

189291

M.K. ELECTRIC LIMITED

Report of the Directors
for the 52 weeks ended 26 March 1988

- 1 The directors present herewith the audited accounts for the 52 weeks ended 26 March 1988.

Principal activities

- 2 The principal activities of the company are the manufacture of electric and electronic connection, control and circuit protection equipment.

Review of business and future developments

- 3 Both the level of business and the year end financial position were satisfactory and the directors expect that the present level of activity will be sustained for the foreseeable future.

During the year the company acquired controlling interests in a West German company and its Dutch subsidiary for a consideration of £7,150,000. Further details of this acquisition are set out in note 9.

Dividends and reserves

- 4 An interim dividend of £18,000,000 was paid during the year. It is proposed that the retained loss of £8,376,000 be transferred to reserves.

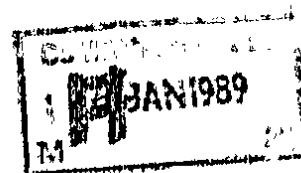
Fixed assets

- 5 The company spent £6,970,000 on plant and other fixed assets during the period. The policy of the company is to revalue freehold and leasehold property every five years, the last valuation having been undertaken in 1986. In the opinion of the directors, the current open market value on an existing use basis of the freehold and leasehold property exceeded the amount of £8,758,000 at which they are included in the balance sheet at 26 March 1988 by approximately £830,000.

Directors

- 6 The directors of the company at 26 March 1988 were as follows:-

| | |
|---------------------|---------------------|
| R.F. Leverton | (Chairman) |
| M.J. Dowsett | (Managing Director) |
| J.W. Bloomfield | |
| G.R. Carr | |
| N.A. Couter | |
| A. Goodfellow | |
| W.H. Hickman-Fitter | |
| E. Race | |
| D.G. Rance | |
| R.W. Wigg | |



Directors' interests

- 7 The interests of the directors of the company, other than those who are also directors of the intermediate holding company, MK Electric Group plc, in shares or loan notes are as follows:-

| | <u>At 26 March 1988</u> | <u>At 28 March 1987</u> |
|---------------------|--------------------------------|-------------------------------|
| | <u>The RTZ Corporation PLC</u> | <u>MK Electric Group PLC</u> |
| | <u>Loan Notes</u> | <u>Ordinary Shares of 25p</u> |
| J.W. Bloomfield | £46,256 | 2,598 |
| G.R. Carr | - | 1,381 |
| N.A. Couter | £ 6,195 | 885 |
| A. Goodfellow | £ 4,893 | 669 |
| W.H. Hickman-Fitter | £ 6,230 | 890 |
| D.G. Rance | £ 9,296 | 1,328 |
| R.W. Wigg | - | 1,180 |

There have been no changes in the above shareholdings since 26 March 1988.

No director had any material interest during the period in any contract significant in relation to the company's business.

Research and development

- 8 The company places great emphasis on research and development activities to maintain its position as market leader in the sector of the electrical industry in which it operates. In accordance with accounting policies, costs relating to these activities totalling £3,361,000 (1987 - £3,138,000), have been charged against the profit for the period.

Employee communications and involvement

- 9 The company recognises the importance of employee communications including briefing meetings, house journals and employee consultative committees.

A companywide incentive scheme exists to enhance employee awareness of the importance of their contribution to the company's efficiency and to share in the benefits achieved.

Employment of disabled persons

- 10 The company's policy and practice is to encourage and assist the employment of disabled people, their recruitment, training, career development and promotion, and the retention of employees who become disabled. The operation of this policy is reviewed regularly.

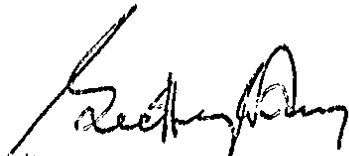
Close company provisions

- 11 As far as the directors are aware, the close company provisions of the Income and Corporation Taxes Act 1970, as amended, do not apply to the company. There has been no change in this respect since the end of the financial period.

Auditors

- 12 A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

BY ORDER OF THE BOARD


Secretary

17 June 1988

Report of the auditors to the members of
M.K. ELECTRIC LIMITED

We have audited the accounts on pages 5 to 17 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company at 26 March 1988 and of its results and source and application of funds for the 52 weeks then ended and comply with the Companies Act 1985.

Colin Steward

Chartered Accountants
LONDON, 17 June 1988

M.K. ELECTRIC LIMITED

Profit and loss account
for the 52 weeks ended 26 March 1988

| | <u>Notes</u> | <u>52 Weeks</u> <u>1988</u> | <u>52 Weeks</u> <u>1987</u> |
|--|--------------|--------------------------------|--------------------------------|
| | | £'000 | £'000 |
| Turnover | 1 | 102,341 | 92,222 |
| Net operating costs | 2 | (84,972) | (78,416) |
| | | <hr/> | <hr/> |
| Trading profit | 3 | 17,369 | 13,806 |
| Interest payable | 6 | (4,707) | (3,888) |
| | | <hr/> | <hr/> |
| Profit on ordinary activities before taxation | | 12,662 | 9,918 |
| Tax on profit on ordinary activities | 7 | (3,038) | (4,045) |
| | | <hr/> | <hr/> |
| Profit on ordinary activities after taxation | | 9,624 | 5,873 |
| Dividend paid | | (18,000) | (1,830) |
| | | <hr/> | <hr/> |
| Retained (loss)/profit for the period | | (8,376) | 4,043 |
| | | <hr/> | <hr/> |
| STATEMENT OF RETAINED PROFITS | | | |
| Retained profits at 28 March 1987 | | 13,565 | 9,222 |
| Retained (loss)/profit for the period | | (8,376) | 4,043 |
| Transfer from revaluation reserve | | - | 300 |
| | | <hr/> | <hr/> |
| Retained profits at 26 March 1988 | | 5,189 | 13,565 |
| | | <hr/> | <hr/> |

The policies and notes on pages 8 to 17 form part of these accounts.
Auditors' Report - page 4.

M.K. ELECTRIC LIMITEDBalance Sheet - as at 26 March 1988

| | Notes | 1988 £'000 | 1987 £'000 |
|---|-------|-----------------|-----------------|
| FIXED ASSETS | | | |
| Tangible assets | 8 | 30,291 | 27,462 |
| Investments | 9 | 7,150 | - |
| | | <u>37,441</u> | <u>27,462</u> |
| CURRENT ASSETS | | | |
| Stocks | 10 | 19,102 | 15,950 |
| Debtors | 11 | 22,909 | 16,615 |
| Cash at bank and in hand | | 462 | 4,729 |
| | | <u>42,473</u> | <u>37,294</u> |
| CREDITORS: Amounts falling due within one year | 12 | <u>(29,674)</u> | <u>(19,010)</u> |
| NET CURRENT ASSETS | | <u>12,799</u> | <u>18,284</u> |
| Total assets less current liabilities | | 50,240 | 45,746 |
| CREDITORS: Amounts falling due after more than one year | 13 | (36,458) | (23,038) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 14 | (550) | (1,100) |
| | | <u>13,232</u> | <u>21,608</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 15 | 901 | 901 |
| Revaluation reserve | | 7,142 | 7,142 |
| Profit and loss account | | 5,189 | 13,565 |
| | | <u>13,232</u> | <u>21,608</u> |

The Accounts were approved by the Board of Directors on 17 June 1988 and are signed on its behalf by:-

Michael J. Donnell

DIRECTORS

The policies and notes on pages 8 to 17 form part of these accounts.
Auditors' Report - page 4.

M.K. ELECTRIC LIMITED

Statement of source and application of funds
for the 52 weeks ended 26 March 1988

| | <u>1988</u> £'000 | <u>1987</u> £'000 |
|---|----------------------|----------------------|
| SOURCE OF FUNDS | | |
| Profit on ordinary activities before taxation | 12,662 | 9,918 |
| Adjustment for item not involving movement of funds: | | |
| Depreciation | 3,872 | 4,124 |
| Total from operations | 16,534 | 14,042 |
| Funds from other sources: | | |
| Sale of tangible fixed assets | 269 | 723 |
| Total sources of funds | 16,803 | 14,765 |
| APPLICATION OF FUNDS | | |
| Tax paid | (5,285) | (6,215) |
| Purchase of tangible fixed assets | (6,970) | (4,245) |
| Investment in limited partnership | (7,150) | - |
| | (2,602) | 4,305 |
| (INCREASE)/DECREASE IN WORKING CAPITAL | | |
| Stocks | (3,152) | 2,682 |
| Debtors | (5,946) | 1,658 |
| Trading account with related company | (348) | 660 |
| Creditors falling due within one year | 4,838 | (536) |
| | (4,608) | 4,464 |
| Net funds(absorbed)/generated | (7,210) | 8,769 |
| <u>Movement in financing arrangements</u> | | |
| Amount due to Group companies | (13,420) | 2,500 |
| Cash at bank and in hand | (11,790) | 4,439 |
| Dividend paid | 18,000 | 1,830 |
| | (7,210) | 8,769 |

The policies and notes on pages 8 to 17 form part of these accounts.
Auditors' Report - page 4.

M.K. ELECTRIC LIMITED

Accounting Policies

General

All accounting policies are consistent with those applied in the previous year.

Historical cost convention

The accounts are prepared under the historical cost convention, with the exception that properties are included at a valuation.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Gains and losses on exchange are included in the profit and loss account.

Turnover

Turnover represents net sales to customers excluding value added tax.

Tangible fixed assets

Freehold property and property held on long lease are revalued professionally on the existing use basis at five yearly intervals, the last valuation having taken place as at 29 March 1986. The surplus on revaluation is credited to the revaluation reserve. Plant and other fixed assets are shown at cost less accumulated depreciation.

Depreciation

Depreciation is provided on a straight line basis calculated to write off the gross book value of the assets over their useful lives. Depreciation is provided on all fixed assets apart from land. The average life expectancies used in computing depreciation charges for the main categories of assets are as follows:

| | Years |
|-----------------------------|-------|
| Freehold buildings | 50 |
| Property held on long lease | 50 |
| Plant and machinery | 10 |

Deferred taxation

Provision is made for deferred taxation at the expected rate of corporation tax in the years in which the tax liability is expected to arise. No provision is made for any tax reduction which is expected to continue for the foreseeable future. The full potential liability and amounts provided are set out in note 14.

Research and Development

Expenditure on research and development is charged to revenue as incurred.

Stocks

The basis of stock valuation is the lower of cost, computed on the 'first in first out' basis, and net realisable value. In the case of finished stocks and work in progress cost comprises material and direct labour costs with an appropriate addition for manufacturing overheads.

Pension Funding

Contributions to the M.K. Pension Fund are charged against profits. The fund is reviewed regularly by actuaries and the rates of contribution are adjusted based on their advice.

Leasing

Payments under operating leases are charged wholly to the profit and loss account in the year in which they are incurred. There are no significant assets held under finance leases.

Investments

Investments held as fixed assets are stated at cost.

M.K. ELECTRIC LIMITED

Notes to the accounts

Turnover

1. A geographical analysis of turnover is as follows:-

| | <u>1988</u> | <u>1987</u> |
|----------------|-------------|-------------|
| | £'000 | £'000 |
| United Kingdom | 88,341 | 78,257 |
| Middle East | 7,964 | 8,483 |
| Far East | 2,241 | 1,729 |
| Africa | 719 | 787 |
| Other | 3,076 | 2,966 |
| | <hr/> | <hr/> |
| | 102,341 | 92,222 |

Net operating costs

2. Net operating costs are made up as follows:-

| | <u>1988</u> | <u>1987</u> |
|---|-------------|-------------|
| | £'000 | £'000 |
| Change in stocks of finished goods and work in progress | (2,415) | 2,035 |
| Own work capitalised | (360) | (198) |
| Raw materials and consumables | 33,434 | 25,099 |
| Other external charges | 13,553 | 13,922 |
| Employee costs (see note 5) | 36,888 | 33,434 |
| Depreciation | 3,872 | 4,124 |
| | <hr/> | <hr/> |
| | 84,972 | 78,416 |

Trading profit

3. Trading profit is stated after charging:-

| | <u>1988</u> | <u>1987</u> |
|--|-------------|-------------|
| | £'000 | £'000 |
| Auditors' remuneration | 53 | 49 |
| Hire of plant and machinery | 38 | 65 |
| Depreciation of tangible fixed assets | 3,872 | 4,124 |
| Directors' emoluments (see note 4(a)) | 419 | 373 |
| Employee share scheme | 850 | 633 |
| Operating lease rentals for land and buildings | 452 | 475 |

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Directors' emoluments

4.(a) Directors' emoluments comprise emoluments (including pension contributions) for management services.

(b) Particulars of directors' emoluments (excluding pension contributions), are as follows:-

| | <u>1988</u> £'000 | <u>1987</u> £'000 |
|--|----------------------|----------------------|
| Emoluments of the chairman | Nil | Nil |
| Emoluments of the highest paid director | 57 | 49 |
| Number of directors (excluding those above) whose emoluments were within the ranges:- | | |
| Nil to £5,000 | Two | Two |
| £15,001 to £20,000 | Nil | One |
| £30,001 to £35,000 | Nil | One |
| £35,001 to £40,000 | Nil | Two |
| £40,001 to £45,000 | Two | One |
| £45,001 to £50,000 | Two | Two |
| £50,001 to £55,000 | Two | Nil |

Employee information

5.(a) The average number of persons employed by the company (including executive directors) during the year was 3,425 (1987 - 3,420).

All of these were based in the United Kingdom.

Remuneration of senior employees which fall within the following range:

| | <u>1988</u> | <u>1987</u> |
|--------------------|-------------|-------------|
| £30,001 to £35,000 | One | Nil |

(b) Employment costs of all employees included above:-

| | <u>1988</u> £'000 | <u>1987</u> £'000 |
|--|----------------------|----------------------|
| Gross wages and salaries | 32,491 | 29,466 |
| Employer's national insurance | 2,537 | 2,227 |
| Employer's pension contributions under the company pension scheme | 1,860 | 1,741 |
| | <u>36,888</u> | <u>33,434</u> |

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Interest payable

| 6. | <u>1988</u> £'000 | <u>1987</u> £'000 |
|--|----------------------|----------------------|
| Interest charges levied by the holding company | 4,394 | 3,798 |
| Interest payable to fellow subsidiary Company | 113 | 90 |
| Other interest | 200 | - |
| | <u>4,707</u> | <u>3,888</u> |

Tax on profit on ordinary activities

7. The tax charge is based on the profit on ordinary activities for the year and comprises:-

| | <u>1988</u> £'000 | <u>1987</u> £'000 |
|---------------------------------------|----------------------|----------------------|
| United Kingdom corporation tax at 35% | 3,588 | 4,445 |
| Deferred tax credit | (550) | (400) |
| | <u>3,038</u> | <u>4,045</u> |

The tax charge for the year has been reduced by Group relief received free of charge.

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Tangible Fixed Assets

| 8. | <u>Freehold property</u> | <u>Property on long Lease</u> | <u>Plant and machinery</u> | <u>Total</u> |
|---------------------------------------|------------------------------|---------------------------------------|------------------------------------|--------------|
| | £'000 | £'000 | £'000 | £'000 |
| Cost or valuation (see below) | | | | |
| At 29 March 1987 | 8,583 | 50 | 43,797 | 52,430 |
| Expenditure | 388 | - | 6,582 | 6,970 |
| Disposals | - | - | (812) | (812) |
| At 26 March 1988 | 8,971 | 50 | 49,567 | 58,588 |
| Depreciation | | | | |
| At 29 March 1987 | 129 | 1 | 24,838 | 24,968 |
| Charge for year | 132 | 1 | 3,739 | 3,872 |
| Disposals | - | - | (543) | (543) |
| At 26 March 1988 | 261 | 2 | 28,034 | 28,297 |
| Net book value at 26 March 1988 | 8,710 | 48 | 21,533 | 30,291 |

Revalued assets:

| | <u>Gross</u> | <u>Depreciation</u> | <u>Net book value</u> |
|---|--------------|---------------------|---------------------------|
| | £'000 | £'000 | £'000 |
| Revalued assets included above | 8,633 | (260) | 8,373 |
| Original cost and depreciation which would have been calculated thereon | 3,575 | (1,210) | 2,365 |
| Increase due to revaluation | 5,058 | 950 | 6,008 |

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Fixed Assets : Investments

| | |
|------------------|--------------|
| 9. | <u>£'000</u> |
| At 28 March 1987 | - |
| Additions | 7,150 |
| At 26 March 1988 | <u>7,150</u> |

During the year, MK Electric Limited and another group company acquired the entire issued share capital of Esser Sicherheitstechnik GmbH and Klaus Esser Nederlands BV through a West German limited partnership, MK Electric GmbH & Co KG. Under the partnership agreement, MK Electric Limited is entitled to receive substantially all of the profits of the partnership. Esser Sicherheitstechnik GmbH, which is incorporated in West Germany, and Klaus Esser Nederlands BV, which is incorporated in the Netherlands, manufacture fire detection and intruder security products.

Stocks

| | | |
|-------------------------------------|---------------|---------------|
| 10. | <u>1988</u> | <u>1987</u> |
| | <u>£'000</u> | <u>£'000</u> |
| Raw materials and consumables | 1,981 | 1,244 |
| Work in progress | 9,033 | 7,972 |
| Finished goods and goods for resale | 8,088 | 6,734 |
| | <u>19,102</u> | <u>15,950</u> |

Debtors

| | | |
|--------------------------------------|---------------|---------------|
| 11. | <u>1988</u> | <u>1987</u> |
| | <u>£'000</u> | <u>£'000</u> |
| Trade debtors | 19,293 | 13,187 |
| Amounts owed by fellow subsidiaries | 616 | 86 |
| Trading account with related company | 1,343 | 995 |
| Other debtors | 449 | 308 |
| Prepayments and accrued income | 1,208 | 2,039 |
| | <u>22,909</u> | <u>16,615</u> |

All the above amounts are due within one year of the balance sheet date.

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Creditors: amounts falling due within one year

| 12. | <u>1988</u> £'000 | <u>1987</u> £'000 |
|--|----------------------|----------------------|
| Bank loans and overdrafts | 7,523 | - |
| Trade creditors | 9,768 | 5,554 |
| Amounts owed to fellow subsidiaries | 1,510 | 1,551 |
| Taxation and social security (see below) | 9,404 | 10,767 |
| Accruals and deferred income | 1,469 | 1,138 |
| | <hr/> 29,674 | <hr/> 19,010 |

The creditor for taxation and social security includes UK corporation tax payable amounting to £4,791,000 (1987 - £6,488,000).

Creditors: amounts falling due after more than one year

| 13. | <u>1988</u> £'000 | <u>1987</u> £'000 |
|--------------------------------|----------------------|----------------------|
| Amounts due to Group companies | 36,458 | 23,038 |

Provisions for liabilities and charges

| 14. | Deferred Taxation £'000 |
|-----------------------------------|----------------------------|
| At 28 March 1987 | 1,100 |
| Credit to profit and loss account | (550) |
| At 26 March 1988 | <hr/> 550 |

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

The provision for deferred taxation and the full potential liability are as follows:-

| | <u>1988</u> | | <u>1987</u> | |
|--|---------------------------------|---|---------------------------------|---|
| | <u>Provision</u> <u>made</u> | <u>Full</u> <u>potential</u> <u>liability</u> | <u>Provision</u> <u>made</u> | <u>Full</u> <u>potential</u> <u>liability</u> |
| | £'000 | £'000 | £'000 | £'000 |
| Tax at 35% on the excess of capital allowances over depreciation | 268 | 5,114 | 1,100 | 5,598 |
| Tax that would arise on the disposal of properties at their revalued amounts | - | 594 | - | 1,492 |
| Tax at 35% on short term timing differences | 282 | 282 | - | 602 |
| | <u>550</u> | <u>5,990</u> | <u>1,100</u> | <u>7,692</u> |
| | <small>Provision made</small> | <small>Full potential liability</small> | <small>Provision made</small> | <small>Full potential liability</small> |

Called up share capital

| 15. | <u>1988</u> | <u>1987</u> |
|-------------------------------------|---|---|
| | £'000 | £'000 |
| Authorized: | | |
| 1,500,000 shares of £1 each | 1,500 | 1,500 |
| | <small>Authorized share capital</small> | <small>Authorized share capital</small> |
| Allotted, called up and fully paid: | | |
| 900,605 shares of £1 each | 901 | 901 |
| | <small>Called up share capital</small> | <small>Called up share capital</small> |

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Commitments and contingent liabilities

| 16. (a) <u>Capital expenditure</u> | <u>1988</u> <u>£'000</u> | <u>1987</u> <u>£'000</u> |
|---|-----------------------------|-----------------------------|
| Contracted but not provided in the accounts | 1,319 | 1,334 |
| Authorised but not yet contracted | 834 | 784 |
| Approved in principle but subject to specific authorisation | 7,000 | 5,250 |
| | <u>9,153</u> | <u>7,368</u> |

(b) Pensions

Most employees of the company are covered by the M.K. Pension Fund which is contracted out of the state scheme. Entry to the Fund is voluntary for employees aged over 21 and with six months service. The Fund is financed by contributions (partly from employees and partly from the employing company) at rates based on advice from independent actuaries. Pensions are paid on retirement based on the contributor's final salary and number of years of service.

The latest actuarial valuation as at 5 April 1986 showed that the value of assets of the Fund was adequate to cover the benefits of current beneficiaries and deferred pensions for current contributors on a discontinuance basis. The assets of the Fund are independent of the Group's finances.

(c) Bank borrowing facilities

The company has given guarantees in respect of certain of the banking facilities of the M.K. Electric Group. There was £437,000 outstanding on these facilities at 26 March 1988.

Operating lease commitments

17. At 26 March 1988, the company was committed to making the following payments during the next year in respect of property operating leases:-

| | <u>1988</u> <u>£'000</u> | <u>1987</u> <u>£'000</u> |
|---------------------|-----------------------------|-----------------------------|
| Leases which expire | | |
| within one year | 8 | - |
| within 2 - 5 years | 165 | 165 |
| after 5 years | 279 | 279 |
| | <u>452</u> | <u>444</u> |

Ultimate holding company

18. The ultimate holding company is The RTZ Corporation PLC incorporated in Great Britain.