

# **Brush Electrical Machines Limited**

111249

## **Report and Financial Statements**

31 March 2005



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# Brush Electrical Machines Limited

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Registered No. 111849

## **Directors**

N Bamford	(appointed 17 June 2004)
M J R Porter	(resigned 13 January 2005)
J A Biles	(resigned 17 June 2004)
A Ventrella	(appointed 15 June 2005)

## **Secretary**

A Ventrella

## **Auditors**

Ernst & Young LLP  
City Gate West,  
Toll House Hill,  
Nottingham,  
NG1 5FY

## **Registered Office**

Falcon Works,  
PO Box 7713 Meadow Lane,  
Loughborough,  
Leicestershire  
LE11 1ZF



## Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2005.

### Results and dividends

The audited financial statements for the year ended 31 March 2005 are set out on pages 8 to 19. The profit for the year after taxation amounted to £9,021,000 (2004: £1,836,000).

The directors do not recommend the payment of a dividend for the year.

### Principal activities and review of the business

The principal activities of the company are the manufacture and sale of electrical machines, wind turbines and the refurbishment of railway locomotives.

The directors are satisfied with the trading performance in the year. The sale of the 'De Wind' wind turbine division will allow management to concentrate on core activities, and they are satisfied that the company is well placed to undertake this strategy.

### Post Balance Sheet Events

The 'De Wind' wind turbine division of Brush Electrical Machines Limited was sold on 4 July 2005.

### Directors and their interests

The directors who served during the year ended 31 March 2005 are as listed on page 1.

No director had any interests in the shares of the company at 31 March 2005.

N Bamford and J A Biles were also directors of the ultimate parent undertaking, and their interests in the shares of that company are disclosed in that company's financial statements.

The interests of the remaining directors who served in the year in the shares of the ultimate parent undertaking are set out below:

Ordinary 10p shares		2005		2004	
		No.		No.	
M J R Porter		—		66,003	
A Ventrella		—		—	
		<hr/>		<hr/>	
Executive share option scheme		1 April			31 March
		2004	Granted	Exercised	Lapsed
		No.	No.	No.	No.
M J R Porter	197,835	—	—	74,621	123,214
A Ventrella	135,000	—	—	—	135,000
		<hr/>	<hr/>	<hr/>	<hr/>
SAYE share option scheme		1 April			31 March
		2004	Granted	Exercised	Lapsed
		No.	No.	No.	No.
M J R Porter	15,416	—	—	—	15,416
A Ventrella	26,541	—	—	—	26,541
		<hr/>	<hr/>	<hr/>	<hr/>



## Directors' report (continued)

Options in existence at 31 March 2005 are exercisable between 2006 and 2013 at prices of 140 pence, 77 pence and 60 pence per share.

The market price of the ordinary shares of FKI plc at 31 March 2005 was 106.25 pence (2004: 111 pence) and the range during the year was 105 pence to 137.5 pence (2004: 60 pence to 126 pence).

All interests shown above are beneficial.

### Long term incentive plan (LTIP)

The ultimate parent company operates a LTIP which was approved by its shareholders in 2001 and under which participants receive annual conditional awards of shares in FKI plc of a value equal to up to 70% of basic salary per annum, which may vest only after the achievement of certain long-term performance conditions. Participants may receive up to the maximum number of shares, three years after the award, provided the performance conditions are met. Until then, the shares are held in a trust, which is administered by a trustee company.

The level of vesting of awards under the LTIP is determined by the performance of FKI plc's total shareholder return against a comparator group of all companies which on the date of grant are constituent companies of the Engineering and Machinery Index as determined by the FTSE Actuaries Industry Classification Committee. No awards vest for below median performance and 50% of an award will vest for median performance. Full vesting occurs only at upper quartile performance, and 75% of an award will vest for performance above the median but below upper quartile. Accrued dividends on vested awards are paid to the executives pending transfer of the shares into the name of the respective participant.

The performance condition is based upon total shareholder return as this is considered to be the best means of aligning the interests of directors with shareholders by requiring superior total shareholder return performance compared to competitor companies. The assessment as to whether the performance conditions have been met is independently calculated by Mercer Human Resource Consulting in conjunction with Datastream and is ratified by the Remuneration Committee of FKI plc.

The maximum number of ordinary shares that the director could receive under the LTIP is detailed below:

<i>Shares allocated at 1 April 2004</i>	<i>Shares allocated during year</i>	<i>Shares vested during year</i>	<i>Shares lapsed during year</i>	<i>Shares transferred during year</i>	<i>Value of award at date of grant £</i>	<i>Shares allocated at 31 March 2005</i>	<i>Earliest date for transfer</i>	<i>Value of shares vested*</i>	<i>Market value**</i>
M J R Porter									
21,740	-	-	21,740	-	40,600	-	04/12/04	-	-
30,500	-	-	-	-	42,700	30,500	08/07/05	-	32,406
57,500	-	-	-	-	48,156	57,500	09/06/06	-	61,094

\*There were no shares that vested during the year.

\*\*Market value of LTIP shares as yet unvested at 106.25 pence (2004: 111 pence), the closing mid-market price on 31 March 2005.

There are no other interests required to be disclosed under section 234 of the Companies Act 1985.

A Ventrella is not a participant in the Long Term Incentive Plan at 31 March 2005.





## Directors' report (continued)

### Employment policies

The company has developed a wide range of voluntary practices and procedures for employee involvement. The company encourages this approach to provide information and consultation and believes this promotes understanding of the issues facing the individual business in which the employee works.

It is company policy to achieve and maintain a high standard of health and safety by all practical means and the active involvement of employees in matters of health and safety is encouraged.

It is the policy of the company to give full and fair consideration to applications made by disabled persons for job vacancies, where particular job requirements are within their ability and, where possible, arrangements are made for the continuing employment of employees who have become disabled.

### Research and development

Product development and innovation is a continuous process. The company has committed additional resources to the development of new products to enhance the organic growth of the business.

### Suppliers payment policy

The company agrees terms and conditions for its business transactions with suppliers. Payment is made on those terms subject to the terms and conditions being met by the supplier.

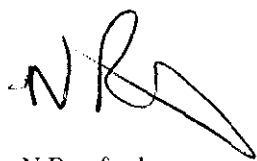
### Charitable donations

During the year the company donated £1,000 for charitable purposes (2004: £nil). No political donations were made during the year (2004: £nil).

### Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



N Bamford  
Director

Date:



## **Statement of directors' responsibilities in respect of the financial statements**

Company law requires the directors to prepare financial statements for each financial year which 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 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; and
- 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 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.



## **Independent auditors' report**

**to the members of Brush Electrical Machines Limited**

We have audited the company's financial statements for the year ended 31 March 2005 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

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**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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.



## Independent auditors' report

to the members of Brush Electrical Machines Limited (continued)

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered Auditor  
Nottingham

Date: *25 January 2006*





**Profit and loss account**

for the year ended 31 March 2005

		2005	2004
	Notes	£000	Restated £000
<b>Turnover</b>			
Continuing operations		105,759	71,090
Discontinued operations		12,728	17,623
<b>Total turnover</b>	2	118,487	88,713
Cost of sales		(100,644)	(80,504)
<b>Gross profit</b>		17,843	8,209
Distribution costs		(3,092)	(3,137)
Administrative expenses		(6,243)	(5,023)
<b>Operating profit</b>			
Continuing operations	3	11,499	1,361
Discontinued operations	3	(2,991)	(1,312)
<b>Total operating profit before interest and taxation</b>	3	8,508	49
Net interest receivable / (payable)	6	1,933	(32)
<b>Profit on ordinary activities before taxation</b>		10,441	17
Tax on ordinary activities	7	(1,420)	1,819
<b>Profit for the financial year</b>	14	9,021	1,836

There are no recognised gains or losses other than the loss for the financial year and consequently no statement of total recognised gains and losses has been prepared.

The disposal of the De Wind division has resulted in the results of that operation being classed as discontinued. The analysis and disclosure of the 2004 profit and loss account has been restated accordingly.



**Balance sheet**

at 31 March 2005

	Notes	2005 £000	2004 £000
<b>Fixed assets</b>			
Tangible assets	8	9,479	10,162
		<u>9,479</u>	<u>10,162</u>
<b>Current assets</b>			
Stocks	9	17,642	24,568
Debtors	10	112,663	81,602
Cash and short-term deposits		24,472	27,993
		<u>154,777</u>	<u>134,163</u>
<b>Creditors:</b> amounts falling due within one year	11	(70,120)	(60,630)
		<u>84,657</u>	<u>73,533</u>
<b>Net current assets</b>			
<b>Total assets less current liabilities</b>		<u>94,136</u>	<u>83,695</u>
<b>Provisions for liabilities and charges</b>	12	(1,420)	—
		<u>92,716</u>	<u>83,695</u>
<b>Net assets</b>			
<b>Capital and reserves</b>			
Called up share capital	13	1,000	1,000
Capital reserve	14	493	493
Profit and loss account	14	91,223	82,202
		<u>92,716</u>	<u>83,695</u>
<b>Equity shareholders' funds</b>	15	<u>92,716</u>	<u>83,695</u>

Approved by the Board and signed on its behalf by:


N Bamford  
Director

Date:



## Notes to the financial statements

at 31 March 2005

### 1. Accounting policies

#### Basis of preparation

The financial statements are prepared under the historical cost convention, in accordance with applicable accounting standards.

#### Statement of cash flow

Under the provisions of FRS 1 "Cash Flow Statements" (Revised 1996), the company has not prepared a statement of cash flows because its ultimate parent undertaking, FKI plc, has prepared consolidated financial statements which include the financial statements of the company and which contain a statement of cash flows.

#### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over their expected useful lives, as follows:

Freehold buildings	- 50 years
Plant and machinery – heavy production	- 15 years
Plant and machinery – other	- 10 years
Office equipment	- 5 to 10 years
Motor vehicles	- 3 to 5 years

#### Stocks and works in progress

Stocks are stated at the lower of cost or net realisable value after making due allowance for any obsolete or slow moving items. In the case of finished goods and work in progress, cost comprises the actual cost of raw materials and an appropriate proportion of labour and overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

#### Long-term contracts

Long-term contracts are stated at costs incurred, which comprise the cost of direct materials and labour plus appropriate overhead expenses, net of amounts transferred to cost of sales and after deducting foreseeable losses and payments on account not matched with turnover. To the extent that payments on account exceed the value at which long-term contracts are stated they are included as "payments received on account" within creditors.

#### Research and development

Development expenditure on clearly defined projects whose outcome can be assessed with reasonable certainty is capitalised and amortisation is commenced in the year the expenditure is incurred by reference to the lesser of the life of the project or three years. All other research and development expenditure is written off in the year in which it is incurred.

#### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.



## Notes to the financial statements

at 31 March 2005

### 1. Accounting policies (continued)

#### **Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued asset and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the balance sheet date. All exchange differences are dealt with in the determination of profit for the financial year.

#### **Turnover**

Turnover comprises the invoiced value of goods and services supplied by the company exclusive of value added taxes. In respect of long-term contracts turnover is calculated on a percentage completion basis, as the cost incurred up to the accounting date plus a proportion of the profit appropriate to the percentage completion of each contract.

The amount by which recorded turnover on contracts is in excess of payments on account is recorded in debtors as "amounts recoverable on contracts". Attributable profit is recognised on long-term contracts only when the profitable outcome of the contract can be reasonably foreseen and is calculated so as to reflect the proportion of the work carried out at the year end. Full provision is made in respect of foreseeable losses on uncompleted contracts.

#### **Leasing and hire purchase commitments**

Assets obtained under hire purchase contracts and leases which result in the transfer to the company of substantially all the risks and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments and are depreciated over their expected useful lives or over the primary lease period, whichever is the shorter, in accordance with the above policy. The capital elements of future lease obligations are recorded as liabilities whilst the finance element of the rental payments are charged to the profit and loss account over the period of the lease or hire purchase contract so as to produce a constant rate of charge on the outstanding balance of the net obligation in each year. Rentals paid under other leases (operating leases) are charged against income on a straight line basis over the lease term.

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## Notes to the financial statements

at 31 March 2005

### 1. Accounting policies (continued)

#### Defined benefit pension scheme

The company participates in a defined benefit pension scheme, which is funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. The company's contributions are affected by the surplus/deficit in the scheme. However, it is not possible to identify the company's share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. Therefore, in accordance with FRS 17 multi-employer exemption, the scheme is accounted for as if it were a defined contribution scheme.

The latest available information relating to the scheme and the implications for the company are detailed in the notes to the financial statements.

#### Defined contribution pension scheme

Pension costs for the company's defined contribution pension scheme are recognised within operating profit at an amount equal to the contributions payable to the scheme for the year. Any prepaid or outstanding contributions at the balance sheet date are recognised respectively as assets or liabilities within prepayments or accruals.

### 2. Turnover and segmental analysis

Turnover and profit before taxation are derived from a single business segment being the principal activity of the company.

An analysis of turnover by geographical destination is as follows:

	2005 £000	2004 £000
United Kingdom	23,331	30,979
USA	29,674	23,861
Asia	4,997	2,761
Middle East	2,861	1,511
Rest of Europe	56,917	27,653
Other	707	1,948
Continuing operations	105,759	71,090
Discontinued operations	12,728	17,623
	<u>118,487</u>	<u>88,713</u>



## Notes to the financial statements

at 31 March 2005

### 3. Operating profit

Operating profit is stated after charging/(crediting):

	2005 £000	2004 £000
Auditors' remuneration – audit	30	29
Depreciation of owned tangible fixed assets	2,057	2,304
Research and development expenditure	249	339
Operating lease rentals – plant and machinery	11	9
Operating lease rentals – other leases	40	–
Loss on sale of fixed assets	211	2
Foreign exchange gains	(404)	(54)

The following amounts in respect of discontinued operations are included within operating profit: cost of sales £14,098,000 (2004 - £17,674,000), distribution costs £671,000 (2004 - £862,000) and administrative costs £950,000 (2004 - £399,000).

### 4. Directors' remuneration

All directors are remunerated by the ultimate parent undertaking. No emoluments received by the directors arose from their office as director of the company (2004: £nil).

The directors of the company are also directors or officers of a number of the companies within the FKI group. The directors' services to the company do not occupy a significant amount of their time. As such the directors do not consider that they have received any remuneration for their incidental services to the company for the years ended 31 March 2005 and 31 March 2004.

### 5. Staff costs

	2005 £000	2004 £000
Wages and salaries	22,494	20,461
Social security and other allied costs	2,073	1,853
Pension and other post retirement benefits	2,811	4,094
	<u>27,378</u>	<u>26,408</u>

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

	2005 No.	2004 No.
Production	713	687
Administration and management	121	123
Sales and distribution	57	50
	<u>891</u>	<u>860</u>



## Notes to the financial statements

at 31 March 2005

### 6. Net interest receivable/(payable)

	2005 £000	2004 £000
Interest receivable on:		
Loans to parent and subsidiary undertakings	3,433	—
Other interest receivable	128	—
	<u>3,561</u>	<u>—</u>
Interest payable on:		
Bank loans and overdrafts	(334)	—
Other interest payable	(441)	(32)
Loans from parent and subsidiary undertakings	(853)	—
	<u>1,933</u>	<u>(32)</u>

### 7. Tax on profit on ordinary activities

The tax charge/(credit) comprises:

	2005 £000	2004 £000
Deferred taxation	1,420	(1,823)
Current taxation	—	4
	<u>1,420</u>	<u>(1,819)</u>



## Notes to the financial statements

at 31 March 2005

### 7. Tax on profit on ordinary activities (continued)

The current tax assessed for the year is reconciled to the standard rate of corporation tax in the UK as explained below:

	2005 £000	2004 £000
Profit on ordinary activities before taxation	10,441	17
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004 – 30%)	3,132	5
Effects of:		
Permanent differences	1,608	4
Group relief from parent for nil consideration	(3,320)	(1,828)
Accelerated capital allowances	(1,420)	1,870
Short term timing differences	–	(47)
Current tax for the year	–	4

### 8. Tangible fixed assets

	Freehold property £000	Plant, equipment and vehicles £000	Total £000
Cost:			
At 1 April 2004	138	44,574	44,712
Additions	–	1,612	1,612
Disposals	–	(4,227)	(4,227)
At 31 March 2005	138	42,959	42,097
Depreciation:			
At 1 April 2004	12	34,538	34,550
Charge for the year	2	2,055	2,057
Disposals	–	(3,989)	(3,989)
At 31 March 2005	14	32,604	32,618
Net book value:			
At 31 March 2005	124	9,355	9,479
At 1 April 2004	126	10,036	10,162

The net book value of tangible fixed assets for the company includes £nil (2004: £nil) in respect of leases assets.





## Notes to the financial statements

at 31 March 2005

### 9. Stocks

	2005	2004
	£000	£000
Raw materials and consumables	8,013	11,047
Work in progress	12,436	13,435
Long-term contract work in progress	–	4,128
Finished goods and goods for resale	–	1,265
	<u>20,449</u>	<u>29,875</u>
Less: applicable payments on account	(2,807)	(5,307)
	<u>17,642</u>	<u>24,568</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

### 10. Debtors

	2005	2004
	£000	£000
Trade debtors	19,592	10,786
Amounts due from other group undertakings	87,836	70,197
Amounts recoverable on contracts	4,003	–
Other debtors	1,085	517
Prepayments and accrued income	147	102
	<u>112,663</u>	<u>81,602</u>

### 11. Creditors: amounts falling due within one year

	2005	2004
	£000	£000
Bank overdraft	6,001	13,762
Payments received on account	7,507	7,622
Trade creditors	13,523	16,460
Amounts due to parent and fellow subsidiary undertakings	32,343	12,408
Corporation tax	3,324	3,021
Other taxes and social security costs	1,131	532
Other creditors	5,195	6,506
Accruals and deferred income	1,096	319
	<u>70,120</u>	<u>60,630</u>



## Notes to the financial statements

at 31 March 2005

### 12. Provisions for liabilities and charges

	<i>Deferred tax £000</i>
At 1 April 2004	–
Charged in the year	1,420
At 31 March 2005	<u>1,420</u>

Deferred taxation, provided in the financial statements, is in respect of:

	<i>2005 £000</i>	<i>2004 £000</i>
Accelerated capital allowances	1,420	–
Short term timing differences	–	–
	<u>1,420</u>	<u>–</u>

### 13. Share capital

	<i>2005 £000</i>	<i>2004 £000</i>
<i>Authorised</i>		
1,000,000 (2004: 1,000,000) Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<i>Allotted, called up and fully paid</i>		
1,000,000 (2004: 1,000,000) Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

### 14. Reserves

	<i>Capital reserve £000</i>	<i>Profit and loss account £000</i>
At 1 April 2004	493	82,202
Retained profit for the year	–	9,021
At 31 March 2005	<u>493</u>	<u>91,223</u>



## Notes to the financial statements

at 31 March 2005

### 15. Reconciliation of movements in shareholders' funds

	2005 £000	2004 £000
Opening equity shareholders' funds	83,695	81,859
Retained profit for the financial year	9,021	1,836
Closing equity shareholders' funds	<u>92,716</u>	<u>83,695</u>

### 16. Financial commitments

#### Capital commitments

	2005 £000	2004 £000
Contracted but not provided for	70	6

### 17. Pensions arrangements

The company participates in a funded group defined benefit scheme. It is not possible to identify the company's share of assets and liabilities in the scheme on a consistent and reasonable basis. Therefore, in accordance with FRS 17 paragraph 9 (b) (multi-employer exemption), the scheme is accounted for as if it were a defined contribution scheme.

The pension contribution for the year amounted to £2,811,000 (2004: £4,094,000).

In order to provide information about the existence of a surplus or deficit in the scheme, a separate valuation of the scheme as at 31 March 2005 using the projected unit basis required by the Standard has been obtained.

The valuation of the group scheme shows the following deficit:

UK group scheme                      £130,500,000

For the purposes of these financial statements, these figures are illustrative only and do not impact on the results or the balance sheet of the company. It should also be noted that these figures include a substantial proportion of pension assets and liabilities relating to other group companies which also participate in the scheme. It has not been possible to identify the share of the surplus/deficit which relates solely to Brush Electrical Machines Limited.

The measurement bases required by FRS 17 are likely to give rise to significant fluctuations in the reported amounts of the defined benefit pension scheme's assets and liabilities from year to year, and do not necessarily give rise to a change in the contributions payable into the scheme, which are recommended by the independent actuaries based on the expected long term rate of return on the scheme assets.



## Notes to the financial statements

at 31 March 2005

### 18. Financial commitments

#### Lease commitments

At 31 March 2005, the company had annual financial commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>		<i>Other</i>	
	<i>2005</i>	<i>2004</i>	<i>2005</i>	<i>2004</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
– within two to five years	–	–	65	–
	–	–	65	–

### 19. Contingent liabilities

As part of a group banking arrangement, the company has entered into a multilateral cross guarantee with certain group companies in respect of group overdraft borrowings.

Other outstanding bonds and guarantees at the year end amounted to £7,519,000 (2004: £13,573,000).

### 20. Related party transactions

The company is exempt from the requirements of Financial Reporting Standard 8 “Related Party Disclosures” to include details of transactions with related parties who are fellow group undertakings.

### 21. Ultimate parent undertaking

The directors regard FKI plc, a company incorporated in Great Britain and registered in England and Wales, as the company’s ultimate parent undertaking and controlling party.

The only group into which the results of the company are consolidated is that headed by FKI plc. Copies of the financial statements of FKI plc are available from the Company Secretary, FKI plc, Falcon Works, PO Box 7713, Meadow Lane, Loughborough, Leicestershire, LE11 1ZF.

### 22. Post Balance Sheet Events

The company sold the ‘De Wind’ wind turbine division on 4 July 2005. The division contributed a loss of £4,031,000 to the company during the year. In accordance with FRS 3 the results of the division are shown within these accounts under discontinued activities.

