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Grant Thornton

Annual report
CML Group Limited

For the Year Ended 31 March 2010

Company No: 1564040

Company information

Registered number	1564040
Registered office	PO Box 25 South Marston Park Swindon Wiltshire SN3 4TR
Directors	I D Brodie (Chairman) K N Edwards D N Haden G D Stewart
Secretary	K N Edwards
Bankers	Barclays Bank PLC Park House Stoke Gifford Bristol BS34 8TN
Auditors	Grant Thornton UK LLP Chartered Accountants Registered Auditor Enterprise House 115 Edmund Street Birmingham B3 2HJ

Contents

Report of the directors

The Directors present their report and the audited financial statements for the year ended 31 March 2010

Principal activities

The principal activities of the company during the year were precision engineering and manufacture of sub assemblies and components for the aerospace and transportation industries

Business review and future developments

Given that sales were down by 24% year on year, an operating profit before exceptional operating items and group recharges of £1 0 million was a considerable achievement although the company did benefit from £0 2 million of rebate on the cost of prior years' consumable materials

The reduction in sales was almost entirely due to the previously reported sudden and sharp decline in demand for corporate jets, particularly in the USA The company's Airbus sales remained flat whilst benefiting from additional sales on military projects In particular, sales on the JSF increased by £0 6 million as this programme moves through the initial production stage The company also won over £0 5 million of fast turn-round composite work on the new A400M military transporter In addition, further orders are expected on the C27 programme in the first two months of 2010/11

The fitting out of the company's new 60,000 square feet Composite facility in Bromborough, near Birkenhead, continues apace This should be ready for occupation in July 2010 and will enable the company to meet the growing delivery quantities of the JSF programme and offer its composites expertise to other significant aerospace players and, potentially, to markets beyond aerospace

Key Performance Indicators

Sales/Head £000			Order Book £m (12 months)			ROCE		
2008	2009	2010	2008	2009	2010	2008	2009	2010
72	70	61	10 5	8 2	6 2	45%	48%	25%

(a) Sales per head reduced 12% in 2010, with headcount reductions in April 2009 mitigating the overall 24% drop in sales

(b) Order book has declined primarily due to the reduced demand in the corporate jet market, and delayed receipt of follow-on orders on other aircraft

(c) *(ROCE is operating profit before exceptional operating items and group recharges as a percentage of operating capital employed)* ROCE remains healthy in 2010, at 25%, but the reduction on 2009 mirrors the reduction in operating profit before exceptional operating items and group recharges

Outlook

The company has good sales expectations for the current year but results are likely to be affected by the £0 4 million step function increase in Composites' costs from the new enhanced facility, an important investment in the future of this operation

Post balance sheet event

On 16 June 2010, Teledyne Inc (a New York SE listed company) made a conditional offer for the entire share capital of Intelek plc, the ultimate parent company

Dividends

The directors paid a final dividend for the year of £192,506 (2009 £700,375)

Principal risks and uncertainties facing the company

The financial statements contain certain forward-looking statements These statements are made by the Directors in good faith, based on the information available to them up to the time of approval of this report Actual results may differ from those expressed in such statements, depending on a variety of factors These factors include customer acceptance of the company's products, changes in customer requirements and in levels of demand in the market, restrictions to market access, competitive pressure on pricing, delivery or technology, global defence spending levels, delays or additional cost in product design and launch programmes, fluctuations in manufacturing delivery performance, yields and costs, the loss or lack of key personnel, overall economic conditions

Financial instruments

The company's operations expose it to a variety of financial risks including the effects of changes in interest rates, foreign currency exchange rates, credit risk and liquidity risk

The company's principal financial instruments comprise cash and bank deposits, bank overdrafts and obligations under finance leases together with trade debtors and trade creditors that arise directly from its operations

The main risks arising from the company's financial instruments can be analysed as follows

Price risk

The company has no significant exposure to securities price risk, as it holds no listed equity investments

Foreign currency risk

The company operates in the UK but can be exposed in its trading operations to the risk of changes in foreign currency exchange rates The main foreign currency in which the company operates is the US dollar The company has decided not to use derivative instruments in its management of this risk

Credit risk

The company's principal financial assets are bank balances, cash and trade debtors, which represent the company's maximum exposure to credit risk in relation to financial assets

The company's credit risk is primarily attributable to its trade debtors Credit risk is managed by monitoring the aggregate amount and duration of exposure to each customer depending upon their credit rating The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the company's management based on prior experience and their assessment of the current economic environment Despite the company having a significant concentration of credit risk, with the majority of its sales coming from a small number of customers, these are large multi-national companies of strong financial standing, with an established and reliable payment record

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies

Liquidity risk

The company's policy has been to ensure continuity of funding through acquiring an element of the company's fixed assets under finance leases, and arranging funding for operations via medium-term inter-group loans and credit facilities to aid short-term flexibility

Cash flow interest rate risks

Interest-bearing assets comprise cash and bank deposits, all of which earn interest at a market rate Interest rates on bank borrowings are at market rates and on finance leases are at fixed rates and the company's policy is to keep the bank and finance lease borrowings within defined limits such that the risk that could arise from a significant change in interest rates would not have material impact on cash flows The Directors monitor the overall level of borrowings and interest costs to limit any adverse effects on financial performance of the company

Health, Safety and the Environment

The company's policy with regard to the environment is to minimise waste, use valuable resources efficiently and prevent damage to the environment. The company's operations are approved to the international environmental standard ISO 14001 During the year, the operations were surveyed by the Carbon Trust and the company is in the process of implementing the Trust's energy-saving recommendations During the period covered by this report the company has not incurred any significant fines or penalties or been investigated for any significant breach of environmental regulations

Employee involvement

During the year, the company has continued its policy of full involvement of employees wherever possible This has taken place through the provision of information, consultation on policy issues where appropriate, and the mutual setting of objectives against which performance is measured The company takes the approach of maximising performance through the heightening of awareness of corporate objectives and policies

Disabled persons

It is the company's policy to offer equal opportunities to disabled persons applying for vacancies, having regard to their abilities in relation to the job for which they apply It is also company practice, wherever possible, to continue the employment of any employees who become disabled during the course of their employment.

Directors

The Directors of the company who served during the year are set out on page 1

Payment of creditors

The company's policy for the year ending 31 March 2010 for all suppliers is to fix terms of payment for each business transaction, to ensure that the supplier is aware of those terms and to abide by the agreed terms of payment

Going concern

After making enquiries, the Directors have decided at the time of approving the financial statements that there is a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future

The current economic conditions create uncertainty for all businesses The company's trading and cash flows forecasts take into account a range of possible changes in trading performance and shows that the company should be able to operate within its existing cash resources and bank facilities Further disclosure is available in the Group's Annual Report For this reason, the Director's continue to prepare the financial statements on a going concern basis

Statement of directors' responsibilities for the financial statements

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year The directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether United Kingdom Generally Accepted Accounting Practice 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors

At the date of making this report each of the company's directors, as set out on page 1, confirm the following

- so far as each director is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

Auditors

A resolution to re-appoint Grant Thornton UK LLP will be proposed at the next Annual General Meeting, subject to the outcome of the potential change of ownership of the ultimate parent company referred to above

Approval

The report of the directors was approved by the Board on 6 July 2010 and signed on its behalf by

K N Edwards
Director and Secretary
1564040

Report of the independent auditor to the members of CML Group Limited

We have audited the financial statements of CML Group Limited for the year ended 31 March 2010 which comprise the profit and loss account, the balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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

As explained more fully in the Statement of Directors' Responsibilities on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements

Report of the independent auditor to the members of CML Group Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Grant Thornton UK LLP

Mark Taylor
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
6 July 2010

Profit and loss account

	Note	2010 £	2009 £
Turnover - continuing operations	2	**10,495,494**	13,865,225
Cost of sales		**(8,733,803)**	(10,977,324)
Gross profit		**1,761,691**	2,887,901
Distribution costs		**(108,516)**	(158,240)
Administrative expenses (including exceptional items and group recharges)		**(1,242,209)**	(904,502)
Operating profit before exceptional operating items and group recharges		**1,018,955**	2,094,159
Group recharges Defined benefit pension contribution		**(458,000)**	(269,000)
Exceptional restructuring costs	3	**(149,989)**	-
Operating profit - continuing operations	3	**410,966**	1,825,159
Net interest payable	4	**(71,317)**	(53,129)
Profit on ordinary activities before taxation		**339,649**	1,772,030
Taxation	7	**(60,966)**	(501,018)
Profit for the year	17	**278,683**	1,271,012

There are no other recognised gains and losses other than those reported in the profit and loss account

Balance sheet

	Note	2010 £	2009 £
Fixed assets			
Tangible fixed assets	9	**2,301,988**	2,279,534
Current assets			
Stocks	10	**1,186,750**	1,500,250
Debtors	11	**2,329,472**	2,832,791
Cash at bank and in hand		**1,972,932**	1,773,588
		5,489,154	6,106,629
Creditors: Amounts falling due within one year	12	**(2,991,766)**	(3,635,940)
Net current assets		**2,497,388**	2,470,689
Total assets less current liabilities		**4,799,376**	4,750,223
Creditors: Amounts falling due after more than one year	13	**(464,950)**	(571,786)
Deferred income	15	**(200,128)**	(130,316)
Net assets		**4,134,298**	4,048,121
Capital and reserves			
Called up share capital	16	**100,000**	100,000
Profit and loss account	17	**1,834,298**	1,748,121
Capital contribution reserve	17	**2,200,000**	2,200,000
Equity shareholders' funds	18	**4,134,298**	4,048,121

The financial statements were approved by the Board on 6 July 2010 and signed on its behalf by

G D Stewart
Director

D N Haden
Director

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

Basis of accounting
The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention

Turnover
Turnover is the amount receivable for goods and services supplied, excluding value added tax Turnover is recognised either on delivery, or on long term contracts as these progress and comprises the sales value of work performed in the year

Depreciation
Depreciation is provided to write down the cost of tangible fixed assets over their estimated useful lives No depreciation is provided on assets in the course of construction The principal annual rates used are

Plant and fixtures	8% to 20%	straight line (see below)
Motor vehicles	25%	straight line
Assets in course of construction	Not depreciated	

In certain cases plant and machinery is depreciated to residual value over 12½ years and then to £Nil value over a further five years

Stock and work in progress
Stock and work in progress is stated at the lower of cost and net realisable value Cost comprises direct material and labour and, where appropriate, includes attributable overheads Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal

Deferred taxation
Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date Deferred tax assets and liabilities are not discounted

Foreign currencies
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date All exchange differences are recognised in the profit and loss account

1. Accounting policies (continued)

Pensions

The Company accounts for the Intelek Pension Scheme, defined benefit section, in accordance with FRS 17 "Retirement Benefits" As the assets of this multi-employer defined benefit scheme can not be split between the participating employers on a reasonable basis, the pension scheme is accounted for as if it were a defined contribution scheme, as permitted by FRS 17 In respect of the defined contribution section of the Intelek Pension Scheme, pension contributions are charged to the profit and loss account as incurred

Deferred income

Grants in respect of fixed assets are credited to the profit and loss account in equal annual instalments over the useful lives of the assets concerned Other grants are credited to the profit and loss account in the same year as the expenditure to which they contribute

Leased assets

Fixed assets subject to finance leases are capitalised and depreciated in accordance with the depreciation policy stated above The corresponding liability for the capital element is included in creditors, and the interest, calculated on the basis of the amount outstanding, is charged against profits over the period of the lease

The rental costs of assets subject to operating lease are charged against the profit and loss account, as incurred

Incentives received to enter into operating lease contracts are deferred in the balance sheet and released to the profit and loss account over the period to first rent review

Cash flow statement

The company has taken advantage of the exemption not to prepare a cash flow statement on the basis that it is a wholly-owned subsidiary of Intelek plc for which consolidated financial statements have been prepared

2. Turnover by geographical market

	2010 £	2009 £
United Kingdom	10,150,667	12,704,734
Rest of Europe	44,379	114,243
America	300,448	1,046,248
	10,495,494	13,865,225

An element of the sales made to United Kingdom customers is in respect of end customers based in overseas markets, particularly in the United States

3. Operating profit

Operating profit is arrived at after charging/(crediting)

	2010 £	2009 £
Depreciation	**433,724**	442,507
Amortisation of government grants	**(14,078)**	(2,325)
Profit on sale of fixed assets	-	(4,736)
Operating lease rentals		
- plant and machinery	-	30,800
- land and buildings	**233,846**	206,777
Auditors' remuneration – audit services	**11,300**	11,300
Auditors' remuneration – taxation services	**2,800**	2,800
Realised foreign exchange losses	**741**	4,000

Exceptional restructuring cost
A review was undertaken of the resources at CML taking into account the reduction of sales volume The financial effect was a restructuring charge in the year of £149,989 (2009 £nil)

4. Net interest payable

	2010 £	2009 £
Bank overdraft interest	**5,154**	2,441
Finance leases	**66,163**	76,392
Interest receivable on group loans	-	(25,704)
	71,317	53,129

5. Employees

Average monthly number of employees, including directors

	2010 No	2009 No.
Production	**159**	185
Administration and distribution	**12**	13
	171	198

Staff costs, including Directors

	2010 £	2009 £
Wages and salaries	**4,144,432**	4,994,106
Social security costs	**383,589**	457,527
Other pension costs	**147,883**	165,163
	4,675,904	5,616,796

6. Directors

Emoluments of the company's Directors

	2010 £	2009 £
Emoluments	186,205	219,106
Pension contributions	12,380	15,201
	198,585	234,307
No of directors who accrue benefits under a money purchase scheme	2	2

All other directors accrue retirement benefits within the parent company

7. Taxation

	2010 £	2009 £
Group relief payable		
Current tax on income for the year	196,430	550,802
Adjustment in respect of prior year	-	639
Total current tax charge	196,430	551,441
Deferred taxation		
Net origination of timing differences	(112,493)	(49,784)
Adjustment in respect of prior years	(22,971)	(639)
Deferred taxation (note 14)	(135,464)	(50,423)
Tax on profit on ordinary activities	60,966	501,018

7. Taxation (continued)

Current tax reconciliation

	2010	2009
	£	£
Profit on ordinary activities before taxation	**339,649**	1,772,030
Theoretical tax at UK corporation tax rate of 28% (2009 28%)	**95,102**	496,168
Effects of		
- Adjustments in respect of prior years	**-**	5,466
- Expenditure that is not tax deductible	**(10,721)**	-
- Accelerated capital allowances	**112,931**	48,333
- Short term timing differences	**(882)**	1,474
Actual current taxation charge	**196,430**	551,441

8. Dividends

	2010	2009
	£	£
Final dividend paid of £1 93 per share (2009 £7 per share)	**192,506**	700,375

9. Tangible fixed assets

	Plant and fixtures	Motor vehicles	Total
	£	£	£
Cost			
At 1 April 2009	7,095,838	100,713	7,196,551
Additions	456,178	-	456,178
Disposals	(57,954)	-	(57,954)
At 31 March 2010	7,494,062	100,713	7,594,775
Depreciation			
At 1 April 2009	4,894,730	22,287	4,917,017
Charged in year	408,545	25,179	433,724
Disposals	(57,954)	-	(57,954)
At 31 March 2010	5,245,321	47,466	5,292,787
Net book value			
At 31 March 2010	**2,248.741**	**53,247**	**2,301,988**
At 31 March 2009	2,201,108	78,426	2,279,534

The net book value of the tangible fixed assets includes £1,265,301 (2009 £1,239,785) in respect of assets held under finance leases and hire purchase Depreciation charged in the year on those assets amounted to £219,884 (2009 £214,753)

Included in plant and fixtures above is £120,000 (2009 £nil) of assets in the course of construction

10. Stocks

	2010	2009
	£	£
Raw materials and consumables	**387,252**	528,492
Work in progress	**710,403**	892,149
Finished goods and goods for resale	**89,095**	79,609
	1,186,750	1,500,250

The replacement cost of the above would not be significantly different from the values stated

11. Debtors

	2010	2009
	£	£
Trade debtors	**1,715,561**	2,475,520
Other debtors	**350**	246
Prepayments and accrued income	**306,475**	185,403
Deferred tax asset (note 14)	**307,086**	171,622
	2,329,472	2,832,791

12. Creditors: amounts falling due within one year

	2010	2009
	£	£
Bank overdraft (secured)	**327,176**	241,272
Obligations under finance leases	**385,803**	357,705
Trade creditors	**768,317**	1,018,348
Amounts due to parent undertaking	**458,000**	491,000
Other taxation and social security	**431,147**	426,721
Other creditors	**11,100**	46,145
Accruals	**413,793**	503,308
Corporation tax	**196,430**	551,441
	2,991,766	3,635,940

The overdraft is secured on the assets of the group

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

	2010	2009
	£	£
Other creditors:		
Obligations under finance leases		
- due between one and two years	**228,029**	326,312
- due between two and five years	**236,921**	245,474
	464,950	571,786

14. Deferred taxation

	Deferred taxation
	£
Asset at 1 April 2009	171,622
Credit to the profit and loss account (note 7)	135,464
Asset at 31 March 2010	**307,086**

	2010	2009
	£	£
Deferred taxation comprises:		
Depreciation in excess of capital allowances	**306,053**	170,151
Short term timing differences	**591**	1,471
Deferred tax asset (note 11)	**307,086**	171,622

15. Deferred income

	Government Grants
	£
At 1 April 2009	130,316
Grants in the year	83,890
Credit to profit and loss account	(14,078)
At 31 March 2010	**200,128**

16. Share capital

	2010	2009
	£	£
Authorised, allotted and fully paid		
100,000 ordinary shares of £1 each	100,000	100,000

17. Reserves

	Capital contribution reserve	Profit and loss account
	£	£
At 1 April 2009	2,200,000	1,748,121
Profit for the year	-	278,683
Dividends paid	-	(192,506)
At 31 March 2010	**2,200,000**	**1,834,298**

18. Reconciliation of movements in equity shareholders' funds

	2010	2009
	£	£
Profit for the year	**278,683**	1,271,012
Dividends paid	**(192,506)**	(700,375)
Movement in equity shareholders' funds	**86,177**	570,637
Opening equity shareholders' funds	**4,048,121**	3,477,484
Closing equity shareholders' funds	**4,134,298**	4,048,121

19. Contingent liability

The company has given an unlimited cross company guarantee in favour of Barclays Bank PLC as security for its borrowings and those of certain group undertakings

20. Financial commitments

Capital commitments

	2010	2009
	£	£
Contracted but not provided for	**814,506**	183,750

The 2010 commitment relates primarily to the company's investment in a new Composites facility

Operating lease commitments

The annual commitments under operating leases are analysed to the year in which each lease expires, as follows

	2010	2009
	£	£
Land and buildings, leases expiring		
within one year	**26,200**	16,000
between one and five years	-	10,200
beyond five years	**210,000**	210,000
	236,200	236,200
Other leases expiring		
within one year	**6,888**	6,888
Between one and five years	**21,516**	21,516
	28,404	28,404

21. Pension scheme defined benefit section

As explained in Note 1, the Company's participation in the defined benefit section of the Intelek pension scheme is accounted for as a defined contribution arrangement on full adoption of FRS 17 The full disclosures required by FRS 17 of the aggregate valuation as at 31 March 2010 are given in the financial statements of Intelek plc The net pension deficit after deferred tax at 31 March 2010 is £4,062,000 (2009 £4,365,000)

22. Related party disclosures

Advantage has been taken of the special exemption for group companies regarding related party disclosures

23. Parent undertaking

The ultimate parent company is Intelek plc, which is registered in England and Wales Its group accounts are available on the Intelek web-site, www intelek plc uk

24. Post balance sheet event

On 16 June 2010, Teledyne Inc (a New York SE listed company) made a conditional offer for the entire share capital of Intelek plc, the ultimate parent company