

MK ELECTRIC LIMITED

ACCOUNTS
for the year ended
31 DECEMBER 1989

**Coopers
& Lybrand
Deloitte**

M.K. ELECTRIC LIMITED

Report of the Directors
for the year ended 31 December 1989

- 1 The directors present herewith the audited accounts for the year ended 31 December 1989.

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 Trading profit for 1989 at £6,790,000 compared with £10,278,000 for the 40 weeks to 31 December 1988 and profit before taxation reduced to £2,863,000 (40 weeks to 31 December 1988 - £7,300,000). High interest rates had an adverse impact on construction activity and encouraged distributors to de-stock. Company profits were reduced through lower sales volumes and £2,737,000 of redundancy costs necessary to adjust production capacity in line with market demand. With this improvement in production organisation and cost base, the company is well placed to improve performance in 1990.

Dividends and reserves

- 4 An interim dividend of £6,000,000 (£5.45 per ordinary share) was paid during the year. It is proposed that the retained loss of £5,044,000 be transferred to reserves.

Directors

- 5 The directors of the company during the year ending 31 December 1989 were as follows:-

J.W. Ray	(Chairman, appointed 12 May 1989)
M.J. Dowsett	(Managing Director)
J.W. Bloomfield	
G.R. Carr	
N.A. Couter	
B.R. Edwards	
A. Goodfellow	
E. Race	
M. Snowball	(appointed 28 February 1989)
R.W. Wigg	

R.F. Leverton, resigned on 12 May 1989. D.G. Rance, resigned on 28 February 1989.

Directors' interests

- 6 The interests of the directors of the company, other than those who are also directors of the intermediate holding company, Pillar Electrical PLC, in shares or loan notes are as follows:-

	<u>At 31 December 1989</u>	<u>At 31 December 1988</u>
	<u>The RTZ Corporation PLC</u>	<u>The RTZ Corporation PLC</u>
	<u>Loan Notes</u>	<u>Loan Notes</u>
J.W. Bloomfield	£26,256	£46,256
N.A. Couter	£1,057	£6,195
A. Goodfellow	£2,639	£4,893
R.W. Wigg	£8,260	£8,260

There have been no changes in the above holdings since 31 December 1989.

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

Research and development

- 7 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 the accounting policy, costs relating to these activities totalling £5,413,000 (40 weeks to 31 December 88 - £3,354,000), have been charged against the profit for the period.

Employee communications and involvement

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

A profit related pay 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

- 9 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.

Auditors

- 10 Our auditors Coopers & Lybrand are in the process of merging their practice with Deloitte Haskins & Sells and in the meantime have adopted Coopers & Lybrand Deloitte as their business name. They have signed the auditors' report in their new name. A resolution to reappoint Coopers & Lybrand Deloitte as the company's auditors will be proposed at the annual general meeting.

BY ORDER OF THE BOARD



Secretary

Shrubbery Road
Edmonton
London N9 0PB

28 February 1990

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

We have audited the accounts on pages 5 to 18 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31 December 1989 and of its results and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coburns & Partners

Chartered Accountants
LONDON, 28 February 1990

M.K. ELECTRIC LIMITED

Profit and loss account
for the year ended 31 December 1989

	DNotes	Year to 31 December 89	40 weeks to 31 December 88
		£'000	£'000
Turnover	1	105,264	81,230
Net operating costs	2	(98,474)	(70,952)
		<hr/>	<hr/>
Trading profit	3	6,790	10,278
Interest payable	6	(3,927)	(2,978)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		2,863	7,300
Tax on profit on ordinary activities	7	(1,907)	2,559
		<hr/>	<hr/>
Profit on ordinary activities after taxation		956	9,859
Dividend paid		(6,000)	-
		<hr/>	<hr/>
Retained (loss)/profit for the period		(5,044)	9,859

STATEMENT OF RETAINED PROFITS

	£'000	£'000
Retained profits at 31 December 1988	15,048	5,189
Retained (loss)/profit for the period	(5,044)	9,859
	<hr/>	<hr/>
Retained profits at 31 December 1989	10,004	15,048

The policies and notes on pages 8 to 18 form part of these accounts.
Auditors' Report - page 4.

M.K. ELECTRIC LIMITED

Balance Sheet - as at 31 December 1989

	Notes	1989 £'000	1988 £'000
FIXED ASSETS			
Tangible assets	8	30,411	31,245
Investments	9	9,336	7,223
		<u>39,747</u>	<u>38,468</u>
CURRENT ASSETS			
Stocks	10	20,497	20,293
Debtors	11	18,141	28,587
Cash at bank and in hand		8,608	2,697
		<u>47,246</u>	<u>51,577</u>
CREDITORS: Amounts falling due within one year	12	<u>(25,120)</u>	<u>(23,469)</u>
NET CURRENT ASSETS		<u>22,126</u>	<u>28,108</u>
Total assets less current liabilities		61,873	66,576
CREDITORS: Amounts falling due after more than one year	13	(23,460)	(43,300)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(366)	(185)
		<u>38,047</u>	<u>23,091</u>
CAPITAL AND RESERVES			
Called up share capital	15	1,101	901
Share premium account	15	19,800	-
Revaluation reserve		7,142	7,142
Profit and loss account		10,004	15,048
		<u>38,047</u>	<u>23,091</u>

The Accounts were approved by the Board of Directors on 28 February 1990 and are signed on its behalf by:-

Michael J. Donnell

} DIRECTORS

[Signature]

The policies and notes on pages 8 to 18 form part of these accounts.
Auditors' Report - page 4.

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M.K. ELECTRIC LIMITED

Statement of source and application of funds
for the year ended 31 December 1989

	Year to 31 December 1989 £'000	40 weeks to 31 December 1988 £'000
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	2,863	7,300
Adjustment for items not involving movement of funds:		
Depreciation	4,822	3,430
Total from operations	7,685	10,730
Exchange differences	(1,318)	280
Funds from other sources:		
Sale of tangible fixed assets	232	188
Increase in share capital	20,000	-
Total sources of funds	26,599	11,198
APPLICATION OF FUNDS		
Tax received/(paid)	4,227	(7,119)
Purchase of tangible fixed assets	(4,220)	(4,572)
Investment in limited partnership	(795)	(158)
Investment in related company	-	(195)
	25,811	(846)
(INCREASE)/DECREASE IN WORKING CAPITAL		
Stocks	(204)	(1,191)
Debtors	6,425	(429)
Trading account with related company	(134)	(391)
Creditors falling due within one year	(91)	(1,747)
	5,996	(3,753)
Net funds generated/(absorbed)	31,807	(4,604)
<u>Movement in financing arrangements</u>		
Amounts due to Group companies	22,008	(7,567)
Cash at bank and in hand	3,799	2,963
Dividend paid	6,000	-
	31,807	(4,604)

The policies and notes on pages 8 to 18 form part of these accounts.
Auditors' Report - page 4.

M.K. ELECTRIC LIMITED

Accounting Policies

General

All accounting policies, except that relating to pension costs 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 in respect of revenue transactions are included in the profit and loss account. Where foreign currency borrowings are used to finance overseas investments, exchange differences arising on the retranslation of these investments at the balance sheet date are taken to reserves and offset against the exchange differences arising on the related foreign currency borrowings.

Turnover

Turnover represents net sales to customers excluding value added tax.

Tangible fixed assets

Freehold property and property held on long lease was revalued professionally on the existing use basis as at 29 March 1986. In accordance with the policy of the ultimate holding company it is not proposed to carry out a revaluation in the future. The surplus on revaluation has been 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.

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 Costs

The expected cost of pensions in respect of group defined benefit pension schemes in which the company participates is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the schemes. Contributions are based on pension costs across the group as a whole. Variations from the regular cost are spread over the expected remaining service lives of current employees in the schemes. The pension cost is assessed in accordance with the advice of qualified actuaries.

This is a change of accounting policy following adoption of SSAP24 this year. In previous years, the charge to the profit and loss account was the actual amount of contributions made by the employer to the schemes. The effect of this change is set out in note 5.

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:-

	Year to 31 December 1989	40 weeks to 31 December 1988
	£'000	£'000
United Kingdom		
Middle East	91,924	69,114
Far East	5,737	6,639
Other	2,357	2,270
	5,246	3,207
	<u>105,264</u>	<u>81,230</u>

Net operating costs

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

	Year to 31 December 1989	40 weeks to 31 December 1988
	£'000	£'000
Change in stocks of finished goods and work in progress		
Own work capitalised	(258)	(1,136)
Raw materials and consumables	(1,356)	(950)
Other external charges	33,664	26,529
Employee costs (see note 5)	4,956	3,915
Depreciation	42,919	29,680
Other operating charges	4,822	3,430
	13,727	9,484
	<u>98,474</u>	<u>70,952</u>

Trading profit

3. Trading profit is stated after charging:-

	Year to 31 December 1989	40 weeks to 31 December 1988
	£'000	£'000
Auditors' remuneration	52	51
Hire of plant and machinery	56	32
Depreciation of tangible fixed assets	4,822	3,430
Directors' emoluments (see note 4(a))	445	322
Employee profit sharing schemes	485	500
Operating lease rentals for land and buildings	781	569
Management charge	1,620	710
Redundancy costs	2,737	-

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:-

	Year to 31 December 1989 £'000	40 weeks to 31 December 1988 £'000
Emoluments of the chairman	Nil	Nil
Emoluments of the highest paid director	60	39
Number of directors (excluding those above) whose emoluments were within the ranges:-		
Nil to £5,000	Two	Two
£10,001 to £15,000	One	Nil
£25,001 to £30,000	Nil	Two
£30,001 to £35,000	Nil	Three
£35,001 to £40,000	Nil	Two
£40,001 to £45,000	One	Nil
£45,001 to £50,000	Two	Nil
£50,001 to £55,000	Three	Nil

Employee information

5.(a) The average number of persons employed by the company (including executive directors) during the period was 3,217 (40 weeks to 31 December 1988 - 3,413). All of these employees were based in the United Kingdom.

Remuneration of senior employees which fall within the following ranges:

	Year to 31 December 1989 £'000	40 weeks to 31 December 1988 £'000
£30,001 to £35,000	Ten	Nil
£35,001 to £40,000	One	Nil

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

	Year to 31 December 1989 £'000	40 weeks to 31 December 1988 £'000
Gross wages and salaries	34,808	26,622
Employer's national insurance	2,841	2,163
Employer's pension contributions under the company pension scheme	1,788	421
Welfare and employee amenities	745	474
Redundancy Costs	2,737	-
	<hr/> 42,919	<hr/> 29,680

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

The total pension cost for the company was £1,788,000. The cost is after a credit of £855,000 attributable to the amortisation of pension fund surpluses which are being spread over the average remaining service lives of current employees. Contributions made to pension schemes in 1989 amounted to £2,488,000 and this is the amount that would have been charged to the profit and loss account had it not been for the change in accounting policy following the adoption of SSAP24.

Interest payable

6.	Year to 31 December 1989 £'000	40 weeks to 31 December 1988 £'000
Interest charges levied by the holding company	3,251	2,636
Interest payable to fellow subsidiary Company	72	91
Other interest	604	251
	<hr/> 3,927	<hr/> 2,978

Tax on profit on ordinary activities

7.	Year to 31 December 1989 £'000	40 weeks to 31 December 1988 £'000
United Kingdom corporation tax based on the profit for the year at 35%	1,724	3,168
Group relief receivable for nil consideration	-	(1,584)
	<hr/> 1,724	<hr/> 1,584
Reduction reflecting intra-group arrangements	-	(1,154)
ACT surrendered for nil consideration by Pillar Electrical PLC	-	(2,626)
Transfer from deferred taxation at 35% (1988-9.5%)	(281)	(365)
Re-statement of opening deferred tax balance	462	-
Overseas taxation	2	2
	<hr/> 1,907	<hr/> (2,559)

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

In accordance with the taxation arrangements within The RTZ Corporation PLC Group, the charge for current taxation in 1988 was reduced to 9.5% of taxable profits. These arrangements, which terminated at the beginning of 1989, recognised that there would be either a payment for Group relief at the rate of 9.5% or a surrender of unrelieved Advance Corporation Tax by the ultimate holding company for nil consideration. The re-statement of the opening deferred tax balance at 35% is reflected above.

Tangible Fixed Assets

8.	Freehold property	Property on long Lease	Plant and machinery	Total
	£'000	£'000	£'000	£'000
Cost or valuation (see below)				
At 31 December 1988	8,971	50	53,459	62,480
Expenditure	17	-	4,203	4,220
Disposals	-	-	(606)	(606)
At 31 December 1989	8,988	50	57,056	66,094
Depreciation				
At 31 December 1988	366	3	30,866	31,235
Charge for period	136	1	4,685	4,822
Disposals	-	-	(374)	(374)
At 31 December 1989	502	4	35,177	35,693
Net book value at 31 December 1989	8,486	46	21,879	30,411

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Revalued assets:

	<u>Gross</u>	<u>Depreciation</u>	<u>Net book value</u>
	£'000	£'000	£'000
Revalued assets included above	8,633	(502)	8,131
Original cost and depreciation which would have been calculated thereon	3,575	(1,340)	2,235
	<hr/>	<hr/>	<hr/>
Increase due to revaluation	5,058	838	5,896
	<hr/>	<hr/>	<hr/>

Fixed Assets : Investments

9.

	<u>Investment in limited partnership</u>	<u>Investment in related company</u>	<u>Total</u>
	£'000	£'000	£'000
At 31 December 1988	7,028	195	7,223
Additions	795	-	795
Exchange movement	1,318	-	1,318
	<hr/>	<hr/>	<hr/>
At 31 December 1989	9,141	195	9,336
	<hr/>	<hr/>	<hr/>

a) Investment in limited partnership

The investment in limited partnership comprises the interest of MK Electric Limited in a West German limited partnership, MK Electric GmbH & Co KG. The other partner is another group company. Under the partnership agreement, MK Electric Limited is entitled to receive substantially all of the profits of the partnership.

The principal subsidiary of the limited partnership is Esser Sicherheitstechnik GmbH, which is incorporated in West Germany. Esser Sicherheitstechnik GmbH, manufacture fire detection and intruder security products.

A further investment of £795,000 was made in the limited partnership during the period.

b) Investment in related company

The company holds 22.5% of the share capital of Hava - MK Electrical Accessories Company Limited, which is incorporated in Saudi Arabia.

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Stocks

10.	<u>1989</u>	<u>1988</u>
	£'000	£'000
Raw materials and consumables	1,982	2,036
Work in progress	6,144	8,604
Finished goods and goods for resale	12,371	9,653
	<hr/>	<hr/>
	20,497	20,293
	<hr/>	<hr/>

Debtors

11.	<u>1989</u>	<u>1988</u>
	£'000	£'000
Trade debtors	13,270	20,641
Amounts owed by fellow subsidiaries	1,319	952
Amounts owed by related companies	1,868	1,734
Other debtors	470	358
Prepayments and accrued income	1,214	380
UK corporation tax recoverable	-	4,522
	<hr/>	<hr/>
	18,141	28,587
	<hr/>	<hr/>

Included in prepayments and accrued income are prepaid pension contributions of £700,000 (1988 - £Nil). For further details see note 5.

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

Creditors: amounts falling due within one year

12.	<u>1989</u>	<u>1988</u>
	£'000	£'000
Bank loans and overdrafts	8,907	6,795
Trade creditors	7,229	10,265
Amounts owed to fellow subsidiaries	770	2,571
Taxation and social security (see below)	6,145	3,067
Accruals and deferred income	2,069	771
	<hr/>	<hr/>
	25,120	23,469
	<hr/>	<hr/>

The creditor for taxation and social security includes UK corporation tax payable of £1,431,000 (1988 - £Nil)

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

Creditors: amounts falling due after more than one year

13.

	<u>1989</u> £'000	<u>1988</u> £'000
Amounts due to Group companies	23,460	43,300

Provisions for liabilities and charges

14.

Deferred Taxation
£'000

At 31 December 1988	185
Deferred tax rate adjustment	462
Credit to profit and loss account	(281)
At 31 December 1989	<u>366</u>

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

	<u>1989</u>		<u>1988</u>	
	Provision made £'000	Full potential liability £'000	Provision made £'000	Full potential liability £'000
In respect of accelerated capital allowances.	573	4,468	679	4,841
In respect of short term timing differences.	(207)	(207)	(32)	(32)
Advanced Corporation Tax to be surrendered by the ultimate holding company for nil consideration	-	-	(462)	(3,435)
	<u>366</u>	<u>4,261</u>	<u>185</u>	<u>1,374</u>

M.K. ELECTRIC LIMITED

Notes to the accounts - continued

In 1988 the provision in the accounts and the full potential liability were arrived at using tax rates which were 25% less than the expected future rate of Corporation Tax in anticipation of the surrender of unrelieved Advance Corporation Tax by the ultimate holding company for nil consideration.

Called up share capital

15.	<u>1989</u> £'000	<u>1988</u> £'000
Authorised:		
1,500,000 ordinary shares of £1 each	<u>1,500</u>	<u>1,500</u>
Allotted, called up and fully paid:		
1,100,605 ordinary shares of £1 each (1988 - 900,605 shares)	<u>1,101</u>	<u>901</u>

During the year the company issued 200,000 ordinary shares of £1 each at a consideration of £100 a share giving rise to a share premium reserve of £19,800,000.

Commitments and contingent liabilities

16. (a) <u>Capital expenditure</u>	<u>1989</u> £'000	<u>1988</u> £'000
Contracted but not provided in the accounts	1,380	1,283
Authorised but not yet contracted	288	648
Approved in principle but subject to specific authorisation	<u>12,852</u>	<u>9,273</u>
	<u>14,520</u>	<u>11,204</u>

(b) Pensions

The company participates in two group pension schemes in the UK. These schemes are of the defined benefit type. The assets of the schemes are held in separate trustee administered funds. The details from the most recent actuarial valuations, which were carried out as at 31 December 1988, are disclosed in the accounts of The RTZ Corporation PLC, the ultimate holding company.

(c) Bank borrowing facilities

The company has given guarantees in respect of certain of the banking facilities of the Group. There were no outstanding liabilities on these facilities at 31 December 1989.

Operating lease commitments

17. At 31 December 1989, the company was committed to making the following payments during the next year in respect of property operating leases:-

	<u>1989</u> £'000	<u>1988</u> £'000
Leases which expire		
within 2 - 5 years	257	260
after 5 years	454	309
	<hr/> 711	<hr/> 569
	<hr/>	<hr/>

Ultimate holding company

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