Eaton Controls (UK) Limited

Registered Number: 619241

Report and Financial Statements

31 December 2018

Corporate information

Director
A Franklin

Auditors
Ernst & Young LLP
The Paragon
Counterslip
Bristol BS1 6BX

Bankers
Deutsche Bank AG London
6, Bishopsgate
London EC2N 4DA

Solicitors
Eversheds Sutherland (International) LLP
One Wood Street
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Registered Office
Jephson Court, Tancred Close,
Leamington Spa,
Warwickshire CV31 3RZ

Strategic report

The Directors present their strategic report for the year ended 31 December 2018.

Introduction

As detailed in Note 22, following many years of losses and poor trading conditions a decision has been taken for the company to cease trading. Provision has been made in these accounts for the resulting closure costs. The company's principal activity is the design and manufacture of high tech enclosures for the data com, telecom, electrical/electronic and computer industries.

Business review

Turnover for the year ended 31 December 2018 decreased from 2017 by 7.3% to £5.4m. Gross margin decreased by 10% to £119k loss, mainly due to effect of full year import duty tariffs and royalty charges. Administration expenses increased from £1,678k in 2017 to £2,187k in 2018 due mainly to provision for restructuring in anticipation of the business ceasing to trade.

The loss for the year, after taxation, is £2,413,917 (2017 – £1,281,576 loss).

The directors do not recommend that a dividend is paid (2017 – £nil).

Measurement of the company's performance is consistently applied and control is exercised by local and divisional management. The company has a budgeting system in place whereby actual performance is measured against budget on a monthly reporting timetable.

Company performance

The company's management uses key performance indicators (KPIs) to monitor the progress and performance of the business.

The company's KPIs during the year were as follows:

	2018	*2017*	*Change*
	£000	*£000*	*%*
Turnover	5,408	5,832	(7.3)
Gross (Loss)/Profit	(119)	458	(126.0)
Administrative expenses	2,187	1,678	30.3
Operating Loss before interest	(2,306)	(1,220)	89.0
Shareholder's deficit	(3,201)	(732)	
As a % of turnover			
Gross (Loss)/Profit	(2.20)	7.86	
Administrative expenses	40.43	28.77	
Operating Loss	(42.63)	(20.92)	

Future developments

The company ceased manufacturing in June 2019. Once all assets and liabilities have been disposed of or paid, the company is expected to become dormant.

Strategic report

Principal risks and uncertainties

The company is exposed to a number of financial risks outlined in the financial risk management section of the Directors' report.

Furthermore, the management of the business and the execution of the company's strategy are subject to a number key business risks affecting the company, which are set out below:

- The company is a wholly-owned subsidiary and follows group best practice as regards the acceptance and management of risk. The directors and the management team continually review and evaluate the risks that the company is facing.

The principal risks and uncertainties facing the company are broadly grouped as competitive, legislative and financial.

Competitive risks

The industry is very competitive in the UK and in export markets in Europe. The company is faced with very strong competition. Pricing pressures continue to dominate new business enquiries. The company has benefitted from leveraging the group's strategic sourcing resources and supply chain.

Legislative risks

The company is fully integrated into the Eaton methodology and best practice in Health and Safety, Environmental and Code of Ethics. Management and staff have been trained to the required standard and internal and external audits are regularly carried out to ensure these standards are maintained.

The company is compliant with the directives, Restriction of Hazardous Substances (RoHS) and the Waste Electrical and Electronic Equipment (WEEE).

Financial risks

The company's currency risk is controlled by natural hedges, under the guidance of Eaton Treasury department and where there is an excess risk, the company will take out foreign currency contracts accordingly.

By order of the board

A Franklin
Director
26 September 2019

Registered No. 619241

Directors' report

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

Directors

The director who served the company during the year was as follows:

A Franklin

Dividends

The directors do not recommend that a dividend is paid (2017 – £nil).

Future developments

As detailed in Note 22, following many years of losses and poor trading conditions a decision has been taken for the company to cease trading.

The statement of financial position reflects that the tangible assets were sold in June 2019. The sale of cabinet related stock was also completed in June 2019. The remaining fixings stock is to be run down through normal sales activity by late 2019. At this point the company will cease to trade.

Financial risk management

The company's policy does not permit trading in any financial instruments. The company's principal financial instruments comprise of cash, intercompany deposits and or borrowings, the main purpose of which is to provide finance for its normal trading operations and to reduce the impact of currency exchange rate movements on trading results.

The company has various other financial instruments such as trade debtors and creditors that arise directly from its trading operations.

The main risks arising from the company's financial instruments are liquidity, foreign currency cash flow and credit risks. The company has clear policies for managing each of these risks, as summarised below.

Liquidity risk

Liquidity risk is the risk that an organisation may not have, or not be able to raise, cash funds when needed. The company aims to mitigate liquidity risk by managing cash generation by its operations and applying cash collection targets. Investment is carefully controlled, with authorisation limits operating at different levels up to group board level and with hurdle rates of return and cash payback periods applied as part of the investment appraisal process.

The company participates in the overall world-wide group's funding strategy managed at corporate treasury level. The company participates in a UK cash pool. The objective is to maintain a balance between continuity of funding and flexibility.

Foreign currency cash flow risk

The company buys and sells goods and services denominated in currencies other than sterling. The company manages such receipts and payments through the operation of other denominated currency bank accounts. As a result of the value of the company's non-sterling revenues, purchases, financial assets and liabilities, cash flows can be affected significantly by movements in exchange rates.

The company seeks, where appropriate, to mitigate its exposure to currency movements by working with the world-wide group's treasury department to enter into forward currency contracts, denominated in the same currency as the operating funds flow (against sterling), to match transactional exposures on the balance sheet and future cash flow exposures anticipated in the business. Such forward contracts are entered into on the basis of regularly updated forecast information on the level of trading in each denominated currency.

Directors' report

Financial risk management (continued)

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the company provides goods and services on deferred credit terms.

Company policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the company's exposure to bad debts is not significant. Goods may be sold on a cash-with-order basis to mitigate credit risk. Some operating units purchase bad debt insurance where the cost is not excessive when compared to the risks covered.

In agreeing annual budgets, operating units set limits for debtors' days and doubtful debts expense against which performance is monitored at both operating unit and company level. A process for alerting management to operations failing to meet monthly cash collection targets serves to reduce the likelihood of an unmanaged concentration of credit risk.

Research and development

The company has continued its programme of research and development to improve a number of its existing products and to develop new products for the future.

Employees

The company is committed to the principle of equal opportunity in employment. Our employment policies for recruitment, selection, training, development and promotion of employees are designed to ensure no application receives less favourable treatment on the grounds of age, race, nationality, religion, political beliefs, disability, sex or marital status.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and 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 training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are made aware of the financial and economic performance of their business units and of the company as a whole.

Employee involvement

The employee involvement programme has been maintained and communications between management and employees remain good. Total quality management teams, briefing groups and joint consultative committees continue to operate at the plant.

Basis of preparation

These financial statements have been prepared on a basis other than going concern reflecting the fact that the company ceased to trade after the year end. Adjustments have been made to the assets and liabilities of the company as required to reduce the value of fixed assets to their estimated realisable value or to reclassify fixed assets and long-term liabilities as current.

Directors' report

Directors' liabilities

The company has arranged insurance cover to indemnify one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third-party indemnity provision remains in force as at the date of approving the directors' report.

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

On behalf of the Board

A Franklin
Director
26 September 2019

Directors' Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditors' report

To the members of Eaton Controls (UK) Limited

Opinion

We have audited the financial statements of Eaton Controls (UK) Limited for the year ended 31 December 2018 which comprise the Income statement, Statement of Comprehensive income, Statement of changes in Equity and Statement of Financial Position and position and the related notes 1 to 22, 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (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 loss 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.

Emphasis of matter – Break-up basis of preparation

We draw attention to note 2 to the financial statements which explains that the directors intend to liquidate the company and therefore do not consider it to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly the financial statements have been prepared on a basis other than going concern as described in note 2. Our opinion is not modified in this respect of this matter.

Independent auditors' report

To the members of Eaton Controls (UK) Limited

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.

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.

Independent auditors' report

To the members of Eaton Controls (UK) Limited

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, 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

Ernst & Young LLP
Jane Barwell (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
30 September 2019

Income statement

for the year ended 31 December 2018

	Notes	2018 £	2017 £
Turnover	3	5,408,348	5,832,179
Cost of sales		(5,527,549)	(5,373,968)
Gross (Loss)/Profit		(119,201)	458,211
Administrative expenses		(2,186,630)	(1,678,132)
Operating loss	4	(2,305,831)	(1,219,921)
Interest payable and similar costs	7	(61,528)	(33,833)
Other finance (cost)/ income	8	-	(6,000)
Loss on ordinary activities before taxation		(2,367,359)	(1,259,754)
Tax on loss on ordinary activities	9	(46,558)	(21,822)
Loss for the financial year		(2,413,917)	(1,281,576)

All amounts relate to operations.

Statement of comprehensive income

for the year ended 31 December 2018

	Notes	*2018* £	*2017* £
Loss for the financial year		(2,413,917)	(1,281,576)
Actuarial loss on defined benefit pension scheme	18	-	(259,000)
Return on pension plan asset	18	-	321,000
Loss on transfer of pension to group undertaking	18	(89,960)	-
Deferred tax on actuarial loss	9	34,960	(31,587)
Total other comprehensive (loss)/gain for the year		(55,000)	30,413
Total Comprehensive loss of the year		(2,468,917)	(1,251,163)

Statement of changes in equity

for the year ended 31 December 2018

	Called up share capital	*Share premium*	*Capital Contribution*	*Capital redemption reserve*	*Other reserves*	*Profit and loss account*	*Total equity*
	£	£	£	£	£	£	£
At 1 January 2017	121,980	86,929	15,000,000	16,314	942,369	(15,648,584)	519,008
Loss for the year	–	–	–	–	–	(1,281,576)	(1,281,576)
Other comprehensive gain	–	–	–	–	–	30,413	30,413
Total comprehensive loss for the year	–	–	–	–	–	(1,251,163)	(1,251,163)
At 31 December 2017	121,980	86,929	15,000,000	16,314	942,369	(16,899,747)	(732,155)
Loss for the year	–	–	–	–	–	(2.413,917)	(2,413,917)
Other comprehensive loss	–	–	–	–	–	(55,000)	(55,000)
Total comprehensive loss for the year	–	–	–	–	–	(2,468,917)	(2,468,917)
At 31 December 2018	121,980	86,929	15,000,000	16,314	942,369	(19,368,664)	(3,201,072)

Registered No. 619241

Statement of financial position

at 31 December 2018

	Notes	2018 £	2017 £
Fixed assets			
Tangible assets	10	-	1,429,432
Current assets			
Tangible assets held for sale	10	1,373,126	-
Stocks	11	729,090	1,084,437
Debtors	12	1,329,176	1,354,242
Cash at bank and in hand		10,558	4,881
		3,441,950	2,443,560
Creditors: amounts falling due within one year	13	(6,031,522)	(4,421,147)
Net current liabilities		(2,589,572)	(1,977,587)
Total assets less current liabilities		(2,589,572)	(548,155)
Provisions for liabilities	17	(611,500)	-
Retirement benefits liabilities	18	-	(184,000)
Net assets		(3,201,072)	(732,155)
Capital and reserves			
Called up share capital	14	121,980	121,980
Share premium account	15	86,929	86,929
Capital contribution	15	15,000,000	15,000,000
Capital redemption reserve	15	16,314	16,314
Other reserves	15	942,369	942,369
Profit and loss account		(19,368,664)	(16,899,747)
		(3,201,072)	(732,155)

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

A Franklin
Director
26 September 2019

Notes to the financial statements

at 31 December 2018

1. Authorisation of financial statements and statement of compliance

Eaton Controls (UK) Limited is a limited liability company incorporated and domiciled in England and Wales. These financial statements were prepared in accordance with Financial Reporting Standard 102 (FRS 102). The financial statements are prepared under the historical cost convention, unless otherwise indicated in the significant accounting policies below, and are presented in Sterling.

The financial statements of Eaton Controls (UK) Limited for the year ended 31 December 2018 were authorised for issue by the board of directors on 26 September 2019 and the balance sheet was signed on the board's behalf by A Franklin.

2. Accounting policies

2.1 Basis of preparation

The financial statements have not been prepared on a going concern basis. Instead they have been prepared on a sale of assets basis, reflecting that the company will cease to trade in 2019.

Land & buildings, plant and equipment, and a substantial quantity of stock were sold in June 2019.

The amounts realised meant no provision is required for diminution in value of these assets.

Accordingly, adjustments have been made to reclassify fixed assets as current assets.

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

Eaton Controls (UK) Limited has taken advantage of the following disclosure exemptions under FRS 102:

(a) the requirements of section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d)

(b) the requirements of Section 26 Share based Payment: paragraph 26.18 (b), 26.19 to 26.21 and 26.23

(c) Requirements of Section 33 Related Party Disclosures, paragraph 33.7

These financial statements have been prepared on a basis other than going concern reflecting the fact that the company ceased to trade after the year end. Adjustments have been made to the assets and liabilities of the company as required to reduce the value of fixed assets to their estimated realisable value or to reclassify fixed assets and long term liabilities as current.

2.2 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 revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgments have the most significant effect on amounts recognised in the financial statements.

Post-employment benefits

The cost of Post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these benefits, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country.

Notes to the financial statements (continued)

at 31 December 2018

2.2 Judgements and key sources of estimation uncertainty

Taxation

Management estimation is required to determine the amount of deferred tax assets that can be recognised based upon likely timing and level of future taxable profits together with assessment of the effect of future tax planning strategies.

Warranties and onerous contracts

The warranty provision represents management's best estimate of the company's liability under warranties granted on products sold, based on past experience and industry averages for defective products. It is anticipated that most of these costs will be incurred in the next five years

Onerous contract provisions represent management's best estimate of the amount by which the expected benefits from certain specific contracts are lower than the unavoidable cost of meeting its obligations under those contracts. The timeframe within which such provisions unwind varies by contract and is between 1 and 25 years. The onerous contract provisions have been discounted to reflect the net present value of the liabilities.

Impairment of non-financial assets

Where there are indicators of impairment of individual assets, the company performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

2.3 Significant accounting policies

(a) Revenue recognition

Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest income

Revenue is recognised as interest accrues using the effective interest method.

Notes to the financial statements (continued)

at 31 December 2018

2.3 Significant accounting policies (continued)

(b) Tangible fixed assets

On transition to FRS 102 from previous UK GAAP, the company has taken advantage of transitional relief in accordance with Section 35.10 (d) of FRS 102. The directors have elected to use the previous UK GAAP revaluation of Land and Buildings as its deemed cost at the revaluation date.

Plant and equipment are 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.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a systematic basis over its expected useful life, as follows,

Freehold buildings	–	over 50 years
Plant and machinery	–	over 10 years
Fixtures, fittings, tools and equipment	–	over 3 to 15 years

Depreciation is calculated on the straight-line method.

The carrying values of tangible fixed assets are reviewed for impairment when 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.

(c) Impairment of non-financial assets

The company assesses at each reporting date whether an asset may be impaired. If any such indication exists the company estimates recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the company estimates, the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

(d) Provision for liabilities

A provision is recognised when Eaton Controls (UK) Limited has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for the expected costs of maintenance under guarantees are charged against profits when products have been invoiced. The effect of the time value of money is not material and therefore the provisions are not discounted.

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the company's liability. In addition, if an issue was identified such that the product range needed to be recalled or reworked in some way, the anticipated costs of the total campaign were provided as soon as they could be readily ascertained.

Notes to the financial statements (continued)

at 31 December 2018

2.3 Significant accounting policies (continued)

(e) Stock and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials: purchase cost on a first-in, first-out basis

Work in progress and finished goods: cost of direct materials and labour plus attributable overheads based on a first-in, first-out basis on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

(f) Leasing and hire purchase

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease term and the asset's useful lives. A corresponding liability is recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments in the balance sheet. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term. Lease incentives are recognised over the lease term on a straight-line basis.

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

(g) Financial Instruments

Cash at bank and in hand

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity date of three months or less.

Short-term debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the income statement in operating expenses.

(h) Deferred tax

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that unrelieved tax losses and other deferred tax assets are recognised only to the extent that the directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(i) Pensions commitments

The Company operated a defined benefit pension scheme. Contributions are made by the company and the employees to a separately administered fund. Contributions from the Company ceased in March 2007. In June 2018, another group undertaking, Eaton Electric became the sponsoring employer of this scheme.

Notes to the financial statements (continued)

at 31 December 2018

2.3 Significant accounting policies (continued)

(i) Pensions commitments (continued)

The company also operates a targeted money purchase pension scheme. Contributions are charged to the income statement as they become payable in accordance with the scheme's rules.

(j) Going concern

These financial statements have been prepared on a basis other than going concern reflecting the fact that the company ceased to trade after the year end. Adjustments have been made to the assets and liabilities of the company as required to reduce the value of fixed assets to their estimated realisable value or to reclassify fixed assets and long-term liabilities as current.

(k) Foreign currency

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange 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.

3. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and to fellow subsidiary undertakings.

Turnover is attributable to activities in the UK.

The directors consider that the disclosure of turnover, net assets and profits by classes of business and by geographical market would be seriously prejudicial to the interests of the company.

4. Operating loss

This is stated after charging/(crediting):

		2018	*2017*
		£	*£*
Depreciation of owned assets		109,770	120,219
Restructuring expenses		1,090,834	-
Foreign exchange differences		(36,985)	(22,138)
Operating lease rentals	–plant and machinery	64,071	47,995
Auditors' remuneration		22,555	27,611

Notes to the financial statements (continued)

at 31 December 2018

5. Staff costs

Staff costs, including directors' remuneration, were as follows:

	2018	*2017*
	£	*£*
Wages and salaries	1,021,569	1,326,135
Social security costs	96,412	135,014
Other pension costs (see note 18)	111,538	128,064
	1,229,519	1,589,213

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

	2018	*2017*
	No.	*No.*
Manufacturing	18	20
Distribution	1	2
Sales & administration	20	22
	39	44

6. Directors remuneration

	2018	*2017*
	£	*£*
Remuneration	-	–
Company contributions paid to defined contribution pension schemes	-	–

No director received, or was due to receive, any emoluments in connection with their services as a director of the company during the year.

7. Interest payable and similar costs

	2018	*2017*
	£	*£*
On balances due to fellow group undertakings	61,528	33,833

Notes to the financial statements (continued)

at 31 December 2018

8. Other finance income

	2018	*2017*
	£	*£*
Expected return on pension assets	-	17,000
Interest costs and settlements on pension scheme liabilities	-	(23,000)
	-	(6,000)

9. Taxation

(a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	2018	*2017*
	£	*£*
Current tax:		
UK corporation tax at 19.0% (2017 – 19.25%)	–	–
Total current tax	–	–
	–	–
Deferred tax:		
Origination and reversal of temporary differences	33,564	(10,301)
Adjustment in respect of prior year	12,994	31,991
Effect of change in the tax rate	-	132
Total change in the deferred tax	46,558	21,822
Tax charge on profit on ordinary activities	46,558	21,822

Notes to the financial statements (continued)

at 31 December 2018

9. Taxation (continued)

(b) Factors affecting the total tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 19.0% (2017 – 19.25%). The differences are reconciled below:

	2018	*2017*
	£	£
Loss on ordinary activities before tax	(2,367,359)	(1,259,754)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.0% (2017 – 19.25%)	(449,798)	(242,503)
Expenses not deductible for tax purposes	26,746	(1,833)
Other differences	7,864	(360)
Group relief	461,746	266,518
Total tax charge	46,558	21,822

(c) Factors that may affect future tax charges

The Finance Act 2016, substantively enacted on 6 September 2016, includes legislation that will reduce the main rate of corporation tax to 17%, effective from 1 April 2020.

(d) Deferred tax

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

	2018	*2017*
	£	£
Included in (creditors)/debtors	(15,929)	30,629
Decelerated capital allowances	(21,921)	(21,572)
Losses	-	-
Other timing differences	5,992	52,201
Provision for deferred tax	(15,929)	30,629

	£
At 1 January 2018	30,629
Other comprehensive income	(34,960)
Movement arising from transfer of trade	34,960
Deferred tax charge to income statement for the period	(46,558)
At 31 December 2018	(15,929)

Notes to the financial statements (continued)

at 31 December 2018

10. Tangible assets held for sale

	Land and buildings	*Plant and equipment*	*Assets under construction*	*Total*
	£	*£*	*£*	*£*
Cost:				
At 1 January 2018	1,287,008	2,475,467	6,883	3,769,358
Additions	32,948	20,516	-	53,464
Disposals	-	(27,671)	-	(27,671)
Transfers	-	6,883	(6,883)	-
At 31 December 2018	1,319,956	2,475,195	-	3,795,151
Depreciation and impairment:				
At 1 January 2018	107,759	2,232,167	-	2,339,926
Provided during the year	33,312	76,458	-	109,770
Disposals	-	(27,671)	-	(27,671)
At 31 December 2018	141,071	2,280,954	-	2,422,025
Carrying amount				
At 31 December 2018	1,178,885	194,241	-	1,373,126
At 1 January 2018	1,179,249	243,300	6,883	1,429,432

The value of freehold land included in land and buildings amounted to £418,500 (2017 – £418,500). All fixed assets were disposed of in 2019.

11. Stocks

	2018	*2017*
	£	*£*
Raw materials and consumables	145,844	161,798
Work in progress	414,968	408,422
Finished goods and goods for resale	168,278	514,217
	729,090	1,084,437

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Stocks recognised as an expense in the period were £3,969,556 (2017 – £4,212,717).

12. Debtors

	2018	*2017*
	£	*£*
Trade and other receivables	756,746	815,459
Prepayments and accrued income	17,308	17,642
Amounts owed by group undertakings	499,888	448,065
Other debtors	55,234	42,447
Deferred tax	-	30,629
	1,329,176	1,354,242

Notes to the financial statements (continued)

at 31 December 2018

13. Creditors: amounts falling due within one year

	2018	*2017*
	£	*£*
Trade creditors	403,733	215,598
Amounts owed to group undertakings	5,311,263	3,928,379
Amounts owed to group undertakings	300,597	277,170
Deferred tax	15,929	-
	6,031,522	4,421,147

Amounts owed to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand.

14. Allotted and Issued share capital

		2018		*2017*
Allotted, called up and fully paid	*No.*	*£*	*No.*	*£*
Ordinary shares of £1 each		121,980	121,980	121,980

15. Reserves

(a) Share premium account

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

(b) Capital contribution

This reserve relates to a cash contribution paid to the company by its then immediate parent Eaton Holding (UK) II limited on the 30th November 2016.

(c) Capital redemption reserve

This reserve records the nominal value of shares repurchased by the company.

(d) Other reserves

This reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset.

16. Related party disclosures

During the year the Company entered into transactions, in the ordinary course of business, with other related parties.

The company has taken advantage of the exemption in Section 33.1A, whereby disclosures need not be given of 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.

Notes to the financial statements (continued)

at 31 December 2018

17. Provision for liabilities

	Total
	£000
At 1 January 2018	-
Additions during the year	1,090,834
Utilised	(479,334)
At 31 December 2018	611,500

The restructuring provision represents management's best estimate of the company's liability as a result of the restructuring of the UK business. These costs relate to severance costs and costs involved in the closure of the business.

18. Pensions

Eaton Controls (UK) Limited operated a pension scheme in the UK, called Willsher & Quick Pension Scheme. The scheme was run on a defined benefits basis before 6 April 1997 and on a defined contribution basis thereafter. In June 2018, another group undertaking, Eaton Electric Ltd became the sponsoring employer of this scheme. The actuarial valuation of that scheme at 31 December 2018 is included in those financial statements and is set out below.

Employer contributions towards the pre 6 April 1997 section of the scheme have ceased.

A full actuarial valuation of the Willsher & Quick Pension Scheme was carried out as at 1 January 2012 and updated to 31 December 2019 by a qualified actuary independent of the company.

Included in other pension costs are £111,538 (2017 – £128,064) in respect of the defined contribution scheme.

Contributions totalling £nil (2017 – £nil) were payable to the fund at the balance sheet date.

	2018	*2017*
	% per annum	*% per annum*
Main assumptions:		
Discount rate	2.38	1.91
Inflation rate	3.25	3.00

Notes to the financial statements (continued)

at 31 December 2018

18. Pensions (Continued)

The liabilities of the Willsher & Quick Pension Scheme are:

	2018	*2017*
	£	*£*
Present value of plan liabilities	-	(184,000)

Reconciliation of opening and closing balances of the present value of the scheme liabilities:

	2018	*2017*
	£	*£*
Scheme liabilities at beginning of year	1,453,000	1,266,000
Movement in year:		
Net interest	34,000	23,000
Remeasurements	(102,000)	259,000
Plan changes	22,000	-
Benefits paid from plan assets	(30,000)	(95,000)
Transfer of pension scheme to other group undertaking	(1,377,000)	-
Scheme liabilities at end of year	-	1,453,000

Reconciliation of opening and closing balances of the present value of the scheme assets:

	2018	*2017*
	£	*£*
Scheme assets at beginning of year	1,269,000	851,000
Movement in year:		
Net interest	33,000	17,000
Return of plan asset	9,000	321,000
Administration	(5,000)	(10,000)
Employer contributions	239,000	185,000
Benefits paid from plan assets	(30,000)	(95,000)
Transfer of pension scheme to other group undertaking	(1,515,000)	-
Scheme assets at end of year	-	1,269,000

Analysis of amount recognised in the statement of comprehensive income:

	2018	*2017*
	£	*£*
Experience loss on plan liabilities	-	259,000
Return on plan assets (greater)/less than discount rate	-	(321,000)
Loss on transfer of pension to group undertaking	89,960	-
Tax impact arising from transfer of pension/actuarial experience	(34,960)	31,587
Net (Gain)/Loss recognised in the statement of comprehensive income	55,000	(30,413)

Notes to the financial statements (continued)

at 31 December 2018

18. Pensions (Continued)

Defined Contribution Pension Scheme

The company offers employees the opportunity to join the Eaton UK Group Personal Pension Scheme.

This is a defined contribution scheme where the company contributes to the employee's pension plan.

The amount is dependent on the employee's contribution of a fixed % of their salary. Employees may make additional contributions which do not attract a corresponding company contribution.

There were no outstanding company contributions at the balance sheet date.

19. Operating lease commitments

Future minimum rentals payable under non-cancellable operating leases are as follow:

	2018	*2017*
	£	*£*
Payments due:		
Not later than one year	46,920	47,989
After one year but not more than five years	-	88,094
Total	46,920	136,083

20. Capital commitments

Amounts authorised and contracted for but not provided in the financial statements amounted to £nil for the company (2017 – £21,502).

21. Ultimate parent undertaking and controlling party

The company's immediate parent undertaking is Eaton Electrical Products Limited, a company registered in England and Wales.

The company's ultimate parent undertaking and controlling party is Eaton Corporation plc which is incorporated in Ireland. The only group of which the company is a member and for which group financial statements are prepared is that headed by Eaton Corporation plc. Copies of the 2018 Annual Report of Eaton Corporation plc can be obtained from the following address:

Eaton Center
1000 Eaton Boulevard
Cleveland
Ohio 44122
USA

22. Events after the reporting period

The company has operated in a very competitive market place and has incurred significant losses for many years. An extensive strategic review of the business concluded that there was not a realistic prospect of returning the company to stable profits, and so the decision was taken to close the company. In June 2019 production ceased, and steps have been taken for an orderly clearance of the company's assets and liabilities.