

**Newton Derby Limited**

**Directors' report and financial  
statements**

**Registered number 234206**

**31 August 2003**



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## **Directors' report**

The directors present their report and the audited financial statements for the year ended 31 August 2003.

### **Principal activities**

The principal activity of the company is the manufacture of alternators, generators, voltage regulators and electronic instruments.

### **Review of business and future developments**

The company's activity levels remained level in a difficult market, but an increase in the proportion of lower margin orders led to a loss arising in the year. An improvement in trading conditions is not seen in the foreseeable future.

### **Dividends**

The directors do not recommend payment of a dividend (2002: *£nil*).

### **Directors**

The directors of the company who served during the year to 31 August 2003 were:

Mr V Phillips  
Mr G MacLeod  
Mr S Ward

### **Directors' interests in shares**

None of the directors have any interests in the shares of the company. The shareholdings of the directors in the parent company are shown in that company's financial statements.

### **Directors' interests in contracts**

Apart from contracts of employment, none of the directors had a beneficial interest in any contract to which the company was party during the year.

### **Research and development**

The company policy on research and development is to maintain expenditure at a level to ensure that all products retain their competitive position in the market place.

**Directors' report** *(continued)*

**Auditors**

A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



**V Phillips**  
*Director*

Alfreton Road  
Derby  
DE21 4AG

19 November 2004

## **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss 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;
- state whether applicable 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



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## **Report of the independent auditors to the members of Newton Derby Limited**

We have audited the financial statements on pages 5 to 18.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you, if in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 August 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**KPMG LLP**  
Chartered Accountants  
Registered Auditor

19 November 2004

**Profit and loss account**  
*for the year ended 31 August 2003*

	Note	2003 £000	2002 £000
Turnover	2	1,869	1,873
Cost of sales		(1,519)	(1,449)
		<hr/>	<hr/>
Gross profit		350	424
Distribution costs		(61)	(59)
Administration expenses		(397)	(349)
		<hr/>	<hr/>
Operating (loss)/profit		(108)	16
Interest payable and similar charges	3	(4)	(3)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation	4	(112)	13
Tax on (loss)/profit on ordinary activities	5	-	(34)
		<hr/>	<hr/>
Retained loss for the financial year	16	(112)	(21)
		<hr/>	<hr/>

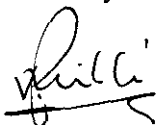
All amounts above are derived from continuing operations.

There were no other recognised gains and losses other than those passing through the profit and loss account.

**Balance sheet**  
*as at 31 August 2003*

	Note	2003 £000	2002 £000
<b>Fixed assets</b>			
Tangible assets	8	301	324
Investments	9	4	4
		<u>305</u>	<u>328</u>
<b>Current assets</b>			
Stocks	10	401	314
Debtors	11	319	284
Cash at bank and in hand		-	40
		<u>720</u>	<u>638</u>
<b>Creditors: amounts falling due within one year</b>	12	<u>(625)</u>	<u>(416)</u>
<b>Net current assets</b>		<u>105</u>	<u>222</u>
<b>Total assets less current liabilities</b>		<u>410</u>	<u>550</u>
<b>Creditors: amounts falling due after more than one year</b>	13	(16)	(54)
<b>Provisions for liabilities and charges</b>	14	-	-
<b>Net assets</b>		<u>384</u>	<u>496</u>
<b>Capital and reserves</b>			
Called up share capital	15	415	415
Revaluation reserve	16	164	168
Profit and loss account	16	(195)	(87)
<b>Equity shareholders' funds</b>		<u>384</u>	<u>496</u>

These financial statements were approved by the board of directors on 19 November 2004 and were signed on its behalf by:



**V Phillips**  
Director



## **Note of historical cost profits and losses**

	<b>2003</b> <b>£000</b>	2002 £000
<b>Reported (loss)/profit on ordinary activities before taxation</b>	<b>(112)</b>	13
Difference between historical cost depreciation and depreciation calculated on the revalued amount	4	13
<b>Historical cost (loss)/profit on ordinary activities before taxation</b>	<b>(108)</b>	26
<b>Historical cost loss for the period</b>	<b>(108)</b>	(8)

## **Reconciliation of movement in shareholders' funds**

	<b>2003</b> <b>£000</b>	2002 £000
Loss on ordinary activities after taxation	(112)	(21)
Net reduction in shareholders' funds	(112)	(21)
Opening shareholders' funds	496	517
<b>Closing shareholders' funds</b>	<b>384</b>	496

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### ***Basis of financial statements***

The financial statements are prepared in accordance with applicable accounting standards, and under the historical cost convention modified by the revaluation of certain fixed assets. In accordance with Section 228 of the Companies Act 1985 the company has not prepared group financial statements. Details of the ultimate parent company are set out in note 20.

#### ***Turnover***

Turnover represents sales to third parties excluding value added tax.

#### ***Depreciation***

Depreciation is calculated to write off the cost of fixed assets over their expected useful lives on a straight line basis. The principal annual rates used for this purpose, which are consistent with those of the previous year, are as follows:

Freehold buildings	8.3%
Plant and equipment	10%-15%
Motor vehicles	25%
Computers	20%

No depreciation has been provided on freehold land.

#### ***Deferred taxation***

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

#### ***Stocks and work in progress***

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and comprises direct material costs, direct labour cost and attributable production overheads.

#### ***Warranty provisioning***

Costs in respect of warranty claims are provided when the company becomes aware of a potential claim. The provision is made on management's best estimates at that point in time.

#### ***Development expenditure***

Development expenditure is written off as incurred.

#### ***Pension costs***

Pension costs are accounted for on the basis of charging the cost of providing pensions over the period during which the company benefits from employees' services. The effects of variations from regular cost are spread over the expected average remaining working lifetime of members of the company's pension scheme.

#### ***Cash flow***

The company is a wholly owned subsidiary of MP Industries Limited and the cash flows of the company are included in the consolidated cash flow statement of MP Industries Limited. Consequently, the company is exempt under the terms of Financial Reporting Standard No 1 from publishing a cash flow statement.

**Notes (continued)**

**2 Turnover**

The geographical analysis of turnover which represents sales of electrical equipment was:

	<b>2003</b>	2002
	<b>£000</b>	£000
United Kingdom	<b>1,523</b>	1,402
Other EU	<b>294</b>	438
Middle East	<b>1</b>	9
Rest of World	<b>51</b>	24
	<hr/> <b>1,869</b> <hr/>	<hr/> 1,873 <hr/>

**3 Interest payable and similar charges**

	<b>2003</b>	2002
	<b>£000</b>	£000
Interest payable on hire purchase contracts	<b>4</b>	3
	<hr/> <b>4</b> <hr/>	<hr/> 3 <hr/>

**4 (Loss)/profit on ordinary activities before taxation**

(Loss)/profit on ordinary activities before taxation is stated after charging:

	<b>2003</b>	2002
	<b>£000</b>	£000
Depreciation	<b>32</b>	39
Auditors' remuneration - audit services	<b>7</b>	9
	<hr/> <b>39</b> <hr/>	<hr/> 48 <hr/>

## Notes (continued)

### 5 Taxation on (loss)/profit on ordinary activities

	2003 £000	2002 £000
UK corporation tax at rates of 30% (2002: 30%)	-	-
Under provision in prior year	-	12
Group relief	-	-
	<hr/>	<hr/>
Current taxation	-	12
Deferred taxation	-	-
Under provision in prior year	-	22
	<hr/>	<hr/>
Tax on (loss)/profit on ordinary activities	-	34
	<hr/>	<hr/>

#### Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2002: lower) than the standard rate of corporation tax in the UK of 30%, (2002: 30%). The differences are explained below:

	2003 £000	2002 £000
<i>Current tax reconciliation:</i>		
(Loss)/profit on ordinary activities before tax	(112)	13
	<hr/>	<hr/>
Current tax at 30% (2002: 30 %)	(34)	4
<i>Effects of:</i>		
Expenses not deductible for tax purposes	-	-
Depreciation for the period in excess of capital allowances	9	11
Other timing differences	6	17
Group relief received not paid for in current year	-	(20)
Effect of losses carried forward	19	-
	<hr/>	<hr/>
Total current tax charge	-	12
	<hr/>	<hr/>

### 6 Directors' emoluments

	2003 £	2002 £
<i>In respect of all directors</i>		
Aggregate emoluments (including benefits)	68,609	71,513
	<hr/>	<hr/>

Included within the aggregate emoluments figure above are performance related bonuses payable to one director.

Of the directors who received emoluments during the year, retirement benefits are accruing to one director at 31 August 2003 under a defined benefit scheme.

Of the directors who served during the year, two received no emoluments for their service during the year.

## Notes (continued)

### 7 Employee information

The average number of persons (including executive directors) employed during the year was:

	2003 Number	2002 Number
Production	33	36
Selling and distribution	2	2
Administration	12	12
	<hr/> 47 <hr/>	<hr/> 50 <hr/>

Employment costs (including executive directors):

	2003 £000	2002 £000
Aggregate gross wages and salaries	755	825
Social security costs	60	62
Other pension and life assurance costs	98	99
	<hr/> 913 <hr/>	<hr/> 986 <hr/>

### 8 Tangible fixed assets

	Freehold land and buildings £000	Plant machinery and vehicles £000	Fixtures fittings and tools £000	Total £000
<b>Cost or valuation</b>				
At beginning of year	250	386	121	757
Additions	-	1	8	9
Disposals	-	(33)	(2)	(35)
	<hr/> 250 <hr/>	<hr/> 354 <hr/>	<hr/> 127 <hr/>	<hr/> 731 <hr/>
<b>Depreciation</b>				
At beginning of year	67	275	91	433
Charge for the year	4	18	10	32
On disposals	-	(33)	(2)	(35)
	<hr/> 71 <hr/>	<hr/> 260 <hr/>	<hr/> 99 <hr/>	<hr/> 430 <hr/>
<b>Net book value</b>				
At 31 August 2003	<hr/> 179 <hr/>	<hr/> 94 <hr/>	<hr/> 28 <hr/>	<hr/> 301 <hr/>
At 31 August 2002	<hr/> 183 <hr/>	<hr/> 111 <hr/>	<hr/> 30 <hr/>	<hr/> 324 <hr/>

## Notes (continued)

### 9 Tangible fixed assets (continued)

- i) No depreciation has been provided on land of £84,000 (2002: £84,000).  
ii) Freehold land and buildings are incorporated in the financial statements based on an open market value by an external professional valuer for their existing use of £250,000 as at 18 December 1987.

Subsequently, in January 2002 the freehold land and buildings were valued by Lambert Smith Hampton at £350,000 on an open market basis. This valuation has not been incorporated in the financial statements.

The historical cost and related depreciation of revalued assets are as follows:

	Freehold land and buildings £000
Historical cost at 31 August 2003	51
Accumulated depreciation at 31 August 2003	(39)
	<hr/>
Net book value at 31 August 2003	12
	<hr/>
Net book value at 31 August 2002	13
	<hr/>

### 9 Fixed asset investments

	2003 £000	2002 £000
<i>Shares in group company</i>		
Investment at cost	15	15
Amounts written off	(11)	(11)
	<hr/>	<hr/>
At 31 August	4	4
	<hr/>	<hr/>

The above investment is in respect of Control Instruments Limited in which the company owns 100% of the issued share capital comprising 2,500 £1 ordinary shares. Control Instruments Limited is registered in England and Wales and it is non trading.

Financial statements have been prepared up to 31 August 2003 and show capital and reserves amounting to £3,562 (2002: £3,562) and a profit on ordinary activities before taxation of £nil (2002: £nil).

During the year the company acquired 100% of the share capital of Countryman Defence Limited having issued share capital comprising 1 £1 ordinary share. Countryman Defence Limited is registered in England and Wales and is dormant.

### 10 Stocks

	2003 £000	2002 £000
Raw materials	193	159
Work in progress	182	134
Finished goods and goods for resale	26	21
	<hr/>	<hr/>
	401	314
	<hr/>	<hr/>

## Notes (continued)

### 11 Debtors

	2003 £000	2002 £000
<i>Amounts falling due within one year</i>		
Trade debtors	280	213
Amounts owed by other group undertakings	13	33
Deferred taxation (see note 14)	-	-
Corporation tax recoverable	-	8
Prepayments and accrued income	26	30
	<u>319</u>	<u>284</u>

### 12 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Bank overdraft	122	-
Trade creditors	237	168
Obligations under finance leases and hire purchase contracts	38	32
Amounts owed to group undertakings	6	16
Other taxation and social security	50	58
Other creditors	6	7
Accruals and deferred income	166	135
	<u>625</u>	<u>416</u>

### 13 Creditors: amounts falling due after more than one year

	2003 £000	2002 £000
Obligations under finance leases and hire purchase contracts (all due within two to five years)	16	54

### 14 Provisions for liabilities and charges

	2003	Full potential (asset)/ liability £000	2002	Full potential (asset)/ liability £000
	Provision made £000		Provision made £000	
Accelerated capital allowances	-	(19)	-	(11)
Other timing differences	-	(51)	-	(30)
	<u>-</u>	<u>(70)</u>	<u>-</u>	<u>(41)</u>

No deferred tax asset has been recognised at 31 August 2003.

**Notes (continued)**

**15 Called up share capital**

	2003 £000	2002 £000
<i>Authorised</i>		
4,500,000 ordinary shares of 10p each	<u>450</u>	<u>450</u>
<i>Allotted, called up and fully paid</i>		
4,147,101 ordinary shares of 10p each	<u>415</u>	<u>415</u>

**16 Reserves**

	Revaluation reserve £000	Profit and loss account £000
At 1 September 2002	168	(87)
Loss for the financial year	-	(112)
Transfer in period	(4)	4
	<u>164</u>	<u>(195)</u>
At 31 August 2003		

**17 Pension costs**

The company operates a defined benefit pension scheme. The assets of the scheme are held separately from those of the company, being invested with an insurance company. The pension cost for the company was £97,852. During the year the contributions of the company were 16% and those of the employees 6% of pensionable earnings.

Actuarial assessments of the scheme are made every three years by an independent actuary using the projected unit method with the past service deficit run off over the remaining working life of the active members. The actuarial valuation of the assets of the scheme at the last valuation date of 31 December 2000 was £1,180,000. The value of the assets was sufficient to cover approximately 92% of the benefits which had accrued to members after allowing for future increases in earnings and future investment returns. Reasonable assumptions have been made by the actuary for the rate of return of investments (7.0% before NRA and 5.5% after NRA), rate of increase of salaries (4.75%) and LPI (3.25%).

In addition, the company pays the premiums required for insuring Spouses Death-in-Service Benefit, Life Assurance Benefits and Scheme Expenses.



## Notes (continued)

### 17 Pension costs (continued)

The directors consider that the future cost of continuing the scheme in its present form is excessive and are obtaining professional advice in this regard. In the meantime an interim schedule of contributions at lower rates has been adopted. At the date of approval of these financial statements no decision has been reached about the future of the scheme.

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The valuation at 31 December 2000 has been updated by the actuary on an FRS 17 basis as at 31 August 2003. The major assumptions used in this valuation were:

	2003	2002	2001
Rate of increase in salaries	2.50%	2.75%	4.75%
Rate of increase in pensions in payment	3.25%	3.25%	3.00%
Discount rate	5.48%	6.00%	5.78%
Inflation assumption	2.50%	2.5%	2.75%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The discount rate used is based on the yield available on a suitable AA-rated 15 year plus Corporate Bond.

The inflation rate and the rate of increase in salaries have been set by the employer.

Pensions in payment, for pensionable service from April 1997, increase at LPI with a minimum of 3%. For service prior to this date, pensions in payment increase at 3% per annum compound.

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	2003 expected rate of return %	Value at 31 August 2003 £000	2002 expected rate of return %	Value at 31 August 2002 £000	2001 expected rate of return %	Value at 31 August 2001 £000
Total market value of assets	6.8	1,031	6.8	990	6.8	1,089
Present value of scheme liabilities		(1,555)		(1,347)		(1,537)
Deficit in the scheme		(524)		(357)		(448)
Deferred tax asset		157		107		134
Net pension liability		(367)		(250)		(314)

The liabilities are based on the benefits in force as at 31 August 2003. A brief description of the benefits is set out in the last Actuarial Valuation report dated 31 December 2000. A full description is set out in the scheme rules.

No constructive obligations for further benefits have been taken into account. That is, it has been assumed that no public statement or past practice by the employer has created a valid expectation in the employees that such benefits will be granted.

## Notes (continued)

### 17 Pension costs (continued)

The figures are based on membership data as at the last renewal date of the scheme, 31 December 2002.

	£000
Deficit in the scheme	(524)
Related deferred tax asset	157
	<hr/>
Net pension liability	(367)
	<hr/>

The amount of the net pension liability would also be included in the company's profit and loss reserve.

#### Analysis of the amount charged to operating profit

	2003 £000	2002 £000
Current service cost	26	39
Past service cost	-	-
	<hr/>	<hr/>
Total operating charge	26	39
	<hr/>	<hr/>

Current service cost is the estimated cost of providing members' entitlements for the current accounting period ending 31 August 2003. The figure quoted does not include the cost of any death in service or incapacity benefits. For insured benefits, the cost can be taken as the insurance premium for the period.

Past service cost is the increase, where appropriate, in the value of scheme liabilities at the accounting date arising as a result of the introduction of, or improvement to, retirement benefits.

#### Analysis of the amount credited to other finance income

	2003 £000	2002 £000
Expected return on pension scheme assets	61	69
Interest on pension scheme liabilities	(81)	(90)
	<hr/>	<hr/>
Net return	(20)	(21)
	<hr/>	<hr/>

Expected return on pension scheme assets is based on the expected rate of return and the market value of assets at the start of the accounting period. It allows for contributions paid into and benefits paid out of the scheme during the period.

Interest on pension scheme liabilities is based on the discount rate and the value of liabilities at the start of the accounting period. It allows for changes in the scheme liabilities during the period.

## Notes (continued)

### 17 Pension costs (continued)

#### Analysis of the amount recognised in the statement of total recognised gains and losses

	2003 £'000	2002 £'000
Actual return less expected return on pension scheme assets	(13)	(173)
Experience gains and losses arising on scheme liabilities	21	22
Changes in assumptions underlying the scheme liabilities	(188)	(244)
	<hr/>	<hr/>
Actuarial loss recognised	(180)	93
	<hr/>	<hr/>

Actual return less expected return on pension scheme assets is the actual return on the assets less the expected return with allowance for contributions paid into and benefits paid out of the scheme during the accounting period.

Experience gains and losses on the scheme liabilities are the difference between actuarial assumptions underlying the scheme liabilities and actual experience during the period.

Changes in assumptions underlying the scheme liabilities reflects the changes made to the actuarial assumptions since the last accounting date.

#### Analysis of the movement in the scheme deficit during the year

	2003 £000	2002 £000
Deficit in scheme at beginning of the year	(357)	(448)
Movement in the year:		
Current service cost	(26)	(39)
Contributions	59	58
Other finance income	(20)	(21)
Actuarial loss	(180)	93
	<hr/>	<hr/>
Deficit in scheme at end of the year	(524)	(357)
	<hr/>	<hr/>

There have been no refunds of surplus paid to the employer during the current period.

#### History of experience gains and losses

	2003	2002
Difference between the expected and actual returns on scheme assets:		
Amount (£'000)	(13)	(173)
Percentage of scheme assets	(1.3%)	(17.4%)
Experience gains and losses arising on scheme liabilities:		
Amount (£'000)	21	22
Percentage of the scheme liabilities	1.4%	1.6%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£'000)	(180)	93
Percentage of the scheme liabilities	(11.6%)	6.9%

**Notes** *(continued)*

**18 Capital commitments**

Outstanding commitments of the company for capital expenditure at 31 August 2003 amounted to £nil (2002: £nil).

**19 Contingent liabilities**

The company has given an undertaking to its bankers regarding the group borrowings. The amounts outstanding to the bank in respect of other group companies as at 31 August 2003 was £2,005,765 (2002: £1,978,540).

**20 Ultimate parent company**

The directors regard MP Industries Limited, a company incorporated in Great Britain and registered in England and Wales, as the ultimate parent company and ultimate controlling party.

**21 Related party transactions**

The company has taken advantage of the exemption under FRS 8 Related Party Disclosures not to disclose related party transactions between group companies.