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M.K. ELECTRIC LIMITED

Report of the Directors
for the 52 weeks ended 28 March 1987

- 1 The directors present herewith the audited accounts for the 52 weeks ended 28 March 1987.

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.

Dividends and reserves

- 4 An interim dividend of £1,830,000 has been paid during the year. It is proposed that the remaining profits of £4,043,000 be transferred to reserves.

Fixed assets

- 5 The company spent £4,245,000 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 £8,503,000 at which they are included in the balance sheet at 28 March 1987 by approximately £400,000.

Directors

- 6 The directors of the company at 28 March 1987 were as follows:-

R.F. Leverton	(Chairman)
M.J. Dewsett	(Managing Director)
J.W. Bloomfield	
G.P. Carr	
H.A. Cooter	(appointed 1 April 1986)
A. Goodfellow	(appointed 1 April 1986)
W.H. Hickman-Fitter	(appointed 1 April 1986)
E. Race	
D.G. Rance	
R.W. Wigg	

J.J. Fallon resigned 26 September 1986.

Directors' interests

- 7 The interests of the directors of the company, other than those who are also directors of the holding company, at 28 March 1987 in shares of M.K. Electric Group plc, the ultimate holding company were as follows:-

	Ordinary Shares	
	28 March 1987	29 March 1986 or later date of appointment
J.W. Bloomfield	2,598	2,322
G.R. Carr	1,381	1,090
N.A. Couter	885	697
A. Goodfellow	699	556
W.H. Hickman-Fitter	890	706
D.G. Rance	1,328	1,052
R.W. Wigg	1,180	939

The above includes shares held on behalf of executive directors by the Trustees of the M.K. Electric Group Employee Share Ownership Scheme.

There have been no changes in the above shareholdings since 28 March 1987.

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 £3,138,000 (1986 - £3,332,000), 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.

In addition the company is a participant in the MK Electric Group Employee Share Ownership Scheme, established in 1982 to encourage employee identification with the performance and aspirations of the M.K. Electric Group. An allocation of shares was made during the year to the scheme trustees in respect of eligible employees of the company.

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

24 June 1987

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 28 March 1987 and of its profit and source and application of funds for the 52 weeks then ended and comply with the Companies Act 1985.

Coopers & Lybrand

Chartered Accountants
LONDON, 24 June 1987

M.K. ELECTRIC LIMITED

Profit and loss account
for the 52 weeks ended 28 March 1987

	<u>Notes</u>	<u>52 Weeks 1987</u>	<u>52 Weeks 1986</u>
		£'000	£'000
Turnover	1	92,222	86,665
Net operating costs	2	(78,416)	(74,281)
Trading profit	3	13,806	12,384
Interest payable less receivable	6	(3,888)	(3,577)
Profit on ordinary activities before taxation		9,918	8,807
Tax on profit on ordinary activities	7	(4,045)	(3,381)
Profit on ordinary activities after taxation		5,873	5,426
Extraordinary charge	8	-	(500)
Profit for the financial period		5,873	4,926
Dividend paid		(1,830)	(3,724)
Retained profit for the period		4,043	1,202

STATEMENT OF RETAINED PROFITS

Retained profits at 29 March 1986	9,222	8,020
Retained profit for the period	4,043	1,202
Transfer from revaluation reserve	300	-
Retained profits at 28 March 1987	13,565	9,222

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 28 March 1987

	<u>Notes</u>	<u>1987</u>	<u>1986</u>
		<u>£'000</u>	<u>£'000</u>
FIXED ASSETS			
Tangible assets	9	27,462	28,064
CURRENT ASSETS			
Stocks	10	15,950	18,632
Debtors	11	16,615	18,933
Cash at bank and in hand		4,729	290
		<u>37,294</u>	<u>37,855</u>
CREDITORS: amounts falling due within one year	12	<u>(19,010)</u>	<u>(21,316)</u>
NET CURRENT ASSETS		18,284	16,539
Total assets less current liabilities		<u>45,746</u>	<u>44,603</u>
CREDITORS: Amounts falling due after more than one year	13	(23,038)	(25,538)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(1,100)	(1,500)
		<u>21,608</u>	<u>17,565</u>
CAPITAL AND RESERVES			
Called up share capital	15	901	901
Revaluation reserve	16	7,142	7,442
Profit and loss account		13,565	9,222
		<u>21,608</u>	<u>17,565</u>

The Accounts were approved by the Board of Directors on 24 June 1987 and are signed on its behalf by:-

Michael J. Dowsett

[Signature]

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 28 March 1987

	1987 £'000	1986 £'000
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	9,918	8,807
Extraordinary item	-	(500)
Adjustment for item not involving movement of funds:	9,918	8,307
Depreciation	4,124	3,736
Total from operations	14,042	12,043
Funds from other sources:		
Sale of tangible fixed assets	723	137
Total sources of funds	14,765	12,180
APPLICATION OF FUNDS		
Tax paid	(6,215)	(1,502)
Purchase of tangible fixed assets	(4,245)	(5,020)
Transfer of fixed assets from other group companies	-	(519)
	4,305	5,139
(INCREASE)/DECREASE IN WORKING CAPITAL		
Stocks	2,682	(3,331)
Debtors	1,658	(441)
Trading account with related company	660	(459)
Creditors falling due within one year	(536)	(301)
	4,464	(4,532)
Net funds generated	8,769	607
<u>Movement in financing arrangements</u>		
Amount due to holding company	2,500	(3,327)
Cash at bank and in hand	4,439	210
Dividend paid	1,830	3,724
	8,769	607

The policies and notes on pages 2 to 17 form part of these accounts.
Auditors' Report - page 4.

M.R. 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 to 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 reserves. 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
Moulds	5
Press Tools	3

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 Funds are charged against profits. The funds are reviewed regularly by actuaries and the rates of contribution are adjusted in accordance with 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.

M.K. ELECTRIC LIMITED

Notes to the accounts

Turnover

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

	<u>1987</u>	<u>1986</u>
	£'000	£'000
United Kingdom	78,257	68,936
Middle East	8,483	11,128
Far East	1,729	2,483
Africa	787	933
Other	2,966	3,185
	<u>92,222</u>	<u>86,665</u>
	=====	=====

Net operating costs

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

	<u>1987</u>	<u>1986</u>
	£'000	£'000
Change in stocks of finished goods and work in progress	2,035	(3,521)
Own work capitalised	(198)	(320)
Raw materials and consumables	25,099	27,343
Other external charges	13,922	13,838
Employee costs (see note 5)	33,434	33,205
Depreciation	4,124	3,736
	<u>78,416</u>	<u>74,281</u>
	=====	=====

Trading profit

3. Trading profit is stated after charging:-

	<u>1987</u>	<u>1986</u>
	£'000	£'000
Auditors' remuneration	49	49
Hire of plant and machinery	65	61
Depreciation of tangible fixed assets	4,124	3,736
Directors' emoluments (see note 4(a))	373	216
Employee share scheme	633	540
Operating lease rentals for land and buildings	475	470

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:-

	1987 £'000	1986 £'000
Emoluments of the chairman	Nil	Nil
Emoluments of the highest paid director	49	42
Number of directors (excluding those above) whose emoluments were within the ranges:-		
Nil to £5,000	Two	Two
£15,001 to £20,000	One	Nil
£25,001 to £30,000	Nil	One
£30,001 to £35,000	One	One
£35,001 to £40,000	Two	Two
£40,001 to £45,000	One	Nil
£45,001 to £50,000	Two	Nil

Employee information

5.(a) The average number of persons employed by the company (including executive directors) during the year was 3,420 (1986 - 3,616).

All of these were based in the United Kingdom.

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

	1987 £'000	1986 £'000
Gross wages and salaries	29,466	29,107
Employer's national insurance and state pension contributions	2,227	2,321
Employer's pension contributions under the company pension scheme	1,741	1,777
	<u>33,434</u>	<u>33,205</u>

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Interest payable

6.	<u>1987</u> <u>£'000</u>	<u>1986</u> <u>£'000</u>
Interest charges levied by the holding company	3,888 =====	3,577 =====

Tax on profit on ordinary activities

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

	<u>1987</u> <u>£'000</u>	<u>1986</u> <u>£'000</u>
United Kingdom corporation tax at 35% (1986 - 40%)	4,445	4,055
Deferred tax credit	(400)	(674)
	<u>4,045</u> =====	<u>3,381</u> =====

Extraordinary charge

8 Provision of £500,000 was made in 1986 for the non-recovery of amounts due from a fellow subsidiary.

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Tangible fixed assets

9.	<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 30 March 1986	8,958	50	40,896	49,904
Expenditure	-	-	4,245	4,245
Disposals	(375)	-	(1,344)	(1,719)
At 28 March 1987	8,583	50	43,797	52,430
Depreciation				
At 30 March 1986	-	-	21,840	21,840
Charge for year	129	1	3,994	4,124
Disposals	-	-	(996)	(996)
At 28 March 1987	129	1	24,838	24,968
Net book value at 28 March 1987	8,454	49	18,959	27,462

Revalued assets:

	<u>Gross</u>	<u>Depreciation</u>	<u>Net book value</u>
	£'000	£'000	£'000
Revalued assets included above Original cost and depreciation which would have been calculated thereon	8,633	(130)	8,503
	3,575	(1,155)	2,420
Increase due to revaluation	5,058	1,025	6,083

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Stocks

10.	<u>1987</u>	<u>1986</u>
	£'000	£'000
Raw materials and consumables	1,244	1,891
Work in progress	7,972	10,193
Finished goods and goods for resale	6,734	6,548
	<hr/>	<hr/>
	15,950	18,632
	=====	=====

If stocks had been determined by reference to their replacement cost rather than by reference to their historical cost the amount of the stocks shown above would be increased by £341,000 (1986 - £132,000).

Debtors

11.	<u>1987</u>	<u>1986</u>
	£'000	£'000
Trade debtors	13,187	13,147
Amounts owed by fellow subsidiaries	86	1,503
Trading account with related company	995	1,655
Other debtors	308	323
Prepayments and accrued income	2,039	2,305
	<hr/>	<hr/>
	16,615	18,933
	=====	=====

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

Creditors: amounts falling due within one year

12.	<u>1987</u>	<u>1986</u>
	£'000	£'000
Trade creditors	5,554	7,871
Amounts owed to fellow subsidiaries	1,551	403
Taxation and social security (see below)	10,767	11,783
Accruals and deferred income	1,138	1,259
	<hr/>	<hr/>
	19,010	21,316
	=====	=====

The creditor for taxation and social security includes UK corporation tax payable amounting to £6,488,000 (1986 - £8,258,000).

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Creditors: amounts falling due after more than one year

13.	<u>1987</u> £'000	<u>1986</u> £'000
Amounts due to holding company	23,038 =====	25,538 =====

Provisions for liabilities and charges

14.	Deferred Taxation £'000
At 30 March 1986	1,500
Credit to profit and loss account	(400)
At 28 March 1987	<u>1,100</u>

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

	<u>1987</u>		<u>1986</u>	
	<u>Provision made</u>	<u>Full potential liability</u>	<u>Provision made</u>	<u>Full potential liability</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Tax at 35% on the excess of capital allowances over depreciation	1,100	5,598	1,500	5,280
Tax that would arise on the disposal of properties at their revalued amounts	-	1,492	-	1,613
Tax at 35% on short term timing differences	-	602	-	740
	<u>1,100</u>	<u>7,692</u>	<u>1,500</u>	<u>7,633</u>

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Called up share capital

15.	<u>1987</u>	<u>1986</u>
	£'000	£'000

Authorised:

1,500,000 shares of £1 each	1,500	1,500
	=====	=====

Allotted, called up and fully paid:

900,605 shares of £1 each	901	901
	=====	=====

Revaluation reserve

£'000

16. Revaluation reserve at 30 March 1986	7,442
Transfer to profit and loss account	(300)
Revaluation reserve at 30 March 1987	7,142
	=====

Commitments and contingent liabilities

17. (a) <u>Capital expenditure</u>	<u>1987</u>	<u>1986</u>
	£'000	£'000
Contracted but not provided in the accounts	1,334	2,082
Authorised but not yet contracted	784	1,526
Approved in principle but subject to specific authorisation	5,250	4,343
	7,368	7,951
	=====	=====

(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 two consecutive years service. The Fund is financed by contributions (partly from employees and partly from the employing company) at rates determined by independent actuaries. Pensions are paid on retirement based on the contributor's final salary and number of years of service.

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

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 £1,473,000 outstanding on these facilities at 28 March 1987.

Ultimate holding company

18. The ultimate holding company is M.K. Electric Group plc incorporated in Great Britain.