

## **COMPANY REGISTRATION NUMBER 03802853**

Mechan Controls PLC Directors' Report And Financial Statements For the Year Ended 31 December 2012

The Directors are pleased to announce our final results for 2012. You will see from the key performance indicators in the directors' report that:

- Consolidated turnover has increased by 39% on last year.
- Consolidated profits before tax have decreased by 12.8% on last year.

The Directors are pleased that the business is continuing to demonstrate turnover growth. The reduction in pre-tax profits is largely due to one off costs as the expanded business is integrated. The full year results show a recovery from the position at the half year. EBITDA is 9% ahead of 2011.

With the increase in shareholders' funds the Directors have decided to maintain the proposed final dividend at £25,200 (2011 £25,200).

**Mr W Boardman - Chairman**

Date: 30 May 2013

The directors have pleasure in presenting their report and the financial statements of the group for the year ended 31 December 2012.

### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

Mechan Controls PLC's principal activity during the year continued to be the research & development in, and manufacture of, electronic safety switches, control units and monitoring devices to provide the safeguarding of personnel and machinery. This market continues to grow World Wide partly due to constantly updated and refined international safety standards and legislation continues to drive demand. This is likely to continue to be the case particularly in developing markets and the third World. The principal activities of the subsidiaries of Mechan Controls PLC during the year were:- Nirvana Engineering (Stafford) Limited's principal activity is to provide manufactured structures for the safe and secure storage of back up power systems within a niche market sector. This is again a growing international market with many power units required for telecoms in the developing and third world. This is an increasing growing section of the telecoms market. Commodity prices, particularly steel very much effect gross margins, happily steel prices have been lower and stable throughout 2012.

PJO Industrial Limited's principal activity during the period continued to be the contracting, sale, hire, and repair of specialist equipment for pipe services ancillary to pipe laying, together with the sale and servicing of equipment for the mining industry. During the year there has been a major upgrading of the accounting system and we were required to rationalise the labour force. The main Coal industry customer is UK Coal, who were forced to close the Maltby pit after an underground collapse in September 2012. This removed a considerable amount of the UK Coal equipment market. Work is being transferred to other UK Coal sites, which will hopefully replace the losses at Maltby. PJO continues to explore global export opportunities in Coal mining equipment supply, but has not yet been successful. Prior to acquisition the electrical area of activity lost a major customer and is still in a rebuilding phase and hoping to develop new opportunities.

PJO Group Limited was a dormant company during the year, holding 100% of the shares of PJO Industrial Limited.

The group's key performance indicators for the year were as follows:

## GROUP KEY PERFORMANCE INDICATORS

	2012	2011
	£	£
Turnover	4,078,929	2,933,193
Gross Profit	1,894,139	1,346,269
Gross Profit %	46.4%	45.9%
Operating Profit	399,911	420,095
Profit before taxation	349,210	400,292
Profit after taxation	241,331	271,490
Net Current Assets	673,548	867,066
Shareholders' Funds	2,217,826	2,014,196
Earnings per share	12.07p	13.57p
Dividends per share	1.89p	1.89p
Net Assets per share	110.89p	100.71p

## ENVIRONMENT

The group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the group's activities. Initiatives designed to minimise the group's impact on the environment includes the safe disposal of waste and reducing energy consumption.

## FUTURE DEVELOPMENTS

The group continues to develop its relationship with its key customers and support them with a flow of new products through our research and development efforts. Our business model of a global network is in place and requires support in the form of new products, keen prices and responsive services. The group continues to expand its global network with various strategic partners. This network has a value in itself and the more products that are passed through, the greater that value becomes.

PJO Industrial Limited has historically concentrated exclusively on the UK market. It is our intention to continue to use our established network of overseas contacts to introduce PJO Industrial Limited's

products, in particular the mining equipment, to that network and we would expect to see some increased activity during the second half of the year.

The first quarter of this year has been a period of consolidation and rationalisation with further rationalisation of the PJO labour force and a determined reduction in general overheads. The result of Coal industry closures and the failure to increase turnover sufficiently swiftly on the test, repair and calibration side will have some impact on the bottom line results. We expect first half results to be in line with expectations.

## **RESULTS AND DIVIDENDS**

The profit for the year, after taxation, amounted to £241,331. Particulars of dividends paid are detailed in note 9 to the financial statements.

## **FINANCIAL INSTRUMENTS**

### **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The group's operations expose it to a variety of financial risks that include the effects of changes in price risk, liquidity risk and credit risk.

The group's principal financial instruments comprise cash deposits, bank loans and invoice discount financing together with trade debtors and trade creditors arising directly from trading.

#### **Price risk**

There is always pressure on prices in what is a competitive and international market. Movement in exchange rates can make a difference of 10% to prices. However, prices are raised appropriately in line with customer expectation, competition and the cost of living index.

## Liquidity risk

As part of our new acquisition financing in 2011, the group continues to use invoice discounting plus acquired new financing of a 4 year term loan.

## Credit risk

We operate normal credit terms and this is specified in some cases in the distribution agreement. This is monitored closely.

As a result of the foregoing, the directors are satisfied with the results of the group for the year and expect the general level of activity and profitability to increase in the forthcoming year.

## **RESEARCH AND DEVELOPMENT**

The Mechan Controls PLC range of switches has more than trebled in the last 10 years. This has been achieved as a result of our extensive and intensive research and development efforts. We have now entered a period of product consolidation with a greater focus on pushing our existing products through our distribution pipeline.

Nirvana Engineering (Stafford) Limited has developed in the last two years two new products which were patented and ready by the second half of 2011. All new lines of potential development are investigated by the company in order to support its customer base. These new products will enhance our efforts to penetrate further into export markets.

PJO Industrial Limited is continuing a programme to refine and develop its capital equipment. In particular the company is responding to specific customer requirements, which include demand for low seam development including an overseas request for low seam development also.

## **DIRECTORS**

The directors who served the company during the year were as follows:

Mr W Boardman - Managing Director

Mr M F Farrah - Technical Director

Mr P K Knowles - Sales & Marketing Director

Mr J Faulkner - Non Executive Director

Mr R Parkinson – (retired 24 May 2013)

Mr R W Shaw

Mr J O' Grady

## **MARKET VALUE OF INTERESTS IN LAND**

The directors consider that the market value of interests in land and buildings as at 31 December 2012 was £165,000. The net book value of land and buildings in the financial statements is £60,566.

## **POLICY ON THE PAYMENT OF CREDITORS**

It is the group's policy that payments to suppliers are made in accordance with the terms and conditions agreed between the company and its suppliers, providing that all terms and conditions have been complied with. The company had 57 days purchases outstanding as at 31 December 2012, based on trade creditors outstanding at that date and purchases made during the year.

## **DIRECTORS' RESPONSIBILITIES**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that year.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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 group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the group's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the material and integrity of the corporate and financial information included on the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**AUDITOR**

A resolution to appoint RSM Tenon Audit Limited as auditor of the company will be proposed at the forthcoming annual general meeting.

Signed on behalf of the directors

**Mr W Boardman**

**Managing Director**

Approved by the directors on 30 May 2013.

We have audited the group and parent company financial statements ("the financial statements") of Mechan Controls PLC for the year ended 31 December 2012 which comprise the Group Profit and Loss Account, The Group and Parent Company Balance Sheets, the Group Cash Flow Statement 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 shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR**

As explained more fully in the Directors' Responsibilities Statement set out on pages 6 to 7, 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 and express an opinion on 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**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2012 and of the group's 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 MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

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

## **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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

**Christopher Moss (Senior Statutory Auditor)**

**For And On Behalf Of**

**RSM Tenon Audit Limited**

**Statutory Auditor**

**Sumner House**

**St. Thomas's Road**

**Chorley**

**Lancashire**

**PR7 1HP**

**Date: 30 May 2013**

<b>Group Turnover</b>	<b>2</b>	<b>4,078,929</b>	<b>2,933,193</b>
Cost of sales		(2,184,790)	(1,586,924)
<b>GROSS PROFIT</b>		<b>1,894,139</b>	<b>1,346,269</b>
Net operating expenses		(1,494,228)	(926,174)
<b>GROUP OPERATING PROFIT</b>	<b>3</b>	<b>399,911</b>	<b>420,095</b>
Interest receivable and similar income		849	2,031
Interest payable and similar charges	<b>6</b>	<b>(51,550)</b>	<b>(21,834)</b>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>349,210</b>	<b>400,292</b>
Tax on profit on ordinary activities	<b>7</b>	<b>(107,879)</b>	<b>(128,802)</b>
<b>PROFIT FOR THE FINANCIAL YEAR 8</b>		<b>241,331</b>	<b>271,490</b>
		=====	=====
		=====	=====
<b>Earnings per share (pence)</b>			
Basic & Diluted	<b>10</b>	<b>12.07p</b>	<b>13.57p</b>
		=====	=====

All of the activities of the group are classed as continuing.

The group has no recognised gains or losses other than the results for the year as set out above.

The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Profit and Loss Account.

**FIXED ASSETS**

Intangible assets	11	1,596,756	1,702,626
Tangible assets	12	198,837	236,880

		<u>1,795,593</u>	<u>1,939,506</u>
--	--	------------------	------------------

**CURRENT ASSETS**

Stocks	1		
		4 529,346	521,544
Debtors	1		
		5 932,460	908,184
Cash at bank and in hand			
		125,072	357,154

		<u>1,586,878</u>	<u>1,786,882</u>
--	--	------------------	------------------

**CREDITORS:**

Amounts falling due within

one year	1	6 913,330	919,816
----------	---	-----------	---------

**NET CURRENT ASSETS**

		<u>673,548</u>	<u>867,066</u>
--	--	----------------	----------------

**TOTAL ASSETS LESS CURRENT LIABILITIES**

		<u>2,469,141</u>	<u>2,806,572</u>
--	--	------------------	------------------

**CREDITORS: Amounts falling due after more than one year**

17	223,488	753,913
----	---------	---------

**PROVISIONS FOR LIABILITIES**

Deferred

taxation

2			
1	27,827	38,463	

		<u>2,217,826</u>	<u>2,014,196</u>
--	--	------------------	------------------

**CAPITAL AND RESERVES**

Called-up

equity share

2			
4	50,000	50,000	

Share premium

2			
5	653,000	653,000	

account			
Profit and	2		
loss account	5	1,514,826	1,311,196
		-----	-----
<b>SHAREHOL</b>			
<b>DERS'</b>	2		
<b>FUNDS</b>	5	2,217,826	2,014,196
		=====	=====
		=====	=====

These financial statements were approved by the directors and authorised for issue on 30 May 2013, and are signed on their behalf by:

.....

**Mr W Boardman - Managing Director**

Company Registration Number: 03802853