

VCH Limited

Report and Accounts

1 March 1998



VCH Limited

Registered No. 265006

DIRECTORS

M B Hare
J R Cole
M A Hemingway
R Kurita (resigned 1 April 1998)
D L Cartwright (appointed 1 March 1998)
S M B Hare (appointed 1 March 1998)
S Ishimaru (appointed 1 April 1998)

AUDITORS

Ernst & Young
Compass House
Newmarket Road
Cambridge
CB5 8DZ

BANKERS

National Westminster Bank Plc
10 Bene't Street
Cambridge
CB2 3PU

SOLICITORS

Hewitson, Becke & Shaw
Shakespeare House
42 Newmarket Road
Cambridge
CB5 8EP

REGISTERED OFFICE

Beetons Way
Bury St Edmunds
Suffolk
IP32 6RA

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended 1 March 1998.

RESULTS AND DIVIDENDS

The operating profit of £961,020 compares with £1,352,218 for the prior year.

The profit on ordinary activities after taxation amounted to £667,195 (prior year £900,750).

No interim dividend has been paid during the year and the directors do not recommend a final dividend, leaving a retained profit of £667,195 to be carried to reserves.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company's principal activities are the manufacture and marketing of miniature electric lamps, added value assemblies, spark gap tubes and light emitting diodes. The company's result for the year was adversely affected by movements in exchange rates. Had the exchange rate remained constant during the year the operating profit of the company would have been approximately £1.4 million.

Whilst the year under review has been one of consolidation, the outlook remains favourable.

DIRECTORS AND THEIR INTERESTS

The following directors served since 2 March 1997:

M B Hare	
J R Cole	
M A Hemingway	
J Tsukahara	(resigned 1 March 1998)
R Kurita	(resigned 1 April 1998)
R S Clarke	(resigned 26 November 1997)
D L Cartwright	(appointed 1 March 1998)
S M B Hare	(appointed 1 March 1998)
S Ishimaru	(appointed 1 April 1998)

None of the above has an interest in the share capital of the company or its immediate parent undertaking, Vitality Limited. The interests of the directors, who are also directors of VCH International Limited are disclosed in that company's accounts. No other directors had any interest in the share capital of the company.

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

DIRECTORS' REPORT

EMPLOYEE INVOLVEMENT

Arrangements are in existence for the regular consultation with employees or their representatives to ensure that employees are kept informed and consulted on all relevant matters. These arrangements are continually being updated.

AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the Annual General Meeting.

By order of the board

S M B Hare
Secretary

1998

29 July

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts 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 accounts 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.

REPORT OF THE AUDITORS to the members of VCH Limited

We have audited the accounts on pages 6 to 17, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on pages 9 and 10.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

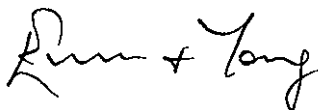
BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 1 March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
Cambridge

28 July 1998

PROFIT AND LOSS ACCOUNT
for the year ended 1 March 1998

	<i>Notes</i>	<i>1998</i> £	<i>1997</i> £
TURNOVER			
Cost of sales	2	12,505,210	14,281,498
		10,123,661	11,549,262
GROSS PROFIT		2,381,549	2,732,236
Distribution costs		368,804	355,635
Administrative expenses		998,959	1,001,005
		1,367,763	1,356,640
		1,013,786	1,375,596
Other operating charges		52,766	23,378
OPERATING PROFIT	3	961,020	1,352,218
Bank interest receivable		2,999	-
Interest payable	6	(10,476)	(12,126)
		(7,477)	(12,126)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		953,543	1,340,092
Tax on profit on ordinary activities	7	286,348	439,342
RETAINED PROFIT FOR THE YEAR	16	667,195	900,750

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 1 March 1998

There are no recognised gains or losses other than the profit attributable to shareholders of £667,195 in the year ended 1 March 1998 and £900,750 in the year ended 2 March 1997.

RECONCILIATION OF SHAREHOLDERS' FUNDS

	1998 £	1997 £
Total recognised gains and losses	667,195	900,750
Total movements during the year	667,195	900,750
Opening shareholders' funds	3,171,565	2,270,815
Closing shareholders' funds	3,838,760	3,171,565

NOTE OF HISTORICAL COSTS PROFITS AND LOSSES

	1998 £	1997 £
Reported profit on ordinary activities before taxation	953,543	1,340,092
Difference between historical cost depreciation charge and depreciation charge on revalued assets	23,973	23,358
Historical cost profit on ordinary activities before taxation	977,516	1,363,450
Historical cost profit on ordinary activities after taxation and dividends	691,168	924,108

VCH Limited

BALANCE SHEET at 1 March 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Tangible assets	8	3,073,433	3,192,285
CURRENT ASSETS			
Stocks	9	1,236,855	1,384,608
Debtors	10	2,398,738	2,401,678
Cash at bank and in hand		85,896	575,095
		3,721,489	4,361,381
CREDITORS: amounts falling due within one year	11	2,629,727	2,996,116
NET CURRENT ASSETS		1,091,762	1,365,265
TOTAL ASSETS LESS CURRENT LIABILITIES		4,165,195	4,557,550
CREDITORS: amounts falling due after more than one year	12	114,019	1,149,740
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	14	212,416	236,245
		3,838,760	3,171,565
CAPITAL AND RESERVES			
Called up share capital	15	47,009	47,009
Capital reserve	16	46,185	46,185
Revaluation reserve	16	1,293,536	1,317,509
Profit and loss account	16	2,452,030	1,760,862
Shareholders' funds:			
Equity		3,832,239	3,165,044
Non-equity		6,521	6,521
		3,838,760	3,171,565

M B Hare

J R Cole

29.7. 1998

) *M. Barrington Hare*
) Directors
) *J R Cole*

NOTES TO THE ACCOUNTS
at 1 March 1998

1. ACCOUNTING POLICIES

(a) Accounting convention

The accounts are prepared under the historical cost convention as modified to include the revaluation of land and buildings and in accordance with applicable accounting standards.

(b) Depreciation

Depreciation is provided on all fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	-	over 25 years
Plant and equipment	-	over 3 to 10 years
Leasehold improvements	-	over the shorter of the lease term or expected useful life

An amount equivalent to the depreciated revaluation surplus on freehold buildings is amortised to realised reserves from the revaluation reserve.

(c) Stocks

Stocks are stated at the lower of cost and net realisable value.

Cost includes all costs incurred in bringing each products to its present location and condition, as follows:

Raw materials, consumables and goods for resale	-	purchase costs on a weighted average basis
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on the estimated selling price less further costs expected to be incurred to completion and disposal.

(d) Deferred taxation

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to reverse in the future, calculated at the rate at which it is estimated the tax will be payable.

Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred tax balance.

(e) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. All differences are taken to the profit and loss account.

NOTES TO THE ACCOUNTS

at 1 March 1998

1. ACCOUNTING POLICIES (continued)

(f) Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their useful lives.

The interest element of the rental obligation is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

(g) Pensions

The company operates a defined benefit scheme requiring contributions to be made to a separately administered fund. Contributions to the fund are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives. The regular cost is attributed to individual years using the discounted cash flow method.

Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the expected average future service of the current membership in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

2. TURNOVER

Turnover represents the invoiced amount of goods sold, stated net of value added tax.

Turnover is attributable to one continuing activity, the manufacture and marketing of miniature light sources.

An analysis of turnover by geographical location is given below:

	1998 £	1997 £
United Kingdom	5,541,672	5,768,004
Overseas	6,963,538	8,513,494
	<u>12,505,210</u>	<u>14,281,498</u>

3. OPERATING PROFIT

	1998 £	1997 £
(a) This is stated after charging:		
Auditors' remuneration - audit services	22,000	20,550
- non-audit services	16,141	15,000
Depreciation of assets held under finance leases	346,433	51,313
Depreciation of owned assets	85,528	338,727
Operating lease rentals: land and buildings	33,338	33,000
plant and machinery	16,686	21,804
	<u></u>	<u></u>

NOTES TO THE ACCOUNTS
at 1 March 1998

4. DIRECTORS' REMUNERATION

The remuneration of directors who also served as directors of the parent undertaking is disclosed in the accounts of that company.

	<i>1998</i>	<i>1997</i>
	<i>£</i>	<i>£</i>
Directors emoluments, including pension contributions	44,464	-
Pension contribution on behalf of directors	3,199	-
	<u>47,663</u>	<u>-</u>

There are two directors accruing retirement benefits in the pension scheme.

5. STAFF COSTS

	<i>1998</i>	<i>1997</i>
	<i>£</i>	<i>£</i>
Wages and salaries	3,561,566	3,467,569
Social security costs	266,211	258,695
Pension contributions	174,640	50,000
	<u>4,002,417</u>	<u>3,776,264</u>

	<i>1998</i>	<i>1997</i>
	<i>No.</i>	<i>No.</i>
The average monthly number of employees during the year was as follows:		
Manufacturing	215	206
Engineering	20	20
Management and administration	38	38
Selling	7	7
	<u>280</u>	<u>271</u>

6. INTEREST PAYABLE

	<i>1998</i>	<i>1997</i>
	<i>£</i>	<i>£</i>
Finance lease interest	10,476	12,126
	<u>10,476</u>	<u>12,126</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>1998</i>	<i>1997</i>
	<i>£</i>	<i>£</i>
Based on profit for the year:		
Corporation tax	340,789	474,632
Deferred taxation	(23,829)	(20,328)
	<u>316,960</u>	<u>454,304</u>
Taxation (over)/under provided in prior years:		
Corporation tax	(30,612)	(16,125)
Deferred taxation	-	1,163
	<u>286,348</u>	<u>439,342</u>

NOTES TO THE ACCOUNTS

at 1 March 1998

8. TANGIBLE FIXED ASSETS

	<i>Freehold land and buildings</i>	<i>Leasehold improvements</i>	<i>Plant and machinery</i>	<i>Total</i>
	£	£	£	£
Cost or valuation:				
At 2 March 1997	1,950,113	11,385	5,448,504	7,410,002
Additions	27,486	-	312,359	339,845
Disposals	-	-	(415,861)	(415,861)
At 1 March 1998	1,977,599	11,385	5,345,002	7,333,986
Depreciation:				
At 2 March 1997	116,835	9,067	4,091,815	4,217,717
Provided during the year	38,701	1,139	392,121	431,961
Disposals	-	-	(389,125)	(389,125)
At 1 March 1998	155,536	10,206	4,094,811	4,260,553
Net book value:				
At 1 March 1998	1,822,063	1,179	1,250,191	3,073,433
At 2 March 1997	1,833,278	2,318	1,356,689	3,192,285

The net book value of plant and machinery includes an amount of £225,374 (1997 - £311,403) in respect of assets acquired under finance leases.

Certain of the freehold properties were valued by independent chartered surveyors on an open market basis in June 1995 at £1,750,000.

For the freehold land and buildings included at valuation:

	£
Historical cost:	
At 2 March 1997 and 1 March 1998	599,336
Depreciation based on cost:	
At 2 March 1997	371,845
Charge for the year	8,701
At 1 March 1998	380,546
Net book value at 1 March 1998	218,790
Net book value at 2 March 1997	227,491

NOTES TO THE ACCOUNTS
at 1 March 1998

9. STOCKS

	1998 £	1997 £
Raw materials and consumables	294,678	277,114
Work-in-progress	64,968	94,065
Finished goods	877,209	1,013,429
	<u>1,236,855</u>	<u>1,384,608</u>

The difference between the purchase price or production cost of stocks and their replacement cost is not material.

10. DEBTORS

	1998 £	1997 £
Trade debtors	2,372,135	2,295,816
Other debtors	449	54,632
Prepayments	26,154	51,230
	<u>2,398,738</u>	<u>2,401,678</u>

11. CREDITORS: amounts falling due within one year

	1998 £	1997 £
Obligations under finance leases (note 13)	106,647	72,768
Trade creditors	595,529	1,031,863
Amounts due to fellow group undertaking	965,223	1,193,972
Current corporation tax	277,479	256,605
Other taxes and social security costs	183,718	144,147
Other creditors	35,373	34,186
Accruals	465,758	262,575
	<u>2,629,727</u>	<u>2,996,116</u>

12. CREDITORS: amounts falling due after more than one year

	1998 £	1997 £
Obligations under finance leases (note 13)	114,019	200,252
Amounts due to group undertaking	-	949,488
	<u>114,019</u>	<u>1,149,740</u>

NOTES TO THE ACCOUNTS
at 1 March 1998

13. COMMITMENTS UNDER FINANCE LEASES

At 1 March 1998 the company had commitments under finance leases as set out below:

	1998 £	1997 £
Amounts due within one year	57,749	85,831
Amounts due between two and five years	176,168	212,906
	<u>233,917</u>	<u>298,737</u>
Less: interest attributable to future periods	(13,251)	(25,717)
	<u>220,666</u>	<u>273,020</u>
Disclosed as:		
Current obligations (note 11)	106,647	72,768
Non-current obligations (note 12)	114,019	200,252
	<u>220,666</u>	<u>273,020</u>

Analysis of changes in finance leases and hire purchase contracts during the current and previous years:

	1998 £	1997 £
At beginning of period	273,020	362,842
Capital element of finance lease rental payments	(52,354)	(89,822)
At end of period	<u>220,666</u>	<u>273,020</u>

14. DEFERRED TAXATION

Deferred taxation is fully provided as follows:

	1998 £	1997 £
Capital allowances in advance of depreciation	107,740	131,817
Gains held/rolled over	126,306	134,455
Other differences in recognising revenue and expenses items in other periods for taxation purposes	(21,630)	(30,027)
	<u>212,416</u>	<u>236,245</u>

NOTES TO THE ACCOUNTS
at 1 March 1998

14. DEFERRED TAXATION (continued)

Analysis of the movements in the deferred tax provision:

	£
Balance at 2 March 1997	236,245
Profit and loss	(23,829)
Balance at 1 March 1998	212,416

The revaluation reserve relating to the freehold land and buildings does not constitute a timing difference. Therefore, tax has not been quantified on the reserve.

15. SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted called up and fully paid</i>	
	<i>1998</i>	<i>1997</i>	<i>1998</i>	<i>1997</i>
	£	£	£	£
<i>Equity</i>				
50,000 ordinary shares of £1 each	50,000	50,000	40,488	40,488
<i>Non equity</i>				
4,500 7% first cumulative preference shares of £1 each	4,500	4,500	4,497	4,497
210,000 10% second cumulative preference shares of 5p each	10,500	10,500	2,024	2,024
	<u>65,000</u>	<u>65,000</u>	<u>47,009</u>	<u>47,009</u>

The respective rights of the classes of shares are as follows:

(a) *Income*

On a distribution of income, the first and second cumulative preference shares are each entitled to a fixed cumulative dividend, with any surplus being paid to the holders of the ordinary shares.

(b) *Capital*

On a return of assets on liquidation or otherwise the assets of the Company remaining after the payment of its liabilities are applied firstly to paying to the holders of the first and second cumulative preference shares (in that order) the amount paid up on the shares together with any arrears of dividend and secondly to paying to the holders of the ordinary shares the residue.

(c) *Voting rights*

The first and second cumulative preferences shares carry no voting rights in general meetings unless the dividends are in arrears or the business of the meeting includes the consideration of a resolution for winding up the company or altering the rights of the preference shares. The ordinary shares carry one vote each.

NOTES TO THE ACCOUNTS
at 1 March 1998

16. STATEMENT OF MOVEMENTS ON RESERVES

	<i>Capital reserve</i>	<i>Revaluation reserve</i>	<i>Profit & loss account</i>
	£	£	£
At 2 March 1997	46,185	1,317,509	1,760,862
Profit for the year	-	-	667,195
Movement on reserves	-	(23,973)	23,973
At 1 March 1998	46,185	1,293,536	2,452,030

The Capital and Revaluation reserves are not distributable.

17. OTHER FINANCIAL COMMITMENTS

At 1 March 1998 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>1998</i>	<i>Land and buildings 1997</i>
	£	£
Operating leases which expire:		
Within one year	24,338	17,250

The company has forward foreign currency contract commitments totalling £674,876 (1997 - £1,098,225).

18. CONTINGENT LIABILITY

The company has entered into a composite guarantee with other UK group companies to secure the bank loans and overdrafts of the UK group.

19. PENSION COMMITMENTS

The company operates a defined benefit pension scheme funded by the payment of contributions to a separately administered trust fund.

The total pension cost of the company in respect of this scheme charged in the year was £174,640 (1997: £50,000).

The contributions to the scheme is determined with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit method. The most recent valuations were conducted as at 6 April 1996 using the following main assumptions:-

Rate of return on investments	9% per annum
Rate of dividend growth	5% per annum
Rate of salary increases	7% per annum
Rate of pension payment increases	3% on excess over GMP; statutory increases on GMP
Long term average rate of inflation	5% per annum

NOTES TO THE ACCOUNTS
at 1 March 1998

20. PENSION COMMITMENTS (continued)

The latest valuation showed that the market value of the scheme's assets at that date amounted to £5,246,800 and the actuarial value of the assets was sufficient to cover 100% of the benefits that had accrued to members, after allowing for the effect of future increases in their earnings.

21. PARENT UNDERTAKINGS AND RELATED PARTY TRANSACTIONS

The parent undertaking of the smallest group of undertakings for which group accounts are drawn up and of which the company is a member is VCH International Limited. The parent undertaking of the largest such group at the year end was Harison Electric Co Limited, ("Harison"), incorporated in Japan and this was considered to be the ultimate parent undertaking.

The immediate parent undertaking is Vitality Limited.

During the year the company made purchases of raw materials and finished goods from Harison amounting to £1,929,666. In addition, VCH International Limited incurred financial charges amounting to £75,889. At the balance sheet date the amounts owing to Harison were £489,922 (due within one year), together with finance lease obligations of £57,749 (due within one year) and £176,168 (due after more than one year). No amounts were written off during the year.

The company has taken advantage of the exemption conferred by FRS 8 from the requirement to disclose details of transactions with members of the group headed by VCH International Limited.

On 26 May 1998 the majority of the issued share capital of VCH International Limited was required by SLI Lighting Limited, a subsidiary undertaking of SLI Incorporated, a company incorporated in the State of Oklahoma USA, which then became the ultimate parent undertaking.