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REYNOLDS INDUSTRIES LIMITED

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH APRIL, 1990**

KPMG PEAT MARWICK McLINTOCK

Abbots House,
Abbey Street,
Reading.
RG1 3BD

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30th April, 1990.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS

The activities of the company consist of electronic, electro-mechanical and electro-explosive engineering.

The directors anticipate similar results in the year to 30th April, 1991.

PROPOSED DIVIDEND

The directors do not propose the payment of a dividend.

SIGNIFICANT CHANGES IN FIXED ASSETS

The movements in fixed assets are set out in note 7 to the financial statements

DIRECTORS

The following directors served during the year:

	<u>Date of resignation</u>
G. Leavitt (Chairman)	
N.S. Bance (Managing Director)	
N. Morton	31st May, 1990
D. Tuggey	

DIRECTORS' INTERESTS

According to the register maintained as required under the Companies Act 1985, the directors' interests in the share capital of the company were as follows:

	<u>30th April, 1990</u>	<u>30th April, 1989</u>
	<u>Ordinary shares</u>	<u>Ordinary Shares</u>
G. Leavitt	1	1

AUDITORS

On 1st January, 1990, our auditors changed the name under which they practise to KPMG Peat Marwick McLintock, and accordingly have signed their report in their new name. In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Peat Marwick McLintock as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board



Secretary

AUDITORS' REPORT TO THE MEMBERS OF
REYNOLDS INDUSTRIES LIMITED

We have audited the financial statements on pages 3 to 12 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30th April, 1990 and of its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

READING

14/8/90

KPMG Leonard Marnet McIsaac

Chartered Accountants

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDED 30TH APRIL, 1990

	<u>Note</u>	<u>1990</u> £	<u>1989</u> £
TURNOVER	2	1,337,496	1,870,059
Cost of sales		(800,583)	(962,741)
GROSS PROFIT		<u>536,913</u>	<u>907,318</u>
Distribution costs		(158,666)	(192,524)
Administrative expenses		(204,084)	(281,062)
Other interest receivable		418	24,234
Interest payable and similar charges	3	(152,500)	(6,442)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	<u>22,081</u>	<u>451,524</u>
Tax on profit on ordinary activities	6	(20,752)	(160,428)
RETAINED PROFIT FOR THE FINANCIAL YEAR		<u>1,329</u>	<u>291,096</u>
Retained profit brought forward		1,044,018	752,922
RETAINED PROFIT CARRIED FORWARD		<u>1,045,347</u>	<u>1,044,018</u>

The notes referred to above form part of these financial statements.

BALANCE SHEET AT 30TH APRIL 1990

	Note	1990	1989
		£	£
FIXED ASSETS			
Tangible assets	7	2,322,740	1,419,833
CURRENT ASSETS			
Stock	8	192,908	225,602
Debtors	9	357,770	445,667
Cash at bank and in hand		7,562	1,628
		<u>558,240</u>	<u>672,897</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	10	(511,397)	(887,360)
NET CURRENT ASSETS/(LIABILITIES)		<u>46,843</u>	<u>(214,463)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,369,583</u>	<u>1,205,370</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	11	(1,153,484)	(11,352)
PROVISIONS FOR LIABILITIES AND CHARGES	12	(20,752)	-
NET ASSETS		<u>1,195,347</u>	<u>1,194,018</u>
CAPITAL AND RESERVES			
Called up share capital	13	150,000	150,000
Profit and loss account		1,045,347	1,044,018
		<u>1,195,347</u>	<u>1,194,018</u>

These financial statements were approved by the Board of Directors on 11.12.1990

)
) Directors
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The notes referred to above form part of these financial statements.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 30TH APRIL, 1990

	<u>1990</u>	<u>1989</u>
	£	£
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	22,081	451,524
Adjustments for items not involving the movement of funds:		
Depreciation	42,548	34,096
Gain on disposal of tangible fixed assets	(2,575)	-
	<u>39,973</u>	<u>34,096</u>
FUNDS GENERATED FROM OPERATIONS	<u>62,054</u>	<u>485,620</u>
FUNDS FROM OTHER SOURCES		
Proceeds of disposal of tangible fixed assets	2,575	-
Mortgage loan	1,200,000	-
	<u>1,202,575</u>	<u>-</u>
	<u>1,264,629</u>	<u>485,620</u>
APPLICATION OF FUNDS		
Purchase of fixed assets	(945,455)	(746,826)
Taxation paid	(163,804)	(190,816)
Net obligations under hire purchase agreements in excess of one year	(6,668)	(16,992)
	<u>(1,115,927)</u>	<u>(954,634)</u>
INCREASE /(DECREASE) IN WORKING CAPITAL	<u>148,702</u>	<u>(469,014)</u>
COMPONENTS OF DECREASE IN WORKING CAPITAL		
Stock	(32,694)	(53,972)
Debtors	(87,897)	10,533
Creditors falling due within one year	293,279	(163,837)
Movement in net liquid funds:		
Decrease in cash at bank and in hand	5,934	(143,049)
Bank overdraft	(29,920)	(118,689)
	<u>(23,986)</u>	<u>(261,738)</u>
	<u>148,702</u>	<u>(469,014)</u>

NOTES TO THE FINANCIAL STATEMENTS1. ACCOUNTING POLICIES(a) Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 1985.

(b) Depreciation

The cost of fixed assets is depreciated over the expected useful lives of the assets as follows:

Buildings	2% straight line
Cars and computer equipment	25% - 33 1/3% straight line
Office and factory equipment	15% reducing balance

(c) Stock and work in progress

Stock is valued at the lower of cost, based on the average price throughout the year, and net realisable value after making due allowance for any obsolete or slow-moving items.

In the cases of finished goods and work in progress, cost comprises the cost of direct materials and labour plus attributable fixed and variable overheads.

(d) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effects of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future.

(e) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date. Gains or losses arising on exchange are written off in the profit and loss account.

(f) Hire purchase contracts

Where assets are acquired by hire purchase contracts which give rights approximating to ownership, the amount representing the outright purchase price of such assets is included in tangible fixed assets. Depreciation is provided at rates designed to write off this net cost in equal annual amounts over the shorter of the estimated useful lives of the assets (which are the same as those for assets purchased outright) or the period of the hire purchase contracts.

The capital element of future hire purchase payments is treated as a liability, and the interest element is charged to the profit and loss account over the period of the leases in proportion to the balances outstanding.

(g) Operating leases Amounts payable under operating leases are charged to profit and loss account in the period in which they fall due.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

2. TURNOVER

Turnover comprises the invoiced value of goods and services supplied by the company, exclusive of value added tax.

The directors have taken advantage of Schedule 4 S.55(5) of the Companies Act 1985 and have not disclosed the geographical analysis of turnover.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit is stated after charging:

	<u>1990</u>	<u>1989</u>
	£	£
Depreciation:		
Assets held under hire purchase	5,748	17,053
Other assets	36,800	17,043
Directors' emoluments	175,567	251,552
Auditors' remuneration	6,000	5,100
Operating lease rentals:		
Plant and machinery	3,016	3,430
Other	46,824	22,700
Interest payable:		
On bank overdraft and loans	149,452	175
On hire purchase contracts	3,048	6,267
	<u> </u>	<u> </u>

4. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

The emoluments, excluding pension contributions, of directors of the company were as follows:

	<u>1990</u>	<u>1989</u>
	£	£
Chairman	31,250	25,000
Highest paid director	50,394	67,562

Other directors in the scale:

£30,001 - £35,000	1	-
£40,001 - £45,000	-	1
£45,001 - £50,000	1	-
£65,001 - £70,000	-	1
	<u> </u>	<u> </u>

The emoluments, excluding pension contributions, of employees paid in excess of £30,000 were within the following ranges:

£30,001 - £35,000	2	-
£40,001 - £45,000	-	2
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

5. STAFF NUMBERS AND COSTS

The average number of persons employed by the company, including directors, during the year was as follows:

	<u>1990</u>	<u>1989</u>
Management and administration	4	4
Production, distribution and sales	18	25
	<u>22</u>	<u>29</u>

The aggregate payroll costs of these persons were as follows:

	<u>1990</u> £	<u>1989</u> £
Wages and salaries	367,180	492,555
Social security costs	32,107	44,470
Other pension costs	20,643	57,333
	<u>419,930</u>	<u>594,358</u>

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

Taxation based on the profit for the year:

	<u>1990</u> £	<u>1989</u> £
Corporation tax at 35% (1989:35%)	-	163,804
Deferred tax (note 12)	20,752	(3,376)
	<u>20,752</u>	<u>160,428</u>

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. TANGIBLE FIXED ASSETS

	<u>Freehold land and buildings</u>	<u>Plant and machinery</u>	<u>Fixtures, fittings, leasehold improvements</u>	<u>Total</u>
	£	£	£	£
COST:				
At 1st May, 1989	1,346,813	194,293	17,852	1,558,958
Additions	915,049	26,289	4,117	945,455
Disposals	-	(8,707)	(3,909)	(12,616)
At 30th April, 1990	<u>2,261,862</u>	<u>211,875</u>	<u>18,060</u>	<u>2,491,797</u>
DEPRECIATION:				
At 1st May, 1989	-	128,424	10,701	139,125
Charge for the year	15,770	25,088	1,690	42,548
Disposals	-	(8,707)	(3,909)	(12,616)
At 30th April, 1990	<u>15,770</u>	<u>144,805</u>	<u>8,482</u>	<u>169,057</u>
NET BOOK VALUE:				
At 30th April, 1990	<u>2,246,092</u>	<u>67,070</u>	<u>9,578</u>	<u>2,322,740</u>
At 30th April, 1989	<u>1,346,813</u>	<u>65,869</u>	<u>7,151</u>	<u>1,419,833</u>

The net book value of fixed assets of £2,322,740 includes an amount of £6,394 in respect of assets held under hire purchase contracts (1989: £12,682). The amount of accumulated depreciation relating to such assets amounts to £71,434 (1989: £74,393).

The cost of freehold land and buildings comprises £369,466 in respect of purchase of freehold land, and £1,892,396 in respect of preparation of the site and building work.

A fixed charge in favour of the company's bankers exists over the investment in land and buildings (see note 11).

8. STOCK

	<u>1990</u>	<u>1989</u>
	£	£
Raw materials	165,731	197,777
Work in progress	9,213	14,179
Finished goods	17,964	13,646
	<u>192,908</u>	<u>225,602</u>

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. DEBTORS

	<u>1990</u>	<u>1989</u>
	£	£
Trade debtors	346,741	413,959
Amounts owed by group company	1,154	17,571
Other debtors	1,045	-
Prepayments and accrued income	8,830	14,137
	<u>357,770</u>	<u>445,667</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1990</u>	<u>1989</u>
	£	£
Bank loan and overdraft	211,198	130,078
Trade creditors	30,167	37,088
Amounts owed to group company	70,822	102,244
Corporation tax	-	163,804
Other taxes and social security costs	20,284	42,614
Other creditors	10,548	23,385
Accruals	161,708	371,155
Obligations under hire purchase agreements (note 15)	6,670	16,992
	<u>511,397</u>	<u>887,360</u>

The bank overdraft is secured on the tangible assets of the company.
Obligations under hire purchase agreements are secured on the relevant assets.

11. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1990</u>	<u>1989</u>
	£	£
Bank loan	1,148,800	-
Obligations under hire purchase agreements (note 15)	1,684	11,352
	<u>1,153,484</u>	<u>11,352</u>

The bank loan is repayable by twice yearly instalments due:

	£	£
Within one year		51,200
Between one and five years	204,800	
After five years	944,000	
		<u>1,148,800</u>
		<u>1,200,000</u>

The loan is secured by fixed charge over the freehold property and the interest rate applicable is 17 7/16% per annum.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

12. PROVISIONS FOR LIABILITIES AND CHARGESDeferred taxation

The amount provided for deferred taxation, being the full potential liability at 35%, is set out below:

	<u>1990</u> £	<u>1989</u> £
Industrial buildings allowances	20,752	-

13. SHARE CAPITALAuthorisedAllotted, called
up and fully paid

	<u>1990</u> £	<u>1989</u> £	<u>1990</u> £	<u>1989</u> £
Ordinary shares of £1 each	500,000	500,000	150,000	150,000

14. CAPITAL COMMITMENTS

Capital commitments at 30th April, for which no provision has been made in these financial statements, were as follows:

	<u>1990</u> £	<u>1989</u> £
Contracted	-	945,583

15. HIRE PURCHASE CONTRACTS

At 30th April, 1990 the company had obligations under hire purchase contracts payable:

	£
Within one year	6,670
Between two and five years	4,684
	<u>11,354</u>

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

16. OPERATING LEASES

At 30th April, 1990 the company had annual commitments under non-cancellable operating leases as set out below:

	<u>1990</u>		<u>1989</u>	
	<u>Land and buildings</u>	<u>Other</u>	<u>Land and buildings</u>	<u>Other</u>
	£	£		£
Operating leases which expire:				
Within one year	28,300	1,291	-	301
In two to five years inclusive	-	-	22,825	1,291
	<u>28,300</u>	<u>1,291</u>	<u>22,825</u>	<u>1,592</u>

17. ULTIMATE HOLDING COMPANY

The company is a wholly-owned subsidiary of Reynolds Industries Incorporated, which is incorporated in the United States of America.