fixed assets	110	—	110
Inventory	172	232	404
Receivables	1,194	987	2,181
Payables	(1,985)	(1,610)	(3,595)
Net liabilities acquired	(509)	(391)	(900)
Cash consideration paid	5,883	3,670	9,553
Intangibles created on purchase	6,392	4,061	10,453

Intangibles created on these acquisition can be split as follows:

22. Purchase of Trade and Assets

	John Moore Security Ltd	Alarmfast Supervision Security Systems Ltd	Total
	£'000	£'000	£'000
Goodwill	3,178	1,858	5,036
Customer relationships	3,214	2,203	5,417
Intangibles created on purchase	6,392	4,061	10,453

23. Financial Commitments

Capital commitments are as follows:

	2018	2017
	£'000	£'000
Contracts for future capital expenditure not provided in the financial statements	**—**	1,287
	—	1,287

At the balance sheet date, the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018	2017
	£'000	£'000
Within one year	**4,763**	5,244
Between two and five years	**6,787**	8,185
After five years	**322**	646
	11,872	14,075

24. Retirement Benefit Schemes

Defined contribution schemes

The company operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the company in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the company are reduced by the amount of forfeited contributions.

The total cost charged to income of £1,766,000 (2017: £1,155,000) represents contributions payable to these schemes by the company at rates specified in the rules of the plans. As at 31 December 2018, contributions of £189,000 (2017 £193,000) due in respect of the current reporting period had not been paid over to the schemes.

24. Retirement Benefit Schemes (continued)

Defined benefit schemes

The company participates in two group defined benefit scheme for qualifying employees, the Chubb Security Pension Fund and the Chubb Pension Plan. Under the Chubb Security Pension Fund, the majority of employees are entitled to post-retirement yearly instalments amounting to 1/60th of final salary for each complete month and year of pensionable service on attainment of a retirement age of 65. The pensionable salary is based on the yearly rate of basic earnings plus a 3 year average of bonuses and commissions. In addition, the service period is limited to 40 years resulting in a maximum yearly entitlement (life-long annuity) of 2/3 of final salary.

Under the Chubb Pension Plan, the majority of employees are entitled to post-retirement yearly instalments amounting to 1/60th of final salary for each complete month and year of pensionable service on attainment of a retirement age of 65. The pensionable salary is based on earnings in the tax year prior to leaving service, reduced by the Lower Earnings Limit and subject to an earnings cap. In addition, the service period is limited to 40 years resulting in a maximum yearly entitlement (life-long annuity) of 2/3 of final salary.

There is no contractual agreement or stated policy for charging the net defined benefit cost and, therefore, a fellow group company, which is the sponsoring employer of the scheme, recognises the whole of the scheme surplus or deficit in its financial statements. In accordance with IAS 19 (Revised 2011), the company recognises a cost equal to its contribution payable for the period, which in the year ended 31 December 2018 was £4,109,000 (year ended 31 December 2017: £4,818,000).

Further details of the Chubb Security Pension Fund are disclosed in the financial statements of Chubb International Holdings Limited. Further details of the Chubb Pension Plan are disclosed in the financial statements of Chubb Group Limited.

25. Share Based Payments

Equity-settled share option scheme

The company participates in a share option scheme for all employees. Options are exercisable on the shares of the parent company at a price equal to the estimated fair value of the parent company's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of five years from the date of grant the options expire. Options are forfeited if the employee leaves the company before the options vest.

The weighted average share price at the date of exercise for share options exercised during the period was £78.17. The options outstanding at 31 December 2018 had exercise prices ranging from £61.53 to £97.09, and a weighted average remaining contractual life of 5.8 years. In 2018, options were granted on 2 April 2018. The aggregate of the estimated fair values of the options granted on those dates is £97.09 In 2017, no options were granted.

1,250, options were exercised during the year at a weighted average price of £78.17 (2017:4,000 at £55.49).

25. Related Party Transactions

Directors' transactions

Other than the directors emoluments disclosed in note 9 there are no other transactions between the company and its directors.

25. Related Party Transactions (continued)

Trading transactions

The company has no disclosure to make on related party transactions as all transactions with other group companies are wholly owned companies within the United Technologies Corporation group.

26. Controlling Party

The company's immediate parent undertaking is Chubb Group Security Limited.

The company's ultimate parent undertaking and controlling party is United Technologies Corporation, a company incorporated in the United States of America.

United Technologies Corporation is the smallest and largest group to consolidate these financial statements.

Copies of the United Technologies Corporation group financial statements are publicly available and can be obtained from www.utc.com.