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OSBORN-MUSHET TOOLS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER 1985

1 The directors submit their report and the audited accounts for the year ended 31st December 1985. 150

Results and dividends

2 Details of the profit for the financial year are set out in the profit and loss account on page 4. The directors recommend the payment of a dividend of £352,733 in respect of the year ended 31st December 1985.

Principal activities and review of the business and future developments

3 The principal activity of the company continues to be the manufacture of engineers' cutting tools. 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.

4 During the year the company acquired the stock and work-in-progress of a tap and die manufacturer. As part of the purchase agreement, the land, buildings, plant and machinery of the tap and die business were acquired by fellow subsidiaries of Aurora plc and these assets have been leased to the company.

Tangible fixed assets

5 The movements in tangible fixed assets are set out in note 8 to the accounts. In the opinion of the directors the market value of the company's land and buildings is not significantly different from the book value at which these assets are included in the balance sheet.

Directors

6 The following directors have held office during the whole of the year ended 31st December 1985, except as otherwise indicated:

I G Runciman - (Chairman)
I D Gale - (Managing Director) appointed 19th August 1985
J M H Dadswell
A M Falconer
J B Matchett
B Summerson
A L Wallis

7 In accordance with the Articles of Association, none of the directors are required to retire.

Employee involvement

8 Communication meetings are held periodically with employee representatives to discuss sales, production activities, new developments etc and inform on parent group position and activities. At these meetings, senior executives can be questioned about matters related to sales and production which concern the employees.



OSBORN-MUSHET TOOLS LIMITEDREPORT OF THE DIRECTORS (continued)Directors' interests in shares

9 According to the register required to be kept by Section 325 of the Companies Act 1985 the notifiable interests of the directors of the company at 31st December 1985 in the shares or debentures of the ultimate holding company, Aurora plc, or its subsidiaries were as follows:

At 31st December 1985 At 1st January 1985

Ordinary shares of 10p each in
Aurora plc

I D Gale	1000	-
B Summerson	6000	3000

Employment of disabled persons

10 The company gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a handicapped or disabled person. Where employees become disabled the company endeavours to continue to employ them provided there are duties which they can perform, bearing in mind the handicap or disability. As far as possible, training, career development and promotion is available to handicapped and disabled persons where this is in their own as well as the company's best interests.

Close company

11 The company is not a close company within the provisions of the Income and Corporation Taxes Act 1970, as amended, and there has been no change in this respect since 31st December 1985.

Auditors

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

BY ORDER OF THE BOARD

B Summerson

Secretary

7th February 1986

REPORT OF THE AUDITORS TO THE MEMBERS OF
OSBORN-MUSHET TOOLS LIMITED

We have audited the accounts set out on pages 4 to 15 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 31st December 1985 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.


COOPERS & LYBRAND

SHEFFIELD

Chartered Accountants

7th February 1986

OSBORN-MUSHET TOOLS LIMITEDPROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 1985

	Notes	1985 £	1984 £
Turnover	2	8,381,383	7,621,576
Change in stocks of finished goods and work in progress		857,325	(11,792)
		9,238,708	7,609,784
Raw materials and consumables		(3,549,318)	(2,531,278)
Other external charges		(495,900)	(458,307)
Staff costs	4(b)	(2,848,646)	(2,609,499)
Depreciation and other amounts written off tangible fixed assets		(295,159)	(229,379)
Other operating charges		(965,142)	(1,010,141)
Operating profit		1,084,543	770,580
Interest receivable and similar income	5	797	461
Interest payable and similar charges	6	(15,526)	(23,543)
Profit on ordinary activities before taxation	3	1,069,814	747,498
Tax on profit on ordinary activities	7	(364,349)	(150,263)
Profit on ordinary activities after taxation		705,465	597,235
Proposed dividend of £7.05 (1984 £5.97) per share		(352,733)	(298,617)
Retained profit for the year		<u>£352,732</u>	<u>£298,618</u>

STATEMENT OF MOVEMENTS ON PROFIT AND LOSS ACCOUNT

Retained profit at 1st January 1985	298,618	-
Retained profit for the year	<u>352,732</u>	<u>298,618</u>
Retained profit at 31st December 1985	<u>£ 651,350</u>	<u>£ 298,618</u>

The notes on pages 7 to 15 form part of these accounts.

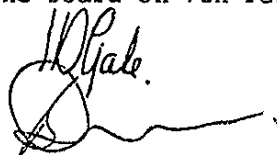
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OSBORN-MUSHET TOOLS LIMITEDBALANCE SHEET - 31st DECEMBER 1985

	<u>Notes</u>	<u>1985</u>		<u>1984</u>	
		£	£	£	£
FIXED ASSETS					
Tangible assets	8		2,300,418		1,966,484
CURRENT ASSETS					
Stocks	9		3,314,971		2,343,592
Debtors	10		2,553,671		2,861,997
Cash at bank and in hand			<u>1,086</u>		<u>9,829</u>
			5,869,728		5,215,418
CREDITORS: amounts falling due within one year	11		<u>(5,661,404)</u>		<u>(5,507,832)</u>
NET CURRENT ASSETS/(LIABILITIES)			<u>208,324</u>		<u>(292,414)</u>
Total assets less current liabilities			2,508,742		1,674,070
CREDITORS: amounts falling due after more than one year	11		(781,451)		(447,987)
PROVISION FOR LIABILITIES AND CHARGES	12		<u>(209,476)</u>		<u>(61,000)</u>
			<u>£1,517,815</u>		<u>£1,165,083</u>
CAPITAL AND RESERVES					
Called up share capital	13		50,000		50,000
Revaluation reserve	14		816,465		816,465
Profit & loss account	14		<u>651,350</u>		<u>298,618</u>
			<u>£1,517,815</u>		<u>£1,165,083</u>

These accounts were approved by the board on 7th February 1986.

I D GALE)
) Directors
 B SUMMERSON)



The notes on pages 7 to 15 form part of these accounts

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OSBORN-MUSHET TOOLS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31st DECEMBER 1985

	<u>1985</u>	<u>1984</u>
	<u>£</u>	<u>£</u>
<u>SOURCE OF FUNDS</u>		
Profit on ordinary activities before taxation	1,069,814	747,498
Adjustment for items not involving the movement of funds:		
Depreciation	295,159	229,379
(Profit)/loss on sale of tangible fixed assets	<u>(5,413)</u>	<u>2,772</u>
	<u>289,746</u>	<u>232,151</u>
	1,359,560	979,649
Total generated from operations		
Funds from other sources:		
Sale proceeds of tangible fixed assets	<u>18,210</u>	<u>3,056</u>
	1,377,770	982,705
Total source of funds		
<u>APPLICATION OF FUNDS</u>		
Dividends paid	298,617	—
Purchase of tangible fixed assets	641,890	485,894
Increase in creditors falling due after more than one year	<u>(333,461)</u>	<u>(334,892)</u>
	<u>(607,043)</u>	<u>(151,002)</u>
Total application of funds	<u>£770,727</u>	<u>£831,703</u>
<u>INCREASE IN WORKING CAPITAL</u>		
Made up as follows:		
Increase/(decrease) in stocks	971,379	(12,099)
(Decrease)/increase in debtors	(308,326)	1,128,851
Decrease/(increase) in creditors falling due within one year, excluding bank overdraft, current taxation payable and proposed dividend	<u>122,714</u>	<u>(299,463)</u>
	785,767	817,289
Movement in net liquid funds:		
Cash at bank and in hand	(8,743)	7,265
Bank overdraft	<u>(6,297)</u>	<u>7,149</u>
	<u>(15,040)</u>	<u>14,414</u>
	<u>£ 770,727</u>	<u>£831,703</u>

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OSBORN-MUSHET TOOLS LIMITEDNOTES TO THE ACCOUNTS - 31st DECEMBER 19851. Principal accounting policies

As in previous years, the accounts are prepared in accordance with the historical cost convention, modified by the revaluation of land and buildings. The following is a summary of the more important accounting policies of the company, which have been applied consistently.

(a) Foreign exchange

Assets and liabilities expressed in foreign currencies are stated at the exchange rates ruling at the balance sheet date or, where appropriate, at the rates of matching forward contracts or transactions. The exchange differences arising are reflected in the profit and loss account for the year.

(b) Tangible fixed assets

The cost or revalued amounts of buildings and leasehold land are amortised over a period of 40 years or the remaining term of the lease if less. Freehold land is not depreciated. Plant and equipment is depreciated on the straight line method at rates expected to write off the cost or valuation of the assets concerned over their useful lives. The principal annual rates used for this purpose are:

	%
Plant and equipment	10 - 20
Motor vehicles	25
Fixtures and fittings	10

Regional development grants are deducted from the cost of the assets to which they relate. Interest relief grants are credited to profit and loss account in the year of receipt.

(c) Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in, first out basis. In the case of work in progress and finished goods, cost comprises direct expenditure together with production overheads calculated on the basis of a normal level of activity. Net realisable value is the value at which the stocks and work in progress can be realised in the normal course of business. Provision is made for obsolescent, slow-moving and defective stocks.

(d) Finance leases and hire purchase contracts

Certain items of plant and equipment are financed by leasing agreements that give rights approximating to ownership ("finance leases"). These are included in the balance sheet as fixed assets at cost less depreciation and the capital element of future rentals is treated as a liability. The interest element is charged to profit and loss account over the period of the finance lease in proportion to the balance of capital repayments outstanding.

Certain assets which were leased from fellow group companies in previous years have been accounted for as finance leases this year and the comparative figures have, where appropriate, been adjusted to reflect this change. This change has no material effect on prior year profits.

Liabilities under hire purchase contracts are accounted for on a basis similar to that adopted for finance leases and are included in the balance sheet under that heading.

(e) Deferred taxation

Provision is made for deferred taxation under the liability method at the rates of tax for the years in which the liabilities to taxation are expected to arise, except to the extent that any tax reduction can reasonably be expected to continue for the foreseeable future.

(f) Pension scheme arrangements

Payments are made to pension funds and charged in the accounts, based on actuarial advice. Pension funds are valued regularly by actuaries and no material deficiencies are indicated at 31st December 1985.

2. Turnover

Turnover represents the invoiced amount of goods and services during the year, stated net of trade discounts and value added tax.

Geographical analysis of turnover:

	<u>1985</u> £	<u>1984</u> £
United Kingdom	5,572,870	5,239,451
Other European countries	949,140	977,835
North America	955,439	729,193
Rest of the World	<u>903,934</u>	<u>675,097</u>
	<u>£8,381,383</u>	<u>£7,621,576</u>

3. Profit on ordinary activities before taxation

This is stated after charging/(crediting):

	<u>1985</u> £	<u>1984</u> £
Directors' remuneration for management, including pension contributions (note 4)	85,907	94,498
Depreciation of tangible fixed assets	295,159	229,379
Auditors' remuneration	7,800	7,000
Hire of plant and machinery	10,785	62,854
Exceptional charges/(credits):		
Redundancy costs	4,542	3,902
Temporary short time working compensation	-	(6,306)

4. Information regarding directors and employees19851984

(a) Particulars of the remuneration of directors, excluding pension contributions:

Emoluments of Chairman	£5,667	
Emoluments of the highest paid director	£22,674	£35,313

There was no Chairman prior to the appointment of Mr Runciman during 1985.

Number of other directors whose remuneration was within the ranges:

£ Nil	-	£5,000	2	2
£5,001	-	£10,000	1	1
£15,001	-	£20,000	1	-
£20,001	-	£25,000	1	2

(b) Employment costs of all employees, including executive directors:

19851984

	£	£
Gross wages and salaries	2,521,678	2,300,631
Employer's national insurance	241,860	236,660
Employer's pension contributions under the company's pension schemes	85,108	72,208
	<u>£2,848,646</u>	<u>£2,609,499</u>

(c) The average number of persons, including executive directors, employed by the company during the year is analysed below:

Staff	121	121
Manual workers	237	239
	<u>358</u>	<u>360</u>

5. Interest receivable and similar income

Interest receivable from group companies	<u>£797</u>	<u>£461</u>
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6. Interest payable and similar charges

	<u>1985</u>	<u>1984</u>
	£	£
Finance leases and hire purchase agreements	7,593	21,443
Interest payable to group companies	<u>7,933</u>	<u>2,100</u>
	<u>£15,526</u>	<u>£23,543</u>

7. Tax on profit on ordinary activities

The charge for taxation comprises:

	<u>1985</u> <u>£</u>	<u>1984</u> <u>£</u>
Corporation tax payable at a rate of 41½% (1984: 46½%)	481,227	253,676
Transfer (from)/to deferred taxation	<u>(34,522)</u>	<u>243,998</u>
	446,705	497,674
Advance corporation tax recoverable:		
Corporation tax	(80,547)	(164,413)
Deferred taxation	-	(182,998)
Overprovision of previous year	<u>(1,809)</u>	<u>-</u>
	<u>£364,349</u>	<u>£150,263</u>

8. Tangible fixed assets

(a) Summary of movements in the year

	<u>Land and buildings</u> <u>Freehold</u> <u>£</u>	<u>Plant and equipment</u> <u>Purchased</u> <u>£</u>	<u>Leased</u> <u>£</u>	<u>Total</u> <u>£</u>
Cost or valuation				
At 1 January 1985	1,030,756	2,078,699	341,671	3,451,126
Reclassification of leased assets (note 1(d))	-	-	521,429	521,429
	1,030,756	2,078,699	863,100	3,972,555
Additions	-	124,519	513,826	638,345
Inter-group transfers	-	3,842	-	3,842
Disposals	-	(45,037)	-	(45,037)
At 31 December 1985	<u>1,030,756</u>	<u>2,162,023</u>	<u>1,376,926</u>	<u>4,569,705</u>
At cost	12,006	2,162,023	1,376,926	3,550,955
At valuation - 1977	<u>1,018,750</u>	<u>-</u>	<u>-</u>	<u>1,018,750</u>
	<u>1,030,756</u>	<u>2,162,023</u>	<u>1,376,926</u>	<u>4,569,705</u>
Depreciation				
At 1st January 1985	168,186	1,620,552	164,246	1,952,984
Reclassification of leased assets (note 1(d))	-	-	53,087	53,087
	168,186	1,620,552	217,333	2,006,071
Charge for the year	21,751	145,907	127,501	295,159
Inter-group transfers	-	297	-	297
Disposals	-	(32,240)	-	(32,240)
At 31st December 1985	<u>189,937</u>	<u>1,734,516</u>	<u>344,834</u>	<u>2,269,287</u>
Net book value				
At 31st December 1985	<u>£840,819</u>	<u>£427,507</u>	<u>£1,032,092</u>	<u>£2,300,418</u>
At 31st December 1984	<u>£862,570</u>	<u>£458,147</u>	<u>£645,767</u>	<u>£1,966,484</u>

(b) Additions to leased plant and equipment in the year includes £192,333 in respect of assets in the course of construction at 31 December 1985, which have not been depreciated.

- (c) The historical cost and related depreciation of freehold land and buildings included at a valuation is:

	£
Historical cost	342,552
Depreciation based on cost	<u>(74,860)</u>
Historical cost net book value:	
At 31st December 1985	<u>£267,692</u>
At 31st December 1984	<u>£276,275</u>

- (d) The 1977 valuation comprises a professional valuation carried out on an open market existing use basis. The valuation was incorporated in the accounts for the year ended 30th September 1977.

9. Stocks

	<u>1985</u> £	<u>1984</u> £
Raw materials and consumables	307,127	203,969
Work in progress	1,469,390	1,147,583
Finished goods and goods for resale	<u>1,538,454</u>	<u>992,040</u>
	<u>£3,314,971</u>	<u>£2,343,592</u>

There was no material difference between the historical and replacement cost of the stocks shown above.

10. Debtors

	<u>1985</u> £	<u>1984</u> £
Amounts falling due within one year		
Trade debtors	1,360,176	1,476,605
Amounts owed by group companies	1,089,686	1,326,759
Other debtors	33,453	8,840
Prepayments and accrued income	<u>70,356</u>	<u>49,793</u>
	<u>£2,553,671</u>	<u>£2,861,997</u>

11. Creditors

12.

(a) Summary of creditors

	Note	Amounts falling due within one year		Amounts falling due after more than one year	
		1985 £	1984 £	1985 £	1984 £
Bank loans and overdrafts	(b)	6,297	-	-	-
Obligations under finance leases and hire purchase contracts	(c)	6,097	92,342	11,677	20,751
Trade creditors	(d)	1,035,569	902,832	-	-
Bills of exchange payable		33,459	22,418	-	-
Amounts owed to holding company and fellow subsidiary companies		3,727,417	3,837,798	769,774	427,236
Current taxation	(e)	305,136	89,263	-	-
Other taxes and social security costs		98,916	179,005	-	-
Other creditors		28,230	26,319	-	-
Accruals		67,550	59,238	-	-
Proposed dividend		352,733	298,617	-	-
		<u>£5,661,404</u>	<u>£5,507,832</u>	<u>£781,451</u>	<u>£447,987</u>

(b) Bank loans and overdrafts

The bank overdraft facility is secured by a fixed and floating charge on the assets and undertaking of the company, which ranks after the charge created by the 7.3/4% Debenture Stock 1993/98 of the intermediate holding company (note 16(a)).

(c) Obligations under finance leases and hire purchase contracts

	Due after more than one year				Due within one year £	Total £
	Five years or more £	Two to five years £	One to two years £	Sub-total £		
External finance leases and hire purchase contracts						
Capital element	-	6,786	4,891	11,677	6,097	17,774
Future finance charges	-	478	920	1,398	1,357	2,755
	-	<u>7,264</u>	<u>5,811</u>	<u>13,075</u>	<u>7,454</u>	<u>20,529</u>
Due to fellow subsidiaries under finance lease contracts						
Capital element	206,108	412,302	151,364	769,774	149,248	919,022
Future finance charges	<u>3,702</u>	<u>16,868</u>	<u>9,781</u>	<u>30,351</u>	<u>11,897</u>	<u>42,248</u>
	<u>209,810</u>	<u>429,170</u>	<u>161,145</u>	<u>800,125</u>	<u>161,145</u>	<u>961,270</u>
Total future rentals at 31 December 1985	<u>£209,810</u>	<u>£436,434</u>	<u>£166,956</u>	<u>£813,200</u>	<u>£168,599</u>	<u>£981,799</u>
Total future rentals at 31 December 1984	-	13,075	10,447	23,522	100,103	123,625
Reclassification of leased assets (note 1(d))	<u>141,120</u>	<u>209,325</u>	<u>70,125</u>	<u>420,570</u>	<u>70,125</u>	<u>490,695</u>
	<u>£141,120</u>	<u>£222,400</u>	<u>£80,572</u>	<u>£444,092</u>	<u>£170,228</u>	<u>£614,320</u>

(d) Trade creditors

Included in trade creditors are amounts totalling £307,671 (1984 £254,167) due in respect of goods for which title does not pass until payment is made.

(e) Current taxation

Current taxation includes group relief payable and corporation tax payable and is due on a date to be determined when the Aurora plc group taxation position for 1985 is finalised.

12. Provisions for liabilities and charges

The potential liabilities to deferred taxation and the amounts provided in the accounts in accordance with the company's accounting policy described in note 1(e) are set out below:

	1985		1984	
	Total potential liability £	Provided in the accounts £	Total potential liability £	Provided in the accounts £
Accelerated capital allowances	182,920	182,920	207,928	207,928
Other timing differences	33,927	33,927	42,310	42,310
Potential taxation liabilities on surplus on revaluation of properties and deferred capital gains	161,077	-	192,004	-
	377,924	216,847	442,242	250,238
Less:				
Losses and charges	(7,371)	(7,371)	(6,240)	(6,240)
Advance corporation tax recoverable	-	-	(182,998)	(182,998)
	<u>£370,553</u>	<u>£209,476</u>	<u>£253,004</u>	<u>£61,000</u>

13. Called up share capital

Authorised, issued
and fully paid
1985 and 1984

Ordinary shares of £1 each

£50,000

14. Reserves

	Revaluation reserve £	Profit and loss account £	Total £
Balance at 1 January 1985	816,465	298,618	1,115,083
Retained profit for the year	-	352,732	352,732
Balance at 31 December 1985	<u>£816,465</u>	<u>£651,350</u>	<u>£1,467,815</u>

15. Capital commitments

	1985 £	1984 £
Capital expenditure contracted for but not provided in the accounts	3,265	20,190
Capital expenditure authorised but not yet contracted for	<u>13,000</u>	<u>25,000</u>
Authorised capital expenditure outstanding	<u>£16,265</u>	<u>£45,190</u>

16. Guarantees and other financial commitments

(a) Samuel Osborn Debenture Stock

The company, together with certain other group companies, has guaranteed the repayment of moneys due under a trust deed constituting and securing the £2,000,000 7.3/4% Debenture Stock 1993/98 of the intermediate holding company, Samuel Osborn & Co. Limited. The undertaking and assets of the company are subject to a floating charge as security for this guarantee. At 31st December 1985 and 1984, the principal and interest outstanding in respect of this Debenture Stock amounted to £2,064,583.

(b) Banking and leasing and hire purchase guarantees

The company, jointly and severally with certain other group companies, has guaranteed all outstanding obligations to Barclays Bank PLC, and Citicorp International Bank Limited. These obligations are secured by fixed and floating charges on the undertaking and assets of the company. These charges rank immediately after the floating charges created by the company (see (a) above) pursuant to the Samuel Osborn & Co. Limited Debenture Stock Trust Deed. The obligations guaranteed under these arrangements at 31st December 1985 are set out below.

	<u>1985</u>	<u>1984</u>
Bank loans and overdrafts	<u>£5,327,418</u>	<u>£7,209,000</u>
Future rentals under finance lease and hire purchase contracts	<u>£231,061</u>	<u>£394,162</u>

In addition, as a result of the above arrangements, the company has guaranteed any obligations of fellow group companies to Barclays Bank PLC which may arise under indemnities, documentary credits and negotiations, commitments under forward foreign exchange contracts and bills of exchange discounted, all of which have been entered into in the normal course of business by the fellow group companies concerned.

(c) Other commitments

At 31st December 1985, commitments under forward foreign exchange contracts amounted to £33,874 (1984 £15,324).

(d) Contingent liabilities

The company has, in the normal course of business, entered into indemnities, documentary credits and negotiations which at 31st December 1985 amounted to £21,755 (1984 £29,199).

In the opinion of the directors, no loss will arise in connection with the above matters.

17. Ultimate holding company

The ultimate holding company is Aurora plc, which is incorporated in Great Britain.

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