

Mechan Controls plc

**Directors' Report and  
Financial Statements**

**For the Year Ended  
31 December 2013**

**MECHAN CONTROLS PLC**

**CHAIRMAN'S STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

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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

# **MECHAN CONTROLS PLC**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2013**

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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.

**MECHAN CONTROLS PLC**

**DIRECTORS' REPORT** *(continued)*

**FOR THE YEAR ENDED 31 DECEMBER 2013**

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**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

## **MECHAN CONTROLS PLC**

### **STRATEGIC REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

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#### **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.

**MECHAN CONTROLS PLC****STRATEGIC' REPORT** *(continued)***FOR THE YEAR ENDED 31 DECEMBER 2013**

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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.

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## **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.

**MECHAN CONTROLS PLC**

**STRATEGIC REPORT** *(continued)*

**FOR THE YEAR ENDED 31 DECEMBER 2013**

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**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

A handwritten signature in black ink, appearing to read 'W. Boardman', written over a horizontal line.

**Wilf Boardman**  
**Managing Director**

Approved by the directors on 16 May 2014



**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MECHAN CONTROLS PLC**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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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.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MECHAN CONTROLS PLC**  
*(continued)*

**FOR THE YEAR ENDED 31 DECEMBER 2013**

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**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 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 £
<b>Group Turnover</b>	<b>2</b>		<b>3,599,793</b>	4,078,929
Cost of sales	<b>3</b>		<b>(1,804,345)</b>	(2,184,790)
<b>GROSS PROFIT</b>			<b>1,795,448</b>	1,894,139
Net operating expenses	<b>3</b>		<b>(1,436,696)</b>	(1,494,228)
<b>GROUP OPERATING PROFIT</b>	<b>4</b>		<b>358,752</b>	399,911
Interest receivable and similar income			<b>231</b>	849
Interest payable and similar charges	<b>7</b>		<b>(31,813)</b>	(51,550)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>			<b>327,170</b>	349,210
Tax on profit on ordinary activities	<b>8</b>		<b>(98,684)</b>	(107,879)
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>9</b>		<b>228,486</b>	241,331
<b>Earnings per share (pence)</b>				
Basic & Diluted	<b>11</b>		<b>11.42p</b>	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 £	2012 £
<b>FIXED ASSETS</b>			
Intangible assets	12	1,469,253	1,596,756
Tangible assets	13	174,536	198,837
		<u>1,643,789</u>	<u>1,795,593</u>
<b>CURRENT ASSETS</b>			
Stocks	15	498,260	529,346
Debtors	16	832,803	932,460
Cash at bank and in hand		206,656	125,072
		<u>1,537,719</u>	<u>1,586,878</u>
<b>CREDITORS: Amounts falling due within one year</b>	17	699,434	913,330
<b>NET CURRENT ASSETS</b>		<u>838,285</u>	<u>673,548</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,482,074</u>	<u>2,469,141</u>
<b>CREDITORS: Amounts falling due after more than one year</b>	18	49,983	223,488
<b>PROVISIONS FOR LIABILITIES</b>			
Deferred taxation	22	23,478	27,827
		<u>2,408,613</u>	<u>2,217,826</u>
<b>CAPITAL AND RESERVES</b>			
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
<b>SHAREHOLDERS' FUNDS</b>	26	<u>2,408,613</u>	<u>2,217,826</u>

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



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**Mr W Boardman - Managing Director**  
**Director**

Company Registration Number: 03802853

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