

MORPHY RICHARDS LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 31 MARCH 1986

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report for the period ended 31 March 1986.

**PRINCIPAL ACTIVITY AND BUSINESS REVIEW:**

The principal activity of the company is the manufacture and distribution of domestic electrical products. Turnover declined from £22,251,000 to £16,040,000. Profit for the period was £1,011,000 (1985 £437,000).

**RESULTS AND DIVIDENDS:**

Results and recommended transfers to reserves are as follows -

	£'000s
Retained profit at 30 April 1985	816
- As previously reported	(90)
- Prior year adjustment (Note 8)	-----
	726
- As restated	
Profit for the period	1,011
	-----
Retained profit at 31 March 1986	1,737
	=====

No dividend is recommended.

**DIRECTORS AND THEIR INTERESTS:**

The directors who served during the period were -

P.R. Brettell	
R. Adkins	
C. Pettingell	
M. Naughton	(Chairman) (appointed 9 May 1985)
L. Quinn	(Deputy Chairman) (appointed 9 May 1985)
B.A. Solomon	(resigned 9 May 1985)
J.D. Forsdyke	(resigned 10 October 1985)
B.S. Wolfe	(resigned 1 March 1986)
S.D. Kelly	(resigned 21 November 1985, reappointed 23 November 1985)
N.A.J. Winnett	(appointed 1 March 1986)

The directors do not have any interests which are required to be disclosed under Section 235 of the Companies Act 1985.

**FIXED ASSETS:**

Information relating to changes in tangible fixed assets is given in Note 9 to the accounts.

In the opinion of the directors, there is no material difference between the book value and the current value of interests in land and buildings.

**DISABLED EMPLOYEES:**

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

**EMPLOYEE CONSULTATION:**

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

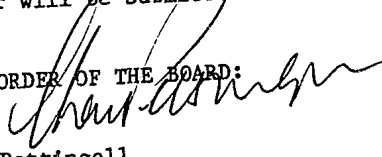
**CHANGE OF ACCOUNTING REFERENCE DATE:**

During the period the company's accounting reference date was changed from 30 April to 31 March. Accordingly, the accounts are presented for the eleven month period ended 31 March 1986. Comparative figures are shown for the 12 months ended 30 April 1985.

**AUDITORS:**

KMG Thomson McLintock resigned as auditors during the period and the directors appointed Arthur Andersen & Co. to fill the casual vacancy. A resolution to appoint Arthur Andersen & Co. as auditors for the ensuing year will be submitted to the annual general meeting.

BY ORDER OF THE BOARD:

  
C. Pattingell  
Secretary

31 January 1987

ARTHUR ANDERSEN & Co

ST PAUL'S HOUSE  
PARK SQUARE  
LEEDS LS1 2PJ

To the members of MORPHY RICHARDS LIMITED:

We have audited the accounts set out on pages 4 to 14 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared under the historical cost convention, give a true and fair view of the state of affairs of the company at 31 March 1986 and of the profit and source and application of funds for the period then ended, and comply with the Companies Act 1985.

*Arthur Andersen & Co*

31 January 1987

MORPHY RICHARDS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 31 MARCH 1986

	<u>Note</u>	<u>1986</u> <u>£'000s</u>	<u>1985</u> <u>£'000s</u> (Note 19)
TURNOVER	2	16,040	22,251
Cost of sales		13,017	18,386
GROSS PROFIT		3,023	3,865
Other operating expenses (net)	3	1,991	3,066
OPERATING PROFIT		1,032	799
Interest receivable		5	8
Interest payable and similar charges	4	(26)	(370)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	1,011	437
Tax on profit on ordinary activities	7	-	-
RETAINED PROFIT FOR THE PERIOD		1,011	437
RETAINED PROFIT, at beginning of period			
As previously reported		816	289
Prior year adjustment	8	(90)	-
As restated		726	289
RETAINED PROFIT, at end of period		1,737	726

The accompanying notes are an integral part of this profit and loss account.

MORPHY RICHARDS LIMITED

BALANCE SHEET -- 31 MARCH 1986

	<u>Note</u>	31 March 1986 £'000s	30 April 1985 £'000s (Note 19)
<b>FIXED ASSETS</b>			
Tangible assets	9	4,408	4,367
<b>CURRENT ASSETS</b>			
Stocks	10	5,774	4,240
Debtors	11	4,209	5,507
Cash at bank and in hand		306	138
		10,289	9,885
CREDITORS: Amounts falling due within one year	12	9,877	6,746
NET CURRENT ASSETS		412	3,139
TOTAL ASSETS LESS CURRENT LIABILITIES		4,820	7,506
CREDITORS: Amounts falling due after more than one year	13	-	(3,500)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(128)	(152)
ACCRUALS AND DEFERRED INCOME	15	(1,352)	(1,525)
NET ASSETS		3,340	2,329
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	16	500	500
Share premium		1,103	1,103
Profit and loss account		1,737	726
TOTAL CAPITAL EMPLOYED		3,340	2,329

SIGNED ON BEHALF OF THE BOARD:

L. Quinn )

) Directors

C. Pettingell )

31 January 1987

The accompanying notes are an integral part of this balance sheet.

MORPHY RICHARDS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE PERIOD ENDED 31 MARCH 1986

	1986 £'000s	1985 £'000s (Note 19)
<b>SOURCE OF FUNDS</b>		
Profit on ordinary activities after taxation	1,011	437
Add (deduct) items during the period not involving the movement of funds		
- depreciation	498	438
- gain on disposal of tangible fixed assets	(8)	(21)
- amortisation of government grants	(173)	(475)
- movement in warranty provision	(24)	14
	-----	-----
Total funds from operations	1,304	393
Proceeds from disposal of tangible fixed assets	57	97
Government grant receivable	-	2,000
Decrease in net current assets, as shown below	2,727	-
Regional Development grants received	54	341
Increase in creditors due after more than one year	-	1,392
	-----	-----
	4,142	4,223
	=====	=====
<b>APPLICATION OF FUNDS</b>		
Purchase of tangible fixed assets at cost	642	2,592
Increase in net current assets, as shown below	-	1,631
Decrease in creditors due after more than one year	3,500	-
	-----	-----
	4,142	4,223
	=====	=====
<b>INCREASE (DECREASE) IN NET CURRENT ASSETS</b>		
Stocks	1,534	(296)
Debtors	(798)	652
Prepayments and accrued income	(500)	1,500
Creditors falling due within one year	(4,462)	(865)
	-----	-----
	(4,226)	991
Movement in net liquid funds		
- cash at bank and in hand	168	71
- bank loans and overdrafts	1,331	569
	-----	-----
	(2,727)	1,631
	=====	=====

The accompanying notes are an integral part of this statement.

MORPHY RICHARDS LIMITED

NOTES TO ACCOUNTS -- 31 MARCH 1986

1. ACCOUNTING POLICIES:

The principal accounting policies are -

a. Basis of accounting

The accounts are prepared under the historical cost convention.

b. Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of fixed assets on a straight line basis over their estimated useful lives as follows -

Freehold buildings	- 25 years
Plant and machinery	- 5 to 20 years
Motor vehicles	- 3 years
Fixtures and fittings	- 8 years
Tooling	- 4 to 5 years

c. Stocks

Stocks are stated at the lower of cost and net realisable value. Costs include material, labour and an appropriate proportion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

d. Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is provided only to the extent that it is probable that such liabilities will become payable in the foreseeable future.

e. Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) of goods and services in the normal course of business.

f. Development expenditure

Development expenditure is written off as incurred.

g. Provision for work done under guarantee

Provision is made for costs which may be incurred on repairs and repayments under guarantee in respect of goods sold to the balance sheet date.

h. Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Gains and losses on translation are included in the profit and loss account.

i. Development grant

Of the £2 million grant receivable under S.7 of the Industry Act 1972, £1.5 million is being released to the credit of profit and loss account over the estimated average lives of the assets purchased. The balance of £500,000 is being released over the period in which the project is being implemented.

2. SEGMENT INFORMATION:

The whole of the turnover relates to the sales of domestic electrical goods. Turnover by geographical location is as follows -

	1986 £'000s	1985 £'000s
United Kingdom	14,792	21,137
Other countries	1,248	1,114
	<hr/>	<hr/>
	16,040	22,251
	=====	=====



3. OTHER OPERATING EXPENSES (NET):

	1986 £'000s	1985 £'000s
Distribution costs	1,204	2,086
Administrative expenses	787	980
	<u>1,991</u>	<u>3,066</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES:

	1986 £'000s	1985 £'000s
On bank loans, overdrafts and other loans - repayable within five years, by instalments	26	370

5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION:

Profit on ordinary activities before taxation is stated after crediting -

	1986 £'000s	1985 £'000s
Gain on disposal of tangible fixed assets	8	21
Amortisation of government grants	173	475
	<u>181</u>	<u>496</u>
and after charging -		
Depreciation of tangible fixed assets	498	438
Hire of plant and machinery	33	42
Auditors' remuneration	25	20
Staff costs - (Note 6)	4,249	4,933
	<u>4,783</u>	<u>5,473</u>

6. STAFF COSTS:

Particulars of employee costs are shown below -

	<u>1986</u> £'000s	<u>1985</u> £'000s
Employee costs during the period amounted to -		
Wages and salaries	3,824	4,402
Social security costs	378	473
Other pension costs	47	58
	<u>4,249</u>	<u>4,933</u>

The average weekly number of persons employed by the company during the period was 574 (1985 - 724).

	<u>1986</u> £'000s	<u>1985</u> £'000s
Directors' remuneration -		

The employee costs shown above include the following remuneration in respect of directors of the company -

Fees as directors	39	43
Compensation for loss of office	158	-
	<u>197</u>	<u>43</u>

The directors remuneration shown above (excluding pensions and pension contributions) included -

Chairman	£ -	£ -
Highest paid director	£ 19	£ 18

Number of other directors receiving emoluments between -

£ 0 - £ 5,000	7	7
£15,001 - £20,000	1	1

7. TAX ON PROFIT ON ORDINARY ACTIVITIES:

No provision is required in respect of current taxation, on the results for the period as a result of the benefit of the utilisation of losses brought forward.

No deferred tax has been provided because the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is improbable that any liability will crystallise.

The amount of unprovided deferred taxation is as follows -

	1986 £'000s	1985 £'000s
Fixed asset timing differences	1,190	924
Deferred grants	(123)	(9)
Short term timing differences	-	(26)
Losses	(1,050)	(889)
	<u>£ 17</u>	<u>£ -</u>

Unutilised losses carried forward amount to approximately £3.0m (1985 - £3.3m).

8. PRIOR YEAR ADJUSTMENT:

The policy for valuing certain stocks has been changed. Stocks of appliances returned from customers under guarantee are now shown at raw material cost. These were previously shown at raw materials cost plus manufacturing cost. In restating the results for 1985 on the basis of the new policy the cost of sales for that year has been increased by £90,000.

9. TANGIBLE FIXED ASSETS:

The movement in the period was as follows -

	Freehold land and buildings £'000s	Plant, machinery and vehicles £'000s	Fixtures, Fittings, tools and equipment £'000s	Total £'000s
COST				
At 1 May 1985	2,550	4,704	1,674	8,928
Additions	72	197	373	642
Grants receivable	(8)	(22)	(24)	(54)
Disposals	-	(16)	(126)	(142)
At 31 March 1986	<u>2,614</u>	<u>4,863</u>	<u>1,897</u>	<u>9,374</u>

	<u>Freehold land and buildings</u> £'000s	<u>Plant, machinery and vehicles</u> £'000s	<u>Fittings, tools and equipment</u> £'000s	<u>Total</u> £'000s
DEPRECIATION				
At 1 May 1985	186	3,608	767	4,561
Charge for period	92	125	281	498
Disposals	-	(12)	(81)	(93)
	-----	-----	-----	-----
At 31 March 1986	278	3,721	967	4,966
	=====	=====	=====	=====
NET BOOK VALUE				
At 1 May 1985	2,364	1,096	907	4,367
	=====	=====	=====	=====
NET BOOK VALUE				
At 31 March 1986	2,336	1,142	930	4,408
	=====	=====	=====	=====

10. STOCKS:

	<u>1986</u> £'000s	<u>1985</u> £'000s
Raw materials and work in progress	1,517	1,781
Finished goods and goods for resale	4,257	2,459
	-----	-----
	5,774	4,240
	=====	=====

The estimated replacement costs do not differ materially from the above values.

11. DEBTORS:

	<u>1986</u> £'000s	<u>1985</u> £'000s
Amounts falling due within one year -		
Trade debtors	2,570	3,375
Amounts owed by holding company and fellow subsidiaries	315	184
Government grant receivable	500	500
Prepayments and accrued income	324	448
	-----	-----
	3,709	4,507
	=====	=====
Amounts falling due after more than one year -		
Government grant receivable	500	1,000
	-----	-----
	4,209	5,507
	=====	=====

12. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR:

	<u>1986</u> <u>£'000s</u>	<u>1985</u> <u>£'000s</u>
Bank loans and overdrafts (secured)	-	1,331
Trade creditors	3,387	3,502
Amounts owed to holding company and fellow subsidiaries	6,158	973
Other creditors		
- VAT	-	165
- social security and PAYE	235	237
Accruals and deferred income	97	538
	<u>9,877</u>	<u>6,746</u>

The bank overdraft in 1985 was secured by way of a fixed and floating charge over the assets of the company.

13. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:

	<u>1986</u> <u>£'000s</u>	<u>1985</u> <u>£'000s</u>
Borrowings due wholly or in part by instalment after five years -		
Bank loan repayable by five instalments of £700,000 beginning 30 May 1986, repaid early	-	3,500

14. PROVISIONS FOR LIABILITIES AND CHARGES:

	<u>1986</u> <u>£'000s</u>	<u>1985</u> <u>£'000s</u>
Provision for warranty costs	128	152

15. ACCRUALS AND DEFERRED INCOME:

	<u>1986</u> <u>£'000s</u>	<u>1985</u> <u>£'000s</u>
Unamortised government grant	1,352	1,525

16. CALLED UP SHARE CAPITAL:

	<u>1986</u>	<u>1985</u>
Authorised -		
100,000 ordinary shares of £1 each	£ 100,000	£ 100,000
500,000 deferred shares of £1 each	500,000	500,000
	<u>£ 600,000</u>	<u>£ 600,000</u>
Allotted, called-up and fully paid -		
100 ordinary shares of £1 each	£ 100	£ 100
500,000 deferred shares of £1 each	500,000	500,000
	<u>£ 500,100</u>	<u>£ 500,100</u>

17. GUARANTEES AND OTHER FINANCIAL COMMITMENTS:

a. Capital commitments

At the end of the period capital commitments were -

	<u>1986</u> <u>£'000s</u>	<u>1985</u> <u>£'000s</u>
Contracted for	419	149
Authorised but not contracted for	367	402
	<u>786</u>	<u>551</u>

b. Guarantees

The bank facilities of the group are secured by debenture on the assets of the group, including those of the company.

18. ULTIMATE HOLDING COMPANY:

The company's immediate parent company is Morphy Richards Appliances Limited (formerly Morphy Richards Holdings Limited) whose ultimate holding company at 30 April 1985 was MR Investments Limited. Both of these companies are registered in England. On 9 May 1985 the whole of the issue share capital of MR Investments Limited was acquired by Glen Electric Limited which is registered in Northern Ireland. The ultimate holding company is now Glen Dimplex Limited, which is registered in the Republic of Ireland.

19. AUDITORS:

The accounts to 30 April 1985 were audited by KMG Thomson McLintock. The accounts to 31 March 1986 were audited by Arthur Andersen & Co.