COMPANY REGISTRATION NUMBER 03802853

Mechan Controls plc

Directors' Report and Financial Statements

For the Year Ended 31 December 2013

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OFFICERS AND PROFESSIONAL ADVISERS COMPANY INFORMATION

The board of directors	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 W Shaw Mr J O' Grady
Company secretary	Mrs J Elms (appointed 24 May 2013)
Registered number	03802853
Registered office	14/16 Seddon Place Stanley Industrial Estate Skelmersdale WN8 8EB
Accountant	Montpelier Professional (Lancs) Limited Charter House Pittman Way Fulwood Preston Lancashire PR2 9ZD
Auditor	Baker Tilly UK Audit LLP Chartered Accountants & Statutory Auditor Sumner House St Thomas's Road Chorley Lancashire PR7 1HP
Bankers	National Westminster Bank Plc 35 Fishergate Preston PR1 2AD
Solicitors	Marsden Rawsthorn Faraday Court Faraday Drive Fulwood Preston PR2 9NB

MECHAN CONTROLS PLC

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

The Directors are pleased to announce our final results for 2013. You will see from the key performance indicators in the directors' report that:

- Consolidated turnover has decreased by 11.75% on last year.

- Consolidated profits before tax have decreased by 6.3% on last year.

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 13.16% behind that of 2012.

With the increase in shareholders' funds the directors have decided to maintain the proposed final dividend at £25,200 (2012 £25,200).

Mr W Boardman - Chairman

Date: 16 May 2014

The directors present their report and the financial statements of the group for the year ended 31 December 2013.

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

STRATEGIC REPORT

The directors have considered the following within the Strategic Report:

Future Developments
Research and Development
Financial Risk Management Objectives and Policies

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, 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 these 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 the company 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 the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance 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

Baker Tilly Audit Limited (formerly RSM Tenon Audit Limited) ceased trading on 31 March 2014. The directors, having been notified of the cessation of trade of Baker Tilly Audit Limited, appointed Baker Tilly UK Audit LLP as Auditor on 1 April 2014 to fill the casual vacancy. In accordance with the Companies Act 2006 a resolution proposing the appointment of Baker Tilly UK Audit LLP as Auditor will be put to the members.

Each of the persons who is a director at the date of approval of this report confirm that:

- so far as each director is aware, there is no relevant audit information of which the group's auditor is unaware; and
- each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's 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.

Signed on behalf of the directors

Wilf Boardman
Managing Director

Approved by the directors on 16 May 2014

PRINCIPLE 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 backup 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 2013.

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.

Three events totally outside our control, impact on the mining results for the year. Firstly, Daw Mill Colliery in Warwickshire closed after a huge fire and then Maltby Colliery in South Yorkshire closed the following month. UK Coal then went into administration in July 2013, resulting in a £43,000 bad debt for the company.
However the company still retains mining customers and PJO continues to explore global export opportunities in Coal mining equipment supply and has successfully signed a contract for the sale of one mining machine to Russia for completion in July 2014.

The expected increases in trade from Russia and a determined reduction in overheads, is anticipated to neutralise the negative effects of the mine closures.

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

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £228,486 (2012: 241,331). Particulars of dividends paid are detailed in note 10 to the financial statements.

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

GROUP KEY PERFORMANCE INDICATORS

	2013 £	2012 £
Turnover	3,599,793	4,078,929
Gross Profit	1,795,448	1,894,139
Gross Profit %	49.9%	46.4%
Operating Profit	358,752	399,911
Profit before taxation	327,170	349,210
Profit after taxation	228,486	241,331
Net Current Assets	838,285	673,548
Shareholders' Funds	2,408,613	2,217,826
Earnings per share	11.42p	12.07p
Dividends per share	1.89p	1.89p
Net Assets per share	120.43p	110.89p

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 the year.

There has been further 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.

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 acquisition financing, the group continues to use invoice discounting. We are in the happy position that all our banking covenants for each of these facilities are being comfortably met after having been in place for four years.

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 developed in the previous two years two new products for which patents were granted. These products are now being presented in the market place and we are hoping for a successful return. 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 including an overseas request for low seam development.

MARKET VALUE OF INTERESTS IN LAND

The directors consider that the market value of interests in land and buildings as at 31 December 2013 was £165,000. The net book value of land and buildings in the financial statements is £58,928.

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 71 days purchases outstanding as at 31 December 2013, based on trade creditors outstanding at that date and purchases made during the year.

Signed on behalf of the directors

Wilf Boardman
Managing Director

Approved by the directors on 16 May 2014

We have audited the group and parent company financial statements (the "financial statements") on pages 11 to 34. 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 members, 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 members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As more fully explained in the Directors' Responsibilities Statement set out on page 3, 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
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate

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 2013 and of the group's 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 matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and 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)

Baker Tilly UK Audit LLP

For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
Sumner House
St Thomas's Road
Chorley
Lancashire
PR7 1HP

Date: 16 May 2014

MECHAN CONTROLS PLC

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 £	2012 £
Group Turnover	2	3,599,793	4,078,929
Cost of sales	3	(1,804,345)	(2,184,790)
GROSS PROFIT		1,795,448	1,894,139
Net operating expenses	3	(1,436,696)	(1,494,228)
GROUP OPERATING PROFIT	4	358,752	399,911
Interest receivable and similar income		231	849
Interest payable and similar charges	7	(31,813)	(51,550)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		327,170	349,210
Tax on profit on ordinary activities	8	(98,684)	(107,879)
PROFIT FOR THE FINANCIAL YEAR	9	228,486	241,331
Earnings per share (pence)			
Basic & Diluted	11	11.42p	12.07p

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.

The notes on pages 16 to 33 form part of these financial statements.

MECHAN CONTROLS PLC

GROUP BALANCE SHEET

FOR THE 31 DECEMBER 2013

	Note	2013 £	2013 £	2012 £	2012 £
FIXED ASSETS					
Intangible assets	12		1,469,253		1,596,756
Tangible assets	13		174,536		198,837
			1,643,789		1,795,593
CURRENT ASSETS					
Stocks	15	498,260		529,346	
Debtors	16	832,803		932,460	
Cash at bank and in hand		206,656		125,072	
		1,537,719		1,586,878	
CREDITORS: Amounts falling due within one year	17	699,434		913,330	
NET CURRENT ASSETS			838,285		673,548
TOTAL ASSETS LESS CURRENT LIABILITIES			2,482,074		2,469,141
CREDITORS: Amounts falling due after more than one year	18		49,983		223,488
PROVISIONS FOR LIABILITIES					
Deferred taxation	22		23,478		27,827
			2,408,613		2,217,826
CAPITAL AND RESERVES					
Called-up equity share capital	25		50,000		50,000
Share premium account	26		653,000		653,000
Profit and loss account	26		1,705,613		1,514,826
SHAREHOLDERS' FUNDS	26		2,408,613		2,217,826

These financial statements were approved by the directors and authorised for issue on 16 May 2014, and are signed on their behalf by:

....

Mr W Boardman - Managing Director
Director

Company Registration Number: 03802853

The notes on pages 16 to 34 form part of these financial statements.

MECHAN CONTROLS PLC

COMPANY BALANCE SHEET

FOR THE 31 DECEMBER 2013

	Note	2013 £	2013 £	2012 £	2012 £
FIXED ASSETS					
Intangible assets	12		277,824		321,773
Tangible assets	13		79,165		88,184
Investments	14		2,497,161		2,734,538
			2,854,150		3,144,495
CURRENT ASSETS					
Stocks	15	207,723		231,110	
Debtors	16	493,201		395,260	
Cash at bank		26,402		3,260	
		727,326		629,630	
CREDITORS: Amounts falling due within one year	17	363,494		525,740	
NET CURRENT ASSETS			363,832		103,890
TOTAL ASSETS LESS CURRENT LIABILITIES			3,217,982		3,248,385
CREDITORS: Amounts falling due after more than one year	18		1,993,605		1,940,908
PROVISIONS FOR LIABILITIES					
Deferred taxation	22		2,468		3,846
			1,221,909		1,303,631
CAPITAL AND RESERVES					
Called-up equity share capital	25		50,000		50,000
Share premium account	26		653,000		653,000
Profit and loss account	26		518,909		600,631
SHAREHOLDERS' FUNDS			1,221,909		1,303,631

These financial statements were approved by the directors and authorised for issue on 16 May 2014, and are signed on their behalf by:

....

Mr W Boardman - Managing Director
Director

Company Registration Number: 03802853

The notes on pages 16 to 34 form part of these financial statements.

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013		2012	
	£	£	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES		650,012		452,217
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received	231		849	
Interest paid	(31,907)		(54,636)	
Interest element of hire purchase	(828)		(704)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(32,504)		(54,491)
TAXATION		(118,877)		(132,551)
CAPITAL EXPENDITURE				
Payments to acquire intangible fixed assets	–		(21,633)	
Payments to acquire tangible fixed assets	(27,172)		(12,025)	
Receipts from sale of fixed assets	2,600		2,292	
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		(24,572)		(31,366)
EQUITY DIVIDENDS PAID		(37,700)		(37,701)
CASH INFLOW BEFORE FINANCING		436,359		196,108
FINANCING				
Repayment of bank loans	(269,020)		(426,875)	
Net inflow from invoice discounting	15,683		–	
Capital element of hire purchase	(1,438)		(1,315)	
Repayment of directors' loans	(100,000)		–	
NET CASH OUTFLOW FROM FINANCING		(354,775)		(428,190)
INCREASE/(DECREASE) IN CASH		81,584		(232,082)

The notes on pages 16 to 34 form part of these financial statements.

MECHAN CONTROLS PLC

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2013	2012
	£	£
Operating profit	**358,752**	399,911
Amortisation	**127,503**	127,503
Depreciation	**48,952**	54,093
Profit on disposal of fixed assets	**(78)**	(18)
Decrease/(increase) in stocks	**31,086**	(7,802)
Decrease/(increase) in debtors	**101,901**	(22,441)
Decrease in creditors	**(18,104)**	(99,029)
Net cash inflow from operating activities	**650,012**	452,217

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2013		2012	
	£	£	£	£
Increase/(decrease) in cash in the period	**81,584**		(232,082)	
Net cash outflow from bank loans	**269,020**		426,875	
Net cash (inflow) from invoice discounting	**(15,683)**		–	
Cash outflow in respect of hire purchase	**1,438**		1,315	
Cash outflow from directors' loans	**100,000**		–	
Change in net debt resulting from cash flows		**436,359**		196,108
Invoice discounting reclassified as debt		**(7,434)**		–
New finance purchase		**–**		(6,299)
Movement in net debt in the period		**428,925**		189,809
Net debt at 1 January 2013		**(462,312)**		(652,121)
Net debt at 31 December 2013		**(33,387)**		(462,312)

ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 2013	Cash flows	Other changes	At 31 Dec 2013
	£	£	£	£
Net cash:				
Cash in hand and at bank	**125,072**	**81,584**	**–**	**206,656**
Debt:				
Debt due within 1 year	**(366,880)**	**269,020**	**(69,020)**	**(166,880)**
Debt due after 1 year	**(215,520)**	**100,000**	**69,020**	**(46,500)**
Hire purchase agreements	**(4,984)**	**1,438**	**–**	**(3,546)**
Invoice discounting	**–**	**(15,683)**	**(7,434)**	**(23,117)**
	(587,384)	**354,775**	**(7,434)**	**(240,043)**
Net debt	**(462,312)**	**436,359**	**(7,434)**	**(33,387)**

The notes on pages 16 to 34 form part of these financial statements.

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and goodwill calculated being the difference between the fair value of consideration given and fair value of net assets acquired on consolidation, is capitalised and amortised over its estimated useful life up to a maximum of 20 years. The results of of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 408 of the Companies Act 2006.

Turnover

The turnover shown in the profit and loss account represents the invoice value of goods and services provided during the year, exclusive of value added tax. Turnover on sales of safety switches, control and monitoring units and the sale of manufactured structures for safe and secure storage of backup systems and the sale of manufactured machinery to the mining industry is recognised in the accounts on the despatch of the goods to the customer. Income from the hire and repair of specialist equipment for pipe services, ancillary to pipe laying, is recognised in the accounts in the period to which the service relates.

Research and development

Research expenditure is written off in the year in which it is incurred.

Development expenditure is also written off, except where the directors are satisfied as to the innovative nature and technical, commercial and financial viability of clearly defined projects whose outcome can be assessed with reasonable certainty. In such cases, the identifiable expenditure is carried forward and once production commences, amortisation is charged over the period during which the company is expected to benefit.

Patents

Patents are capitalised at cost.

Goodwill

Positive purchased goodwill arising on acquisitions is capitalised, classified as an asset on the Balance Sheet and amortised over its estimated useful life up to a maximum of 20 years. This length of time is presumed to be the maximum useful life of purchased goodwill because it is difficult to make projections beyond this period. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently as and when necessary if events and circumstances emerge that indicate that the carrying value may not be recoverable.

1. ACCOUNTING POLICIES *(continued)*

Development costs

Development expenditure is written off, except where the directors are satisfied as to the innovative nature and technical, commercial and financial viability of clearly defined projects whose outcome can be assessed with reasonable certainty. In such cases, the identifiable expenditure is carried forward and once production commences, amortisation is charged over the period during which the company is expected to benefit.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Goodwill	-	20 Years Straight Line
Development Costs	-	Over 15-20 years
Patents	-	Over the life of the patent

Fixed assets

All fixed assets are recorded at cost together with any incidental expenses of acquisition.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold Property	- 2%	Straight Line
Plant & Machinery	- 25%	Reducing Balance
Equipment for Research & Development	- 25%	Reducing Balance
Fixtures & Fittings	- 25%	Reducing Balance
Motor Vehicles	- 25%	Reducing Balance
Computer Equipment	- 25%	Straight Line
Website Design	- 33.3%	Straight Line
Short Leasehold Property	- 10%	Straight Line\ length of lease

Stocks

Raw materials and stocks of packaging and parts are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Cost is calculated on a first in first out basis. Net realisable value represents the amount recoverable on eventual sale less any costs incurred.

Work in progress

The work in progress is valued on the basis of attributable direct materials and labour depending on the stage reached in the production process. No element of profit is included in the valuation of work in progress.

Direct overheads and labour costs are absorbed into stock and work in progress based on the total direct labour hours utilised in the year. Any work in progress not considered recoverable is written off at the point it becomes irrecoverable and the reclaimable parts of the project are placed back into stock, time spent is written off to the profit and loss.

1. ACCOUNTING POLICIES *(continued)*

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value.

The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account at a constant rate of charge on the balance of capital repayments outstanding.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

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 have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit. Non - Monetary assets and liabilities are measured at historical foreign currency rates and are not retranslated.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

1. ACCOUNTING POLICIES *(continued)*

Going concern

The accounts have been prepared on a going concern basis. Having carried out a detailed review of the company's resources, the directors are confident that the company has sufficient cash flows to meet its liabilities as they fall due for at least one year from the date of approval of the accounts.

Investments

Investments are included at cost less amounts written off. Profits or losses arising from disposals of fixed asset investments are treated as part of the results from ordinary activities.

2. TURNOVER AND SEGMENTAL ANALYSIS

Area of activity	Safety switch production		Safe and secure storage of backup power systems		Contracting, sale, hire and repair of specialist pipe services ancillary to pipe laying for the mining industry		Total	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
TURNOVER								
Continuing operations:								
Sales to third parties	**1,294,380**	1,158,440	**1,639,548**	1,770,193	**665,865**	1,150,296	**3,599,793**	4,078,929
OPERATING PROFIT								
Segment profit:								
Continuing operations	**283,022**	164,245	**276,881**	285,019	**(201,151)**	(49,353)	**358,752**	399,911
Operating profit								
Net interest and income from Investments							**(30,682)**	(50,701)
Profit on ordinary activities before taxation							**327,170**	349,210
NET ASSETS								
Net assets by segment:								
Continuing operations	**1,459,285**	1,303,631	**1,242,241**	1,008,105	**(292,913)**	(93,910)	**2,408,613**	2,217,826

2. TURNOVER AND SEGMENTAL ANALYSIS *(continued)*

Geographical activity	UK	USA	Europe	Total
	£	£	£	2013
TURNOVER				
Continuing operations:				
Sales to third parties	2,909,572	513,041	177,180	3,599,793
OPERATING PROFIT				
Segment profit:				
Continuing operations	204,805	116,815	37,132	358,752
Operating profit				358,752
Net interest and income from Investments				(31,582)
Profit on ordinary activities Before taxation				327,170

Geographical activity	UK	USA	Europe	Total
	£	£	£	2012
TURNOVER				
Continuing operations:				
Sales to third parties	3,403,933	475,544	199,452	4,078,929
OPERATING PROFIT				
Segment profit:				
Continuing operations	297,669	70,926	31,316	399,911
Operating profit				399,911
Net interest and income from Investments				(50,701)
Profit on ordinary activities Before taxation				349,210

There are no material differences when comparing turnover by destination to turnover by origin.

3. COST OF SALES AND NET OPERATING EXPENSES - CONTINUING OPERATIONS

	2013 £	2012 £
Cost of sales	1,804,345	2,184,790
Distribution costs	242,870	292,569
Administrative expenses	1,194,726	1,201,884
Other operating income	(900)	(225)
Net operating expenses	1,436,696	1,494,228

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2013 £	2012 £
Amortisation of government grants re fixed assets	(94)	(125)
Amortisation of goodwill	103,728	103,728
Amortisation of other intangible fixed assets	23,775	23,775
Research and Development expenditure written off	96,661	95,088
Depreciation of owned fixed assets	47,400	51,768
Depreciation of assets held under hire purchase agreements	1,551	2,325
(Profit)/Loss on disposal of fixed assets	(78)	(18)
Operating lease costs:		
- Land and Buildings	97,093	97,000
- Other	8,823	8,822
Net loss/(profit) on foreign currency translation	119	791
Auditor's remuneration – audit of the financial statements :		
:- Mechan Controls PLC	9,000	6,000
:- Nirvana Engineering (Stafford) Limited	6,500	6,000
:- PJO Industrial Limited & PJO Group Limited	4,500	3,000
Auditor's remuneration – other services:		
:- Nirvana Engineering (Stafford) Limited	326	-
Hire of Plant and Equipment	4,808	4,940

5. PARTICULARS OF EMPLOYEES

The average number of staff employed by the group during the financial year amounted to:

	2013 No	2012 No
Number of production staff	**27**	31
Number of administrative staff	**6**	6
Number of management staff	**8**	8
	41	45

The aggregate payroll costs of the above were:

	2013 £	2012 £
Wages and salaries	**1,160,279**	1,252,889
Social security costs	**81,400**	90,786
Other pension costs	**5,834**	8,416
	1,247,513	1,352,091

6. DIRECTORS' REMUNERATION

The directors' aggregate remuneration in respect of qualifying services were:

	2013 £	2012 £
Remuneration receivable	**287,788**	292,419
Value of company pension contributions to money purchase schemes	**1,687**	4,687
	259,475	297,106

Remuneration of highest paid director:

	2013 £	2012 £
Total remuneration (excluding pension contributions)	**74,887**	79,883
Value of company pension contributions to money purchase schemes	**1,687**	1,687
	76,576	81,570

The number of directors who accrued benefits under company pension schemes was as follows:

	2013 No	2012 No
Money purchase schemes	**1**	2

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £	2012 £
Interest payable on bank borrowing	**19,670**	41,132
Finance charges	**828**	704
Other similar charges payable	**11,315**	9,714
	31,813	51,550

8. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2013 £	2012 £
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 23% (2012 - 24%)	**103,030**	118,388
Under provision in prior year	**3**	127
Total current tax (Note 8(b))	**103,033**	118,515
Deferred tax:		
Origination and reversal of timing differences (note 22)		
Capital allowances	**(4,349)**	(10,636)
Tax on profit on ordinary activities	**98,684**	107,879

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 23% (2012 - 24%).

	2013 £	2012 £
Profit on ordinary activities before taxation	**327,170**	349,210
Profit on ordinary activities by the standard rate of tax	**75,249**	83,810
Expenses not deductible for tax purposes	**31,742**	35,270
Capital allowances for period in excess of depreciation	**3,437**	7,760
Research and development relief	**(4,170)**	(4,351)
Differences in tax rates	**(3,228)**	(4,101)
Under provision of corporation tax prior year	**3**	127
Total current tax (note 8(a))	**103,033**	118,515

(c) Factors that may affect future tax charges

The main rate of corporation tax is 23% effective from 1 April 2014 and will be applied to the company's results as appropriate.

The Chancellor stated his intention to further reduce the main rate of corporation tax from 23% to 20% from 1 April 2015. This change has not been substantively enacted at the balance sheet date.

9. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt with in the financial statements of the parent company was £44,022 (2012 - profit £84,256).

10. DIVIDENDS

Equity dividends

	2013	2012
	£	£
Paid during the year:		
Equity dividends on ordinary shares	**37,700**	37,701

For the year ended 31 December 2013 there is a proposed dividend declared after the year end and not provided in the accounts of £25,200, remaining the same as the 2012 final dividend of £25,200.

11. EARNINGS PER SHARE

Earnings per share has been calculated on the net profit on ordinary activities after taxation of £228,486 (2012: £241,331) using the average number of ordinary shares in issue during the year of 2,000,000 (2012: 2,000,000).

12. INTANGIBLE FIXED ASSETS

Group

	Goodwill	Patents & Development Costs	Total
	£	£	£
COST			
At 1 January 2013 and 31 December 2013	**2,074,650**	**273,582**	**2,348,232**
AMORTISATION			
At 1 January 2013	**638,378**	**113,098**	**751,476**
Charge for the year	**103,728**	**23,775**	**127,503**
At 31 December 2013	**742,106**	**136,873**	**878,979**
NET BOOK VALUE			
At 31 December 2013	**1,332,544**	**136,709**	**1,469,253**
At 31 December 2012	1,436,272	160,484	1,596,756

12. INTANGIBLE FIXED ASSETS *(continued)*

Company

	Goodwill	Patents & Development Costs	Total
	£	£	£
COST			
At 1 January 2013 and 31 December 2013	**637,232**	**199,638**	**836,870**
AMORTISATION			
At 1 January 2013	**414,206**	**100,891**	**515,097**
Charge for the year	**31,862**	**12,087**	**43,949**
At 31 December 2013	**446,068**	**112,978**	**559,046**
NET BOOK VALUE			
At 31 December 2013	**191,164**	**86,660**	**277,824**
At 31 December 2012	223,026	98,747	321,773

13. TANGIBLE FIXED ASSETS

Group

	Freehold Property	Leasehold Property	Equipment for Research & Development	Fixtures & Fittings & Plant & Machinery	Other Assets	Total
	£	£	£	£	£	£
COST						
At 1 Jan 2013	**81,900**	**3,959**	**19,979**	**597,145**	**93,038**	**796,021**
Additions	–	–	–	**7,882**	**19,290**	**27,172**
Disposals	–	–	–	–	**(7,000)**	**(7,000)**
At 31 Dec 2013	**81,900**	**3,959**	**19,979**	**605,027**	**105,328**	**816,193**
DEPRECIATION						
At 1 Jan 2013	**21,334**	**1,798**	**18,191**	**484,869**	**70,992**	**597,184**
Charge for the year	**1,638**	**1,535**	**448**	**33,250**	**12,080**	**48,951**
On disposals	–	–	–	–	**(4,478)**	**(4,478)**
At 31 Dec 2013	**22,972**	**3,333**	**18,639**	**518,119**	**78,594**	**641,657**
NET BOOK VALUE						
At 31 Dec 2013	**58,928**	**626**	**1,340**	**86,908**	**26,734**	**174,536**
At 31 Dec 2012	60,566	2,161	1,788	112,276	22,046	198,837

Hire purchase agreements

Included within the net book value of £174,536 is £4,652 (2012 - £5,946) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £1,551 (2012 - £2,325).

13. TANGIBLE FIXED ASSETS *(continued)*

Company

	Freehold Property £	Equipment for Research & Development £	Fixtures & Fittings & Plant & Machinery £	Computer Equipment £	Website design £	Total £
COST						
At 1 Jan 2013	81,900	19,979	127,813	42,396	4,100	276,188
Additions	–	–	2,367	–	–	2,367
At 31 Dec 2013	81,900	19,979	130,180	42,396	4,100	278,555
DEPRECIATION						
At 1 Jan 2013	21,334	18,191	108,627	35,752	4,100	188,004
Charge for the year	1,638	448	5,413	3,887	–	11,386
At 31 Dec 2013	22,972	18,639	114,040	39,639	4,100	199,390
NET BOOK VALUE						
At 31 Dec 2013	58,928	1,340	16,140	2,757	–	79,165
At 31 Dec 2012	60,566	1,788	19,186	6,644	–	88,184

14. INVESTMENTS

Company

	Group companies £
COST & NET BOOK VALUE	
At 1 January 2013	2,734,538
Impairment of investment	(237,377)
31 December 2013	2,497,161

14. INVESTMENTS *(continued)*

Subsidiary undertakings	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Nirvana Engineering (Stafford) Limited	England	Ordinary shares	100%	To provide manufactured structures for the safe and secure storage of back up power systems.
PJO Industrial Limited	England	Ordinary shares	100%	To provide contracting, sale, hire and repair of specialist equipment for pipe services ancillary to pipe laying, and the sale and service of equipment in the mining industry.
PJO Group Limited	England	Ordinary shares	100%	A dormant holding company for PJO Industrial Limited.

All of the above named subsidiary companies have been included in the consolidated accounts of Mechan Controls PLC.

15. STOCKS

	Group		Company	
	2013	2012	**2013**	2012
	£	£	**£**	£
Raw materials	**432,993**	455,164	**183,580**	202,686
Work in progress	**41,124**	45,758	**–**	–
Finished goods	**24,143**	28,424	**24,143**	28,424
	498,260	529,346	**207,723**	231,110

16. DEBTORS

	Group		Company	
	2013	2012	**2013**	2012
	£	£	**£**	£
Trade debtors	**755,079**	844,354	**206,382**	176,368
Amounts owed by group undertakings	**–**	–	**281,701**	213,905
VAT recoverable	**–**	1,787	**–**	1,787
Other debtors	**41,040**	44,780	**–**	–
Directors current accounts	**84**	478	**–**	–
Prepayments and accrued income	**36,600**	41,061	**5,118**	3,200
	832,803	932,460	**493,201**	395,260

17. CREDITORS: Amounts falling due within one year

	Group		Company	
	2013	2012	**2013**	2012
	£	£	**£**	£
Bank loans	**166,880**	266,880	**166,880**	266,880
Trade creditors	**223,748**	232,704	**61,769**	67,846
Hire purchase agreements	**1,564**	1,439	**–**	–
Directors' loan accounts	**48**	100,048	**–**	100,000
Other creditors including taxation and social security:				
Corporation tax	**103,031**	118,875	**65,971**	37,696
PAYE and social security	**44,541**	42,919	**10,385**	9,794
VAT	**38,463**	48,889	**8,264**	–
Other creditors	**65,059**	45,306	**23,486**	23,534
Accruals and deferred income	**56,100**	56,270	**26,739**	19,990
	699,434	913,330	**363,494**	525,740

Group

Amounts due by the group to RBS Invoice Factors Limited of £23,117 (2012: £44,600) are secured by a debenture dated 30 November 2011.

Company

Amounts due by the group to RBS Invoice Factors Limited of £21,409 (2012: £23,534) are secured by a debenture dated 30 November 2011.

Amounts due to the factoring company are secured on the group's book debts.

17. CREDITORS: Amounts falling due within one year *(continued)*

The following liabilities disclosed under creditors falling due within one year are secured by the company:

	Group		Company	
	2013	2012	**2013**	2012
	£	£	**£**	£
Bank loans (note 19)	**166,880**	266,880	**166,880**	266,880
Other creditors	**23,117**	44,600	**21,409**	23,534
Hire purchase agreements	**1,564**	1,439	**–**	–
	191,561	312,919	**188,289**	290,414

18. CREDITORS: Amounts falling due after more than one year

	Group		Company	
	2013	2012	**2013**	2012
	£	£	**£**	£
Bank loans	**46,500**	215,520	**46,500**	215,520
Payments received on account	**1,290**	3,466	**–**	–
Amounts owed to group undertakings	**–**	–	**1,946,894**	1,725,106
Hire purchase agreements	**1,982**	3,545	**–**	–
Accruals and deferred income	**211**	957	**211**	282
	49,983	223,488	**1,993,605**	1,940,908

The following liabilities disclosed under creditors falling due after more than one year are secured by the company:

	Group		Company	
	2013	2012	**2013**	2012
	£	£	**£**	£
Bank loans (note 19)	**46,500**	215,520	**46,500**	215,520
Hire purchase agreements	**1,982**	3,545	**–**	–
	48,482	219,065	**46,500**	215,520

19. CREDITORS - CAPITAL INSTRUMENTS

Creditors include finance capital which is due for repayment as follows:

	Group		Company	
	2013	2012	**2013**	2012
	£	£	**£**	£
Amounts repayable:				
In one year or less or on demand	**166,880**	266,880	**166,880**	266,880
In more than one year but not more than two years	**46,500**	170,880	**46,500**	170,880
In more than two years but not more than five years	**–**	44,640	**–**	44,640
	213,380	482,400	**213,380**	482,400

19. CREDITORS - CAPITAL INSTRUMENTS *(continued)*

The group's bank borrowings are secured by:

- An unlimited inter company composite guarantee with accession between the parent company Mechan Controls PLC and all the UK subsidiary companies. The parent company liability is £Nil, (2012: £Nil).

- Debentures incorporating full, fixed and floating charges over all group UK assets and undertakings.

- A first legal charge over all freehold and long leasehold properties.

- Assignment over key insurance policies.

20. COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

Future commitments under hire purchase agreements are as follows:

	Group		**Company**	
	2013	2012	**2013**	2012
	£	£	**£**	£
Amounts payable within 1 year	**1,564**	1,439	**-**	-
Amounts payable between 2 to 5 years	**1,982**	3,545	**-**	-
	3,546	4,984	**-**	-

21. PENSIONS

The group operates a defined contribution pension scheme on behalf of certain employees. The assets of the scheme are held separately from those of the group in an independently administered fund. Contributions are paid based upon the recommendations of a qualified actuary. The annual commitment under this scheme is for contributions of £5,834 (2012: £8,416).

22. DEFERRED TAXATION

The movement in the deferred taxation provision during the year was:

	Group		**Company**	
	2013	2012	**2013**	2012
	£	£	**£**	£
Provision brought forward	**27,827**	38,463	**3,846**	6,490
Decrease in provision	**(4,349)**	(10,636)	**(1,378)**	(2,644)
Provision carried forward	**23,478**	27,827	**2,468**	3,846

22. DEFERRED TAXATION *(continued)*

The group's provision for deferred taxation consists of the tax effect of timing differences in respect of:

Group	2013 Provided £	2013 Unprovided £	2012 Provided £	2012 Unprovided £
Excess of taxation allowances over depreciation on fixed assets	23,478	-	27,827	-

The company's provision for deferred taxation consists of the tax effect of timing differences in respect of:

Company	2013 Provided £	2013 Unprovided £	2012 Provided £	2012 Unprovided £
Excess of taxation allowances over depreciation on fixed assets	2,468	-	3,846	-

23. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2013 the group had annual commitments under non-cancellable operating leases as set out below.

Group	2013 Land and buildings £	2013 Other items £	2012 Land and buildings £	2012 Other items £
Operating leases which expire:				
Within 1 year	97,000	3,536	97,000	-
Within 2 to 5 years	-	8,823		8,822
	97,000	12,359	97,000	8,822

At 31 December 2013 the company had annual commitments under non-cancellable operating leases as set out below.

Company	2013 Other items £	2012 Other items £
Operating leases which expire:		
Within 2 to 5 years	8,823	-

24. RELATED PARTY TRANSACTIONS

The company was under the control of Mr W Boardman throughout the current and previous year. Mr W Boardman is the managing director and majority shareholder.

During the previous year the director Mr W Boardman,director, provided a loan to Mechan Controls PLC.

Balance owed by the company at 1 January 2013	£100,000
Amounts repaid on 18 January 2013	£100,000
Balance owed by the company at 31 December 2013	£Nil

Interest at 3% per annum totalling £3,000 was charged on the total loan and paid to Mr Boardman on 9 January 2013.

During the year the group paid consultancy fees, at market rate, totalling £11,817 (2012: £12,850) to Mr R Parkinson, a director.

During the year the company paid dividends to the directors as follows:

	2013	2012
	£	£
Mr W Boardman	**19,541**	18,596
Mr M Farrah	**2,111**	2,111
Mr P Knowles	**5,278**	5,504
Mr J Faulkner	**1,131**	1,131
Mr R Parkinson	**1,383**	2,065

25. SHARE CAPITAL

Allotted, called up and fully paid:

	2013		2012	
	No	**£**	No	£
2,000,000 Ordinary shares of £0.025 each	**2,000,000**	**50,000**	2,000,000	50,000

26. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

Group

	Share capital	Share premium account	Profit and loss account	Total share-holders' funds
	£	£	£	£
As at 1 January 2012	50,000	653,000	1,311,196	2,014,196
Profit for the year	–	–	241,331	241,331
Equity dividends	–	–	(37,701)	(37,701)
As at 1 January 2013	50,000	653,000	1,514,826	2,217,826
Profit for the year	–	–	228,487	228,487
Equity dividends	–	–	(37,700)	(37,700)
As at 31 December 2013	50,000	653,000	1,705,613	2,408,613

Company

	Share capital	Share premium account	Profit and loss account	Total share-holders' funds
	£	£	£	£
As at 1 January 2012	50,000	653,000	554,075	1,257,075
Profit for the year	–	–	84,256	84,256
Equity dividends	–	–	(37,700)	(37,700)
As at 1 January 2013	50,000	653,000	600,631	1,303,631
Loss for the year	–	–	(44,022)	(44,022)
Equity dividends	–	–	(37,700)	(37,700)
As at 31 December 2013	50,000	653,000	518,909	1,221,909

27. FINANCIAL INSTRUMENTS

The group's use of financial instruments is not extensive and hence its exposure to risk is limited.

Credit risk
The group's trade debtors which fall outside the usual credit terms but which are still considered recoverable, only account for 6% of the total balance outstanding at the year end. Hence credit risk is not considered to be significant.

Liquidity risk
The group has a strong net current assets position of £838,285 with access to a bank overdraft facility should it be needed and hence liquidity risk is considered low. The cash always remains in or around the target zone set by the directors and hence cashflow risk is considered low.

Market risk
The group has bank loans of £213,380 and is therefore at risk from interest rate rises. However, in the current economic climate interest rates are very unlikely to rise and the group does not envisage any problems with the loan repayments.

Of the group's turnover, 22.54% is generated abroad. Hence, the group is at risk from exchange rate changes. These are monitored and prices would be adjusted if felt appropriate.