Eleco Holdings plc

Annual Report & Accounts 1996

Eleco Holdings plc

Company Registration No:

00354915

Report and Accounts

Year ended 30 June 1996

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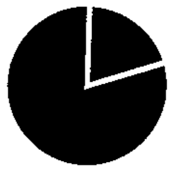
Eleco is developing as a specialised engineered products business, aiming to generate superior value for its customers and shareholders through the use of high level, software based design and support. Coupled with this, the Company continues to pursue an active programme of end market diversification, new product development and productivity improvement.

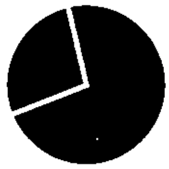
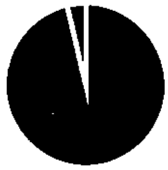
Five Year Summary

	1996 £'000	1995 £'000	1994 £'000	1993 £'000	1992 £'000
Turnover	**25,621**	29,809	52,572	47,893	50,340
(Loss)/profit before taxation	**(667)**	300	(6,308)	(4,820)	(6,077)
Taxation	**(67)**	(89)	(80)	129	170
	(734)	211	(6,388)	(4,691)	(5,907)
Minority interests	**—**	3	(3)	41	—
Dividends	**(194)**	—	—	—	(976)
Retained (loss)/profit	**(928)**	214	(6,391)	(4,650)	(6,883)
Shareholders' funds	**7,707**	6,652	6,426	10,847	14,631
Net (loss)/earnings per share	**(2.2)p**	0.7p	(21.6)p	(15.7)p	(20.0)p
Dividend per share	**0.5p**	nil	nil	nil	3.3p

STRUCTURAL PRODUCTS

	Company activity	% of Group turnover	% of turnover overseas
GANG-NAIL UK	GANG-NAIL SYSTEMS LIMITED MANUFACTURER AND SUPPLIER OF ROOF TRUSS CONNECTOR PLATES AND ASSOCIATED COMPUTER SOFTWARE SYSTEMS.		12%
Eleco GANG-NAIL	ELECO BAUPRODUKTE GMBH SUPPLIER OF ROOF TRUSS CONNECTOR PLATES AND ASSOCIATED COMPUTER SOFTWARE SYSTEMS.		100%
TRI-PLATE	INTERNATIONAL TRUSS SYSTEMS (PTY) LIMITED SUPPLIER OF ROOF TRUSS CONNECTOR PLATES AND ASSOCIATED COMPUTER SOFTWARE SYSTEMS.		100%
stramit	STRAMIT INDUSTRIES LIMITED MANUFACTURER AND SUPPLIER OF SECRET-FIX ROOFING AND PANEL SYSTEMS AND STRAWBOARD PRODUCTS.		13%
Bell & Webster Concrete Limited	BELL & WEBSTER CONCRETE LIMITED MANUFACTURER AND SUPPLIER OF PRE-CAST CONCRETE RETAINING WALLS, TERRACING UNITS AND OTHER CONCRETE PRODUCTS.		0%

ENGINEERED PRODUCTS

Company activity	% of Group turnover	% of turnover overseas
DAVIS INTERNATIONAL MANUFACTURER AND SUPPLIER OF CABLE MANAGEMENT SYSTEMS.		47%
ABTUS LIMITED MANUFACTURER AND SUPPLIER OF RAILTRACK MEASUREMENT SYSTEMS AND MARINE ENGINEERING EQUIPMENT.		0%

SUPPORT SERVICES

Company activity
ELECO TECHNOLOGY LIMITED RESEARCH AND COMPUTER SOFTWARE SYSTEMS DESIGN AND DEVELOPMENT.
WEBSTER PROPERTIES LIMITED MANAGEMENT OF GROUP INVESTMENT AND OPERATING PROPERTIES.

Chairman's Statement

I am most disappointed to report a loss before tax for the year of £0.67m. While I expressed concern at the Annual General Meeting on 1 December 1995 at trading conditions in those markets significant to the Group's operations, the Board did not anticipate, at the time of the rights issue in early January, the delayed recovery in our key markets due to abnormal weather conditions and the prolonged weakness of the building and construction sector.

We commenced the year anticipating a decline in the performance of the Structural Products Division from its excellent performance in 1994/95 to be counterbalanced by a significant improvement in the performance from the Engineered Products Division.

The Structural Products Division remained profitable under difficult market conditions. In particular, the UK housing market, which is a significant influence on the Structural Products Division, continued to decline throughout the year. NHBC statistics for new private housing starts show that in our last quarter these were 14% below the level for the same period in the previous year and this decline was even more marked than that experienced in our third quarter.

Regrettably, the Engineered Products Division showed a major deterioration from its first half performance largely due to the poor performance of the flooring products division. A further burden was put on our businesses by significant raw material cost increases, particularly steel, which had largely to be absorbed by the businesses as severe price competition precluded these being passed on. Our experiences are not dissimilar to those of many companies operating in our end markets.

The Board is conscious that it has so far failed to demonstrate a resolution to the continuing difficulties being encountered by the Group with the profit performance of the Davis electrical products business. As a result of the problems encountered, the separate businesses of Davis Group and Davis Flooring Systems have been reintegrated within Davis International and the management has been significantly strengthened under a new Managing Director. Continuing the progress made in expanding the typically higher margin overseas sales will further improve the outlook for the business.

We have continued to make progress in reducing the debt level of the Group assisted by the net proceeds of the rights issue. During the year, in excess of £1.2m was expended on the continuing programme of investment in the Group's businesses in the form of capital expenditure, research and product and software development and significant further expenditure made against previous loss provisions.

Further proceeds from residual property sales, where the remaining freehold land at Hoddesdon and the last houses at Orsett have been sold, have contributed to total net borrowings falling to £4.9m at 30 June 1996. This compares with £6.0m at 30 June 1995 and £6.7m shortly before the rights issue.

Gearing at 30 June 1996 of 64% compares with 90% last year and 133% at June 1994.

There have been changes to the Board during the year. On 1 December 1995, John Reeve retired and, on 25 April 1996, Bob Paine resigned from the Board. I would like to take this opportunity to thank them for their contributions to the Company's affairs.

We have been seeking since to strengthen the Board and we intend to appoint one or more new non-executive directors during the course of the current year.

Since the end of the financial year, all our companies have reported an upturn in their own business levels. Increasing activity, particularly outside the UK, gives some ground for optimism and I am pleased to report that the Board is recommending the payment of a final dividend of 0.25p, making a total dividend for the year of 0.50p.

While the Group is trading profitably with better order books than have been seen for some time, your Board is cautious about the recent signs of recovery in our domestic markets. We continue to seek to reduce the dependence of our operations on the UK market. Sales to overseas markets accounted for 32% of sales last year compared with 20% just two years ago and we aim to increase further the proportion of overseas sales. In the longer term, I remain confident that Eleco will benefit from the development of new products and the opening of new geographic markets for our products.

F.L.J. Walton

FLJ Walton
Chairman 22 October 1996

We started the year faced with the prospect of difficult market conditions. The many initiatives we were pursuing with regard to market diversification and new product development were designed to enable the Company to weather the difficulties. However, despite the strong internal programs we were not able to overcome the extremes we eventually faced in all our market places. The sudden dissipation of demand from the late Autumn onwards created severe price competition and when coupled with raw material price increases reduced our margins. We were not alone in experiencing these difficulties.

Since 1994, the Company has been focused into the two separate divisions of Structural Products and Engineered Products. In addition to these, we have three support groups in the form of Eleco Technology, Business Development and Group Finance. I outline below the performance and outlook of these activities.

Structural Products Division The Structural Products Division includes our Gang-Nail operations in the UK, Germany, South Africa and Hungary. It also encompasses the Stramit and Bell & Webster Concrete companies.

GANG-NAIL SYSTEMS UK

Gang-Nail was affected by the overall volume reduction in the market place especially that associated with reduced new house building. This reduction was accompanied by severe price pressure from our main competitors attempting to defend their market positions. Despite a fall in sales of some 6% the company produced satisfactory profits, has grown its market share and is now concentrating on restoring its margin. Since the end of the financial year, there has been some pick up in house building. However, it is too early to predict whether this represents a sustained upturn.

During the period we incurred additional costs associated with completing the AutoJig project and the delivery of the next version of Concept design software. The AutoJig project has been delayed due to a number of technical difficulties associated with the use of leading edge CNC controls for a complex machine. These have been resolved and we expect to make our first sales this year. The latest version of the software now requires some 50% less computer capacity to produce enhanced performance. These projects are now effectively complete and it is expected that we will increasingly see the benefits flowing through over time.

During the period we also completed the development of a UK patented system which entails the use of nail plates in the construction of timber frame walling systems. We have already commenced delivery of systems and plates for this product. Called Gang-Nail Walls, the product has the potential to have a significant impact on sales and profits at Gang-Nail. It is intended to secure Agrément Certification for this product thereby making it the only building system with such an approval.

The Gang-Nail Walls project is the first element in our aim to develop a wider range of uses of nail plates in construction. We consider it will be possible to expand these sales to new areas outside the UK.

GANG-NAIL GERMANY

Gang-Nail trades in Germany under the Eleco Bauproduckte and BAT brand names. Both companies were affected by the recession in the German building sector. This was intensified by the long winter from October to March. Despite these difficulties, we have maintained sales by growing our market share. During the period, Vitus Rottmuller, our long serving Technical Director, was appointed as Managing Director. He has made excellent progress with the business since his appointment.

In the coming period, we expect to convert a number of new customers to our systems in both Germany and adjacent regions based on our continuing attention to superior customer service. Increased sales in Germany would lead to an increase in production at our Aldershot production facility, which supplies the plates.

We are in the process of enhancing our software over the coming period such that it will become the leading system in the region. In addition, it is intended that we will launch a number of new products and services during the year that will lead to improved profitability for our products. In conjunction with this, we are investigating the potential to establish local warehousing to improve our supply performance.

During the period, we reached agreement with a third party software house to explore jointly the potential to market engineering software in Germany.

GANG-NAIL SOUTH AFRICA

Gang-Nail operates in the Southern African region under the International Truss Systems brand name. In the early part of the year ITS incurred a number of costs associated with projects that turned out to be inappropriate in view of the outcome from the November elections.

In March, Manny Piyackis, formerly Technical Director, was appointed as Managing Director. This change has coincided with a shift away from the housing based Reconstruction and Development Plan to more community based projects such as schools and hospitals etc. Since that time, there has been a noticeable upturn in confidence and activity. Sales rose in the year by 36% in local currency terms. This upturn has allowed the company to make a positive contribution to the Group's results for the second year as well as laying the base for an improved outlook.

ITS has a strong product development programme involving mechanical equipment such as saws and roller presses making it unique amongst the local suppliers.

ITS is expected to benefit form the expanding activity associated with the strong programme for the development of community facilities in the Republic of South Africa. In addition, the company continues to increase market share on the back of improving customer service and new products.

GANG-NAIL HUNGARY

This new company began operations on 1 July 1996. It is already exceeding our initial expectations. The company is investigating the benefits of establishing additional facilities to serve Hungary as well as the immediate region and Southern Germany. We are involved with a number of consortia targeting reconstruction business in the former Yugoslavia. These projects would have a significant impact on our overall sales of nail plate systems and potentially other Group products such as Stramit's SpeedDeck roofing and Davis' cable management systems.

GANG-NAIL INTERNATIONAL

Over the coming year, it is planned to bring closer co-ordination between our nail plate activities, especially for such issues as plate supply and software development. As part of this process, we are investigating the potential to supply additional plate tonnage in new regions. I am confident that we have significant untapped potential available to our nail plate businesses.

STRAMIT INDUSTRIES

During the period we brought greater divisional focus to reflect more appropriately its activities. The divisions are based around Panel Products, Metal Products and Engineering.

STRAMIT STRAWBOARD AND PANELS

The Strawboard product, which is unique to Stramit in Europe, is marketed under a number of brand names including Easiwall, Rapidwall and Strampak. Its uses include partitioning in houses, offices and factories, archery targets and most recently as a timber substitute in packaging applications.

Sales of Easiwall to its traditional housing market were hard hit by the reduced number of new housing starts over the past year. In addition, severe downward price pressure was exerted by purchasing agents. In the case of Easiwall, this pressure has been accompanied by an increased desire to eliminate the need for wet trades normally associated with this product. Consequently, sales to the housing sector declined by some 30%. Offsetting this was the rapid progress being made by Strampak products. However, these products have a lower margin than that associated with Easiwall.

Over the coming months, it is intended to regenerate Strawboard on the back of a number of product enhancements including the elimination of wet finishing. It is also planned to expand our sales to non-housing applications under the Rapidwall brand. We also expect to make further gains with the Strampak product over the coming year.

With regard to non-Strawboard panels, significant progress was made with adding value to our ranges. This progress has meant that these products made their first contribution to profits during the year. A major effort is being put into convincing new customers to use Stramit to carry out their panel production. Success in increasing sales would lead to fuller utilisation of the production facility.

STRAMIT METAL PRODUCTS

Metal products are principally marketed under the SpeedDeck brand name. Sales increased slightly in the period, however not at a sufficient rate to prevent a slight decline in market share. The failure to maintain market share was mainly due to a conscious effort to maintain margins and delayed delivery of a purpose built machine capable of producing sheets for roofs with a smooth curve finish. This is a complex item of equipment made more so by Stramit's requirement that it successfully curve steel and aluminium roofing sheets. Stramit has now commissioned this machine and is the only UK supplier of steel based curved roofs. Our steel based secret fix roofing is a lower cost solution than the aluminium based competitive product.

A notable success during the year was the design, commissioning and successful use of a roofing production line capable of being operated on our customers' sites. This project was completed in less than six weeks from inception to use on its first project in Holland. The commissioning of this machine allows SpeedDeck to offer longer and more competitively priced sheets than can be supplied from conventional, fixed rolling mills as well as allowing SpeedDeck to compete in export markets.

During the period, we released the RACE ('roofing and cladding estimator') software thereby making SpeedDeck unique in having the only lap top based roofing design and estimating system in the UK. This software was developed by Eleco Technology and represents a significant addition to the quality of service offered by the SpeedDeck division.

All new product activities for Metal Products are on schedule and are having a positive impact on sales prospects. Over the coming period, Stramit intends to enter a number of new markets based on the introduction of new products. Investment requirements for these activities have either been completed or are modest.

During the period, Stramit established a joint venture company in Germany to market SpeedDeck. Sales recorded to date are in line with expectations. The mobile roll former will play a key role in developing this business.

STRAMIT ENGINEERING

During the period, Stramit Engineering successfully completed a number of complex projects including the refurbishment of a Strawboard machine destined for North America, the mobile roll former and smooth curver machines.

It is intended that Stramit Engineering will also produce Gang-Nail's AutoJig machines.

BELL & WEBSTER CONCRETE

Although last year's performance was disappointing, Bell & Webster has started the new year more promisingly with a high order book and an excellent outstanding quotation list. Bell & Webster was very badly affected by the downturn prior to the UK November budget and the severe Winter weather. These adverse influences also impacted at a time when a major competitor became more active in Bell & Webster's traditional retaining wall markets. A number of key orders were lost at very low prices at this time. Consequently, the company had insufficient work to carry it through the Winter which resulted in losses being incurred.

During the year Bell & Webster developed its retaining wall product range by the introduction of the 'Tee' wall and a platform retaining wall unit for the railways. Initial orders have been received for both of these products. New product development has also progressed with a factory engineered 'flat-pack' room system for incorporation in hotels, travel lodges, student accomodation and prisons. A high level of enquiry has been processed for 'flat-pack' systems.

The outlook at Bell & Webster has improved since the Spring such that we expect the company to return to profits this year. High levels of enquiries for precast concrete products are being processed for stadia terracing units, retaining walls and accommodation pods. In addition, the company is now using software, developed by Eleco Technology, for the design and quoting of retaining wall systems. It is planned to extend the use of software to cover other products.

Engineered Products Division The Engineered Products Division now comprises Davis International, the entity resulting from the merger during the year of Davis Group and Davis Flooring Systems, and Abtus.

DAVIS GROUP

In the first half, Davis Group made solid progress, such that satisfactory levels of orders were being achieved while costs were being reduced. The signs were for an improved second half.

Post-Christmas, however, order intake began to decline rapidly in the UK. In conjunction with this decline was a noticeable decrease in market prices. This decline has been ascribed to the de-stocking that occurred throughout the UK in the first half of 1996.

DAVIS FLOORING SYSTEMS

This company exhibited similar trading to Davis Group with a promising first half. However, post-Christmas, the company also experienced a severe decline in UK demand. At the same time, substantial orders were being secured from Asia. The impact of these orders was eventually to overload the factory and as a consequence drive up both manufacturing and shipping costs in order to meet delivery schedules. We have now moved up the learning curve and expect to see an improving performance from all our contract based activities.

At the time of its establishment in early 1995, I signalled that, if separation of the flooring business did not succeed as expected, I would reconsider the organisation structure. We continued beyond June 1995 as it was considered to have a viable separate future. Unfortunately, the prospects for the business were not delivered at the planned level of cost and consequently unplanned losses were sustained especially in the last quarter. The administrative and management structure associated with Davis Flooring has been substantially reduced since the year end and the remainder integrated into Davis International.

DAVIS INTERNATIONAL

In recognition of the increasing international element of the business, Davis International Limited was formed in March 1996 to bring together the activities of Davis Group and Davis Flooring Systems. From 1 July 1996, Derek Henderson, formerly with the BICC Group, was appointed as Managing Director. His recruitment brings to Davis International an executive with cable industry experience coupled with a sound management and financial capability.

Recently, order levels in the UK have begun to recover and, with continuing success in securing export orders, at the end of the first quarter of the current financial year we have orders on hand approaching £1.2 million, the highest level for many years. Following the securing of new UK and export business, it is expected that annual sales will grow, reversing the trend of recent years. In Asia, we expect our associated companies in Hong Kong and Malaysia, established during the period, to contribute to profits. In addition, we expect our Middle East office to be a major source of sales.

Over and above these prospects, we are planning to commence supply of several innovative products and services during the second half. Other possibilities for Davis International include sales to Eastern Europe.

In conjunction with the sales effort, we are continuing to pursue aggressively all cost reduction possibilities especially those associated with distribution and handling costs. Consequently, I am positive regarding the outlook for Davis International.

ABTUS

This company had another very good year producing results in excess of budget. The sales and profit growth achieved by Abtus vindicates our decision two years ago to establish it as a stand alone company. The outlook remains positive for both the rail and defence based parts of the business. Further significant orders for defence products are expected during the year. Increased sales are expected from the rail side on the back of new product development and a recovery in the UK market following rail privatisation. Our next round of new product development will include a significant level of 'on-board' electronics and computing power.

ELECO TECHNOLOGY

By the end of its second year, Eleco Technology had made good progress with its many development projects. In most cases these represented unique advances such as RACE, Gang-Nail Timber, Gang-Nail Walls and ProTruss. During the period three separate patents were lodged.

The outlook is excellent for the coming year. Substantial progress is expected to be made in integrating external software into our development activities in both Germany and the UK. Projects such as Gang-Nail Walls are set to increase revenues. In addition, Eleco Technology is in the process of seeking external funding to contribute to the costs of its development projects.

WEBSTER PROPERTIES

During the period, further reduction in the residual property portfolio was achieved. These transactions were completed close to book values. We now have only two remaining freehold investment properties. Both of these produce satisfactory yields. By the end of the period, the outlook associated with our remaining leaseholds had improved.

We continue to target a reduction in the albeit now small property portfolio with further disposals of remaining freeholds and reduction of our leaseholds. These disposals may have a slight cost associated with them such as rent free periods and loss of rental income on transfer. Nevertheless, the longer term result is expected to be beneficial to the Group.

Business Development The Business Development Group has played a key role in progressing many projects that could not be undertaken unsupported by our operating companies. These include the start up in Hungary, investigating new markets and prospective acquisitions.

Over the course of the coming year, key projects will include completion of the Hungarian establishment as well as research into establishing Gang-Nail businesses in new regions, the introduction of new software based services and the Private Finance Initiative. Members of the Business Development Group will continue to be involved with our training and safety programmes as well as assisting our companies with their marketing and selling activities.

Strategic Development The strategy to achieve and improve the profitability of Eleco encompasses four threads, being value adding, end market diversification, new product development and internal productivity improvement.

We have an active programme to add value to our products through the incorporation of engineering expertise via unique software packages. This programme builds on the software development capability of Eleco Technology which has been at the heart of the development of the Gang-Nail businesses for many years. Packages released over the past year include Concept 6.6.1, RACE 1.0, Wall 1.0, ProTruss and TrussCon. Further packages are planned for release in the next year.

The end market diversification activities have been aimed at lessening the dependence of the Company on the UK construction sector. This entails developing new local markets as well as entering overseas markets which use the expertise of our companies. New areas opened up in the last year include Hungary, the Czech Republic, Macedonia, the USA, Malaysia and Hong Kong. Overseas sales have risen 50% in the three years to June 1996 and now represent 32% of total sales.

All our companies are committed to a strong product development programme. This complements our market diversification activities. During the 1996/97 year, a substantial number of new products will be released in all our companies. The products are aimed at either increasing our market share or entering new markets with innovative products. Project Management and Marketing are used to the full to ensure successful developments.

Throughout Eleco, there is a constant search for better ways to serve our customers. Considerable emphasis is placed on safe working practices, cost reduction via our Profit Improvement Plans and training. Over the past three years, there have been a large number of courses undertaken by our employees. The results of all these efforts has seen sales per employee grow 20% over the three years to June 1996.

Independent of the strong internal programmes, we are active in seeking out and researching suitable acquisition targets. Over the past year, a considerable number have been analysed. However, to date none have adequately met the criteria we have set. We intend to maintain this activity in the coming year.

In Summary The 1995/96 year was very disappointing given the level of support that our customers, shareholders and employees have given the Company. Market circumstances played a not insignificant role in delaying the improvement in profitability that the Company seeks. Despite the difficulties of the last year, we have made progress with many of our development projects. These are now having a beneficial impact on our activities which we expect to increase over the course of the coming year. However, our immediate prospects are dependent on the revival of house building and construction activity and will be influenced by the run up to the General Election in 1997. Nevertheless, given the strength of our own programmes, we are cautiously optimistic for the current year's results.

Peter Callaghan
Chief Executive 22 October 1996

Results The Chairman's Statement and Chief Executive's Review include full explanation of the operating loss for the period of £33,000. The Structural Products Division contributed an operating profit of £1,217,000, down 53% on the previous year. The Engineered Products Division contributed losses of £844,000, a reduction of 8% on the previous year. Property activities and central costs contributed an operating loss of £435,000.

Exceptional losses for the year, which relate to costs suffered in the period in respect of a leasehold property assigned by the Group in 1989, amounted to £107,000.

Net interest payable of £527,000, compares with the underlying £685,000 in the previous year (after adjusting for amounts provided for in previous periods). The reduction principally results from the reduced level of average borrowings over the period. The taxation charge on the loss for the year reflects the charging in the period of £61,000 of the deferred tax asset brought forward from earlier periods when the tax credit was taken on losses provided for in those periods. It has been adjudged appropriate, in the context of the structure of future reliefs available within the Group, to carry forward £141,000 and write off the balance. The Group has available £417,000 of surplus ACT which will be available in future periods to mitigate the charge to tax of a number of Group companies.

Earnings/dividend The loss per share was 2.2p (1995: earnings 0.7p). Before exceptional items, the equivalent loss per share was 1.9p (1995: earnings 3.4p).

As a result of a Group reorganisation of subsidiary shareholdings carried out during the year, the adverse balance on the Company's profit and loss account at 30 June 1995 was eliminated without the need for shareholders' approval or confirmation of the Court.

The directors have recommended a final dividend of 0.25p making a total for the year of 0.50p.

Shareholders' funds At 30 June 1996, shareholders' funds amounted to £7,707,000 compared with £6,652,000 at 30 June 1995. The principal movements were the loss retained for the year of £928,000 and the increase in called up share capital of £891,000 and the increase in the share premium account of £1,158,000 resulting from the issue of 8,914,553 new ordinary shares through the rights issue in February 1996.

Funding The Group's net borrowings at 30 June 1996 amounted to £4,928,000 compared to £5,995,000 at 30 June 1995, representing gearing of 63.9% (1995: 90.1%). During the year, £2,049,000 net of expenses was raised through the proceeds of the rights issue and £612,000 proceeds realised on disposal of investment properties.

In February 1996, £3,720,000 of the Group's overdraft borrowings were restructured to a term basis and at 30 June 1996 £2,320,000 remained outstanding for a term of more than 1 year, including £1,001,000 for a term of greater than 5 years. Up to £841,000 would be repayable earlier than term from the proceeds of sale of certain investment properties and other assets.

Capital expenditure Capital expenditure on tangible fixed assets during the year amounted to £589,000 and represented 77% of equivalent depreciation. Replacement expenditure totalled £148,000 while £441,000 was invested in new facilities and equipment. In addition, £81,000 was invested in the establishment of associated undertakings overseas.

Cash flow Free cash flow, representing the cash available for the payment of dividends, net acquisitions and financing items, was an outflow of £1,267,000 compared with an inflow of £2,216,000 in the previous year, which was principally generated from assets sales of discontinued activities. Of the net cash outflow from operating activities of £612,000, £1,455,000 was due to the increase in working capital including the reduction in prior periods' provisions for losses.

Summary Group cash flow

	Year ended 30 June 1996 £'000	Year ended 30 June 1995 £'000
Cash flow from continuing operations	**(425)**	979
Cash flow from discontinued activities and exceptional items	**(294)**	1,948
Capital expenditures net of sale proceeds	**(18)**	(62)
Interest	**(530)**	(687)
Tax	—	38
Free cash flow	**(1,267)**	2,216
Disposals	**340**	340
Repayment of principal under finance leases	**(235)**	(299)
Net proceeds of rights issue	**2,049**	—
Net cash inflow	**887**	2,257
Exchange adjustment	**15**	(53)
Reduction in bank borrowings	**902**	2,204

Going concern After making appropriate enquiries, the directors have a reasonable expectation that Eleco Holdings plc and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to use the going concern basis in preparing the accounts of the Company and the Group.

DS Dannhauser
Finance Director 22 October 1996

Board of Directors and Company Advisers

Field Walton*, BTech (Hons), MSc, CEng, FIEE, FIMgt

A Board member since 1983 and appointed non-executive Chairman in 1987. He is a director of Martin International Holdings plc, Temple Bar Investment Trust plc and other companies. Age 56.

Peter Callaghan, Dip Tech, MBA

Chief Executive

Appointed Chief Executive in July 1993. He was previously Deputy Chairman of Camford Engineering Limited. Age 45.

David Dannhauser, MA, ACA

Appointed Finance Director in February 1994. He was previously a director of Caverdale Group PLC. Age 41.

Alan Plumpton*, CBE, BSc, FEng, FIEE, CIMgt

Appointed as a non-executive director in December 1992. Currently Chairman of Schlumberger plc, Manx Electricity Authority and Beaufort Management Consultants Limited. Age 69.

Secretary

Philip J Gravett, BSc, FCA

Registered office

Belcon House
Essex Road
Hoddesdon
Herts EN11 0DR

Registered number

354915

Auditors

Coopers & Lybrand

Bankers

Barclays Bank plc

Brokers

Cazenove & Co.

* Member of the Audit and Remuneration Committees

Financial Public Relations

Hudson Sandler

Merchant bankers

Morgan Grenfell & Co. Limited

Registrars and transfer office

Independent Registrars Group Limited
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Solicitors

Berwin Leighton
Hewitson Becke & Shaw

Financial Calendar

2 December 1996	Annual General Meeting 10.00am at Belcon House Essex Road Hoddesdon Herts EN11 0DR
February 1997	Announcement of half-year results
Ordinary shares — Dividends	
Interim	
26 April 1996	Announced
7 May 1996	Ex-dividend
15 May 1996	Record date
10 July 1996	Payment date
Final	
23 October 1996	Announced
4 November 1996	Ex-dividend
12 November 1996	Record date
9 January 1997	Payment date

Compliance The Company complies with the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance. The auditors' report concerning such compliance appears on page 19. The Board currently consists of two executive directors and two non-executive directors and the Board has maintained the following committees throughout the year.

Audit Committee The Audit Committee, which consists of the non-executive directors and is chaired by FLJ Walton, has specific terms of reference and meets at least twice a year. It reviews the financial statements prior to its recommendation to the Board for approval and assists the Board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place. The auditors attend its meetings as normally do the executive directors.

Remuneration Committee The Remuneration Committee, which consists of the non-executive directors and is chaired by A Plumpton, is responsible for advising on remuneration policy for senior executives and for determining the remuneration packages of the executive directors.

Nomination Committee The Nomination Committee comprises the Chairman and at least one other non-executive director. It is responsible for nominating, for the approval of the Board, candidates for appointment to the Board.

Internal Financial Control The Board is responsible for the Group's systems of internal financial control. These are designed to give reasonable, though not absolute, assurance as to the reliability of financial information, the maintenance of proper accounting records, the safeguarding of assets against unauthorised use or disposition and that the Group's businesses are being operated effectively and efficiently. The directors have established an organisational structure with clear lines of responsibility and delegated authority.
The systems include:

- the appropriate delegation of responsibility to operational management
- financial reporting, within a comprehensive financial planning and accounting framework, including the approval by the Board of the detailed annual budget and the regular consideration by the Board of actual results compared with budgets and forecasts
- clearly defined capital expenditure and investment control guidelines and procedures
- monitoring of business risks, with key risks identified and reported to the Board.

The Board is enabled to monitor the systems of internal financial control by the provision of reports from relevant directors and senior executives of business units on the operation of those elements of the systems for which they are responsible. The Board also reviews reports from external auditors.
The Board has reviewed the effectiveness of the Group's systems of internal financial control.

Going Concern The financial statements, which appear on pages 20 to 38, have been prepared on a going concern basis as, having made appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

1 Composition of the Remuneration Committee

The Remuneration Committee consists entirely of the non-executive directors, under the chairmanship of A Plumpton. The Committee, in determining its proposals, is provided with access through the Company to external professional advice and support. The executive directors attend the meetings when the Committee discusses matters concerning senior executives within the Group other than the executive directors.

2 Policy on remuneration of executive directors and senior executives

a) The Remuneration Committee aims to ensure that the remuneration packages offered are competitive and designed to attract, retain and motivate executive directors and senior executives of the right calibre.

b) The remuneration of the executive directors comprises four elements:

i) a basic salary together with benefits-in-kind (such as company car, private petrol and medical insurance).

ii) a performance related bonus based on the Group's performance. The executive directors are contractually entitled to a bonus scheme, but the basis of bonus targets for Group profit performance and/or the achievement of key tasks, and the amount to be paid is determined by the Remuneration Committee.

iii) a contribution to the personal pension schemes of the executive directors based solely on basic salary. The contribution rates are below the funding cost were the executive directors members of one of the Group schemes.

iv) share options granted under the Eleco Holdings' Executive Share Option Scheme.

c) EXECUTIVE DIRECTORS' CONTRACTS

The executive directors have service agreements which provide for notice period for termination of one year.

d) INCENTIVES

i) *Annual bonus*

Senior executives within the Group currently receive a monetary bonus related to the profits of the part of the Group's operations for which they are responsible for the specific financial year in question.

ii) *Share options*

The Committee believes that share ownership by executive directors and senior executives strengthens the link between their personal interests and those of shareholders. In June 1996 the Committee recommended to the Board and the Board agreed to grant options pursuant to the terms of the Eleco Holdings Executive Share Option Scheme over 199,000 unissued ordinary shares at an exercise price of 20p.

The Eleco Holdings Executive Share Option Scheme was approved by shareholders in 1986 and will shortly expire. The Committee proposals for a replacement Scheme will be tabled to shareholders for approval in due course.

iii) *Long Term Incentive Plan*

The Committee is considering the introduction of a Long Term Incentive Plan, to be based on share, rather than cash benefits and designed to encourage continuing improvement of the Group's performance over the longer term by emphasising the alignment of interests between the participants, the executive directors and senior executives, and shareholders. Any proposals of the Committee in this regard will be tabled for approval by shareholders.

e) NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive directors is determined by the Board. The non-executive directors do not have service contracts, and cannot participate in any of the Group's share option or pension schemes.

3 Directors' emoluments

The emoluments of the directors for the years to 30 June 1996 and 1995 were:

	Basic salary £'000	Fees £'000	Benefits £'000	Bonus £'000	Total emoluments excluding pensions 1996 £'000	1995 £'000	Pension contributions 1996 £'000	1995 £'000
Executive								
PW Callaghan	97	5	7	—	**109**	119	**16**	13
DS Dannhauser	85	5	7	—	**97**	99	**9**	8
Non-executive								
FLJ Walton	—	25	—	—	**25**	25	—	—
A Plumpton	—	15	—	—	**15**	15	—	—
RA Paine	—	13	—	—	**13**	—	—	—
JF Reeve	—	6	—	—	**6**	15	—	—
Total	**182**	**69**	**14**	**—**	**265**	**273**	**25**	**21**
Total 1995	185	65	12	11	273		21	

During the year, the Company paid £34,810 (1995: £33,101) for consultancy fees and expenses provided in the normal course of business by Tymrate (UK) Limited, a company of which PW Callaghan is a director and has a material interest.

4 Directors' shareholdings

The interests in the ordinary shares of 10p each of the Company of the directors who held office at 30 June 1996, all of which were beneficial interests, were as follows:

	30.6.96	30.6.95
FLJ Walton	**44,200**	34,000
PW Callaghan	**320,000**	145,000
DS Dannhauser	**13,000**	10,000
A Plumpton	**13,000**	10,000

There have been no changes in the directors' interests in the shares of the Company from 30 June 1996 to the date of this report.

5 Directors' options

	Ordinary shares under option 30.6.96	Granted during year	30.6.95	Option price
PW Callaghan	**230,134**	—	230,134*	25.42p*
DS Dannhauser	**153,423**	—	153,423*	25.42p*

*Options held at 30 June 1995 as adjusted following the Rights Issue.

The options, which were granted for nil consideration, are held under the Eleco Holdings Executive Share Option Scheme and can be exercised during the period from 18 October 1997 to 17 October 2004. None of the directors holds options under the Eleco Holdings SAYE Share Scheme.

The middle market price of the shares on 30 June 1996 was 20p and the range during the year was 17p to 36p.

On behalf of the Board

A Plumpton
Chairman, Remuneration Committee

22 October 1996

The directors present their report and the audited financial statements for the year ended 30 June 1996.

Review of the business The Group's principal activities include the manufacture and supply of structural products and engineered products, and investment property. A list of the principal operating subsidiaries is set out on page 39.
The accompanying Chairman's Statement and Chief Executive's Review provide a more detailed description of activities for the year and prospects for the future.

Results for the year The Group loss on ordinary activities before taxation was £667,000 (1995: profit £300,000).
The detailed financial statements of the Group are set out on pages 20 to 38.

Dividends An interim dividend of 0.25p per share was paid. The directors recommend the payment of a final dividend of 0.25p per share which will be paid on 9 January 1997 to shareholders on the register on 12 November 1996.

Share capital and share option schemes On 7 February 1996, 8,914,553 new ordinary shares were issued pursuant to the rights issue announced on 16 January 1996. On 3 June 1996, options were granted to directors and senior executives pursuant to the terms of the Eleco Holdings Executive Share Option Scheme over 199,000 unissued ordinary shares exercisable between 3 June 1999 and 2 June 2006 at an exercise price of 20 pence per share.
Further details of share capital and share option schemes are shown in note 24 to the financial statements.

Fixed assets The Group's investment properties were last professionally valued at 30 June 1993 on an open market basis for existing use. The directors have assessed the value of investment properties at 30 June 1996 with the assistance of qualified members of the Group's staff, and consider that there is no difference between market and book values.
The majority, in number and value, of property assets held for own use are held at cost less depreciation. In view of the state of the property market, it is likely that the open market value of these properties is less than book value but the directors consider that there has been no permanent diminution in their value.

Directors and their interests The current composition of the Board of Directors is shown on page 12.
JF Reeve retired as a director on 1 December 1995 and RA Paine resigned as a director on 25 April 1996.
A Plumpton, who does not have a service contract with the Company of duration of one year or more retires by rotation and offers himself for re-election.
Details of the interests of each director in, and options over, the share capital of the Company, together with details of interests in contracts entered into by Group companies are shown in the Remuneration Committee Report on pages 14 to 15.

Directors' responsibilities in relation to financial statements The following statement, which should be read in conjunction with the Report of the Auditors set out on page 19, is made so shareholders may distinguish between the respective responsibilities of the directors and of the auditors in relation to the financial statements.
The directors are required by the Companies Act 1985 to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.
The directors consider that, in preparing the financial statements, the Company has used appropriate accounting policies, applied consistently and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The directors have responsibility for ensuring that accounting records are kept which disclose with reasonable accuracy the financial position of the Company and the Group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

Substantial interests As at 22 October 1996, the Company has been notified of the following interests in the issued share capital of the Company.

	Number of shares	Percentages
Schroder Investment Management Limited	5,268,000	13.64
Mercury Asset Management Group Plc	4,810,302	12.45
Lowland Investment Company PLC	3,278,443	8.49
Caparo (LTI) Limited	3,131,270	8.11
Rights and Issues Investment Trust PLC	2,225,000	5.76
Pilot Investment Trust Plc	1,740,000	4.50
Imperial Group Pension Trust Limited	1,165,706	3.02

The shares noted above in the name of Mercury Asset Management Group Plc are held on behalf of and allocated to pension funds. In particular, British Rail Pension Trustee Company Limited holds 3,460,388 ordinary shares representing 8.96%.

Research and development Product innovation and development is a continuous process. The Group commits resources to the development of new products and quality improvement of existing products and processes in all its business segments.

CREST is the new settlement system developed by CRESTCo Limited, that became operational in July 1996. CREST is a voluntary system, which will give the shareholders the choice of holding and transferring their shares in either electronic or paperform. Shareholders who wish to retain their certificates will be able to continue to do so.

The Board gives notice to shareholders in accordance with the Uncertificated Securities Regulations 1996 ('the Regulations'), that on 22 October 1996, the Company resolved by a resolution of its directors that title to the ordinary shares of 10p each in the capital of the Company, in issue or to be issued, may be transferred by means of a relevant system. The resolution of the directors will become effective from 2 December 1996.

The above notice is the notice that the Company is obliged to give to its members, under the Regulations, of the passing of a 'directors' resolution' (as defined in the Regulations) in relation to its ordinary shares. The directors' resolution will enable the Company's ordinary shares to join CREST in due course, the planned date being 13 January 1997.

The shares have not become transferable by means of the CREST system merely by virtue of the passing of the directors' resolution, nor will they become so by virtue of the directors' resolution becoming effective; the permission of the operator of the system, CRESTCo Limited, must also be given before the shares can become so transferable.

The effect of the directors' resolution is to disapply, in relation to the ordinary shares, those provisions of the Company's Articles of Association that are inconsistent with the holding and transfer of those shares in CREST and any provision of the Regulations, as and when the shares concerned enter the CREST system.

Employee involvement The Group is committed to a policy of involvement by keeping employees fully informed regarding its performance and prospects. Employees are encouraged to present their suggestions and views. The Group operates an executive share option scheme and a savings related share option scheme. A profit related pay scheme for UK employees was introduced for the year commencing on 1 July 1996.

Employment of disabled persons It is the Group's policy to encourage the employment, training and advancement of disabled persons and suitable employment would, if possible, be found for any employee who becomes disabled during the course of employment.

Company's policies regarding payment of suppliers The Company's policy is to settle the terms of payment with suppliers when agreeing the terms on which the Company will transact business with them, ensure that suppliers are made aware of the terms of payment and operate within the credit periods permitted by the suppliers.

Charitable contributions During the year the Group made no charitable contributions.

Close company Eleco Holdings plc is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Annual General Meeting Resolutions are included in the Notice of Annual General Meeting to be submitted as Special Business, the texts of which are included in the Notice of Meeting set out on page 40.

By order of the Board

P J Gravett
Secretary
Belcon House
Essex Road
Hoddesdon
Herts EN11 ODR

22 October 1996

Auditors' Report on Corporate Governance

REPORT BY THE AUDITORS TO ELECO HOLDINGS PLC ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the directors' statement on page 13 concerning the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which are not disclosed.

Basis of opinion We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control, or its corporate governance procedures, nor on the ability of the Group or Company to continue in operational existence.

Opinion With respect to the directors' statements on internal financial control on page 13 and going concern on page 13, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.
Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 13 appropriately reflects the Company's compliance with the other paragraphs of the Code specified in our review.

Coopers & Lybrand
Coopers & Lybrand
Chartered Accountants and Registered Auditors
Cambridge

6 November 1996

Auditors' Report

TO THE MEMBERS OF ELECO HOLDINGS PLC

We have audited the financial statements on pages 20 to 38.

Respective responsibilities of directors and auditors As described on page 16 the directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.
We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 June 1996 and of the loss, total recognised loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Coopers & Lybrand
Chartered Accountants and Registered Auditors
Cambridge

6 November 1996

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 30 JUNE 1996

	Notes	1996 £'000	1996 £'000	1995 £'000	1995 £'000
Turnover					
Continuing operations	2, 3	**25,305**		26,347	
Discontinued operations	2, 3	**316**		3,462	
			25,621		29,809
Cost of sales	3		**(16,813)**		(20,060)
Gross profit	3		**8,808**		9,749
Operating (loss)/profit					
Continuing operations	3	**(62)**		1,200	
Discontinued operations	3	**29**		145	
Prior year provisions	3	—		215	
Total operating (loss)/profit			**(33)**		1,560
Loss on sale of discontinued operations	4	—		(991)	
Less prior year provisions		—		417	
			—		(574)
Loss on termination of discontinued operations		—		(938)	
Less prior year provisions		—		758	
			—		(180)
Loss on disposal of tangible asset			**(107)**		—
(Loss)/profit on ordinary activities before interest			**(140)**		806
Interest receivable	7	**32**		12	
Interest payable	8	**(559)**		(697)	
Less prior year provisions		—		179	
			(527)		(506)
(Loss)/profit on ordinary activities before taxation	9		**(667)**		300
Taxation	10		**(67)**		(89)
(Loss)/profit on ordinary activities after taxation			**(734)**		211
Minority interests			—		3
(Loss)/profit attributable to members of the holding company			**(734)**		214
Dividends	11		**(194)**		—
Retained (loss)/profit for year	25		**(928)**		214
(Loss)/earnings per 10p ordinary share					
Net basis	12		**(2.2)p**		0.7p

Note of Historical Cost Profits and Losses

FOR THE YEAR ENDED 30 JUNE 1996

	1996 £'000	1995 £'000
Reported (loss)/profit on ordinary activities before taxation	**(667)**	300
Realisation of property revaluation gains of previous years	**619**	184
Difference on depreciation based upon cost and valuation	**2**	5
Historical cost (loss)/profit on ordinary activities before taxation	**(46)**	489
Historical cost (loss)/profit on ordinary activities after taxation, minority interests and dividends	**(307)**	403

Statement of Total Recognised Gains and Losses

FOR THE YEAR ENDED 30 JUNE 1996

	1996 £'000	1995 £'000
(Loss)/profit for the financial year	**(734)**	214
Currency translation differences on foreign currency net investments	**(66)**	12
Total recognised (losses)/gains for the year	**(800)**	226

Reconciliation of Movements in Shareholders' Funds

FOR THE YEAR ENDED 30 JUNE 1996

	1996 £'000	1995 £'000
(Loss)/profit for the financial year	**(734)**	214
Other recognised gains and losses relating to the year (net)	**(66)**	12
Issue of shares	**2,049**	—
Dividends	**(194)**	—
Net increase of shareholders' funds	**1,055**	226
Opening shareholders' funds	**6,652**	6,426
Closing shareholders' funds	**7,707**	6,652

Consolidated Balance Sheet

AT 30 JUNE 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Intangible assets	13	118	113
Tangible assets	14	7,194	8,114
Investments	15	81	—
		7,393	8,227
Current assets			
Stocks	18	4,907	5,171
Debtors	19	7,275	6,572
Cash at bank and in hand		231	173
		12,413	11,916
Creditors: amounts falling due within one year	20	(9,483)	(12,296)
Net current assets/(liabilities)		2,930	(380)
Total assets less current liabilities		10,323	7,847
Creditors: amount falling due after more than one year	21	(2,538)	(713)
Provisions for liabilities and charges	22	(78)	(482)
Net assets		7,707	6,652
Capital and reserves			
Called up share capital	24	3,863	2,972
Share premium account	25	4,434	3,276
Merger reserve	25	367	794
Revaluation reserve	25	659	1,280
Profit and loss account	25	(1,616)	(1,670)
Shareholders' funds		7,707	6,652

The financial statements on pages 20 to 38 were approved by the Board of Directors on 22 October 1996 and signed on its behalf by:

P W Callaghan
Director

Company Balance Sheet

AT 30 JUNE 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	14	65	83
Investments	15	15,390	14,266
		15,455	14,349
Current assets			
Debtors	19	1,552	356
Cash at bank and in hand		1,695	—
		3,247	356
Creditors: amounts falling due within one year	20	(2,988)	(5,968)
Net current assets/(liabilities)		259	(5,612)
Total assets less current liabilities		15,714	8,737
Creditors: amounts falling due after more than one year	21	(2,119)	(40)
Provisions for liabilities and charges	22	(3,963)	(2,864)
Net assets		9,632	5,833
Capital and reserves			
Called up share capital	24	3,863	2,972
Share premium account	25	4,434	3,276
Merger reserve	25	—	7,930
Profit and loss account	25	1,335	(8,345)
Shareholders' funds		9,632	5,833

The financial statements on pages 20 to 38 were approved by the Board of Directors on 22 October 1996 and signed on its behalf by:

P W Callaghan
Director

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 1996

	Notes	1996 £'000	1995 £'000
Operating activities			
Net cash (outflow)/inflow from continuing operating activities	26	**(425)**	979
Net cash (outflow)/inflow from discontinued operating activities	26	**(187)**	1,948
Net cash (outflow)/inflow from operating activities		**(612)**	2,927
Returns on investment and servicing of finance			
Interest received		**32**	5
Interest paid		**(521)**	(609)
Interest element of finance lease rentals		**(41)**	(83)
Net cash outflow from returns on investments and servicing of finance		**(530)**	(687)
Tax received		**—**	38
Investing activities			
Purchase of fixed assets		**(594)**	(1,258)
Investments in associated undertakings		**(81)**	—
Sale of tangible fixed assets		**657**	1,196
Loss on disposal of tangible fixed asset		**(107)**	—
Sale of subsidiary undertakings	29	**340**	340
Net cash inflow from investing activities		**215**	278
Net cash (outflow)/inflow before financing		**(927)**	2,556
Financing			
Issue of ordinary shares net of expenses		**2,049**	—
New bank loans		**3,720**	99
Repayment of principal under finance leases		**(235)**	(299)
Repayment of bank loans		**(1,148)**	(175)
Net cash inflow/(outflow) from financing	27	**4,386**	(375)
Increase in cash and cash equivalents	28	**3,459**	2,181

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 1996

1 Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. However, compliance with SSAP 19 'Accounting for investment properties', requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the result of the departure is given in the note relating to tangible fixed assets below. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention, as modified by the revaluation of certain fixed assets.

BASIS OF CONSOLIDATION

The Group financial statements consolidate the accounts of Eleco Holdings plc and its subsidiaries for the year ended 30June.

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account for the Company is not included.

The results of subsidiaries acquired or sold in the year are included in the consolidated profit and loss account from or up to the date control passes. Intra group sales and profits are eliminated fully on consolidation.

GOODWILL

Goodwill arising on consolidation, representing the excess of purchase price over the fair value of the identifiable net assets acquired, is written off immediately against retained profits as it arises except where merger relief is available under Section131 of the Companies Act 1985, when it is set off against the merger reserve arising.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of foreign subsidiaries are translated into sterling at the rate of exchange ruling at the end of the financial year and results of foreign subsidiaries are translated at the average rate of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies, and from the translation of the results of those companies at an average rate, are taken to reserves and reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account for the year in which they arise.

INTANGIBLE FIXED ASSETS

Development costs arising from research and development are capitalised and written off in accordance with the policies noted for research and development below.

TANGIBLE FIXED ASSETS

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. The cost of land and buildings includes interest paid on funds specifically taken out to finance assets in the course of construction.

Land and buildings for own use are included in the financial statements at historical cost, or at external valuation. The directors consider the value of land and buildings each year, with the assistance of qualified members of the Group's staff. Where a permanent diminution in value arises, it is incorporated into the financial statements. Valuation surpluses and temporary deficits are taken directly to the revaluation reserve, as are permanent deficits to the extent that a surplus on the same asset has been created in the past, with the excess being charged to the profit and loss account.

In accordance with SSAP 19, investment properties are externally valued at least every five years and in the intervening years these valuations are updated by the directors with the assistance of qualified members of the Group's staff. Any surplus or deficit arising upon valuation is transferred to a revaluation reserve. No depreciation is provided in respect of freehold investment properties or leasehold investment properties with over 20 years to run. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted accounting principles set out in SSAP 19. The directors consider that to depreciate these properties would not give a true and fair view, but that a true and fair view is given by following SSAP 19 as described above. If this departure from the Act had not been made the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified, because of lack of analysis of the cost and value as between land and buildings.

DEPRECIATION

Depreciation is provided on all tangible fixed assets, except freehold land, investment properties and assets in the course of construction, at rates calculated to write off the cost or valuation, less the estimated residual value of each asset, evenly over its expected useful life as follows:

Freehold buildings	– up to 50 years
Leasehold property	– over the term of the lease
Plant, equipment and vehicles	– 2 to 10 years

1 Accounting policies (continued)

STOCKS AND WORK IN PROGRESS

Stocks, including work in progress, are valued at the lower of cost and net realisable value. Cost is the cost of direct materials and labour plus attributable overheads based on the normal level of activity. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and on disposal.

Development land and buildings are included in the balance sheet as current assets at the lower of cost and net realisable value. Cost for this purpose comprises the cost of acquisition and development expenditure incurred up to the accounting date. Interest is included in cost only to the extent that it arises on finance raised specifically for the acquisition or development. Where the cost of development properties exceeds net realisable value, provisions are made against the excess and charged to the profit and loss account.

FINANCE AND OPERATING LEASES

i) AS LESSOR: Rental income in respect of investment property held for letting is credited to the profit and loss account in the period to which it relates.

ii) AS LESSEE: Leasing agreements, which transfer to the Group substantially all of the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright ("finance leases"). Assets acquired under finance leases are capitalised in the balance sheet as tangible fixed assets and are depreciated accordingly. The capital element of the lease commitments is shown as obligations under finance leases. The capital element of finance lease rentals is applied to reduce the outstanding obligations and the interest element of the rental obligations is charged to the profit and loss account over the period of the lease in proportion to the reducing capital balance outstanding. Amounts paid under operating leases are charged to the profit and loss account as incurred.

RESEARCH AND DEVELOPMENT

Activities in research and development are concentrated on the initiation and development of new products and processes and the introduction of improvements in existing products and manufacturing processes. Research costs and software development costs are written off as incurred, whilst development costs on new products other than software are capitalised as intangible fixed assets, and written off in line with the sales of new products over a maximum of five years. Costs are only capitalised in respect of specific projects, where the expenditure is separately identifiable, and the successful outcome of the project can be identified with reasonable certainty.

PENSION COSTS

The Group operates two defined benefit pension schemes, which provide benefits based on final pensionable pay. The defined benefit schemes are valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. Pension costs are accounted for on the basis of charging the expected cost of pensions over employees' working lives. The effects of variation from regular cost are spread over the expected average remaining service lives (estimated at 10 years by the actuary) of members of the scheme.

TURNOVER

Turnover, which excludes value added tax, sales between Group companies and trade discounts, represents the invoiced value of goods and services supplied.

DEFERRED TAXATION AND ADVANCE CORPORATION TAX

Deferred taxation is provided using the liability method in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Advance corporation tax and losses which are available to reduce the corporation tax payable on future profits are deducted from the provision.

Recoverable advance corporation tax, other than that arising in respect of dividends payable or proposed at the balance sheet date, is written off unless it is expected to be recoverable out of corporation tax arising on profits or income of the succeeding accounting period. The tax on amounts charged to the profit and loss account for which taxation relief will only be available in future accounting periods is recognised as a deferred tax asset to the extent that it is prudent to assume that future taxable profits will be sufficient to utilise the losses arising.

2 Turnover and segmental analysis

Group turnover, profits and net assets were attributable as follows:

	Sales						Profit/(loss)	
CLASS OF BUSINESS	Total 1996 £'000	Inter-Segment 1996 £'000	Third Parties 1996 £'000	Total 1995 £'000	Inter-Segment 1995 £'000	Third Parties 1995 £'000	1996 £'000	1995 £'000
Continuing activities								
Structural products	**18,876**	**(1,326)**	**17,550**	19,375	(883)	18,492	**1,217**	2,590
Engineered products	**8,637**	**(882)**	**7,755**	8,121	(266)	7,855	**(844)**	(914)
Property	—	—	—	—	—	—	**(25)**	206
Corporate	—	—	—	—	—	—	**(410)**	(682)
Total continuing	**27,513**	**(2,208)**	**25,305**	27,496	(1,149)	26,347	**(62)**	1,200
Discontinued activities								
Housing development	**316**	—	**316**	1,754	—	1,754	**(34)**	(22)
Other	—	—	—	1,794	(86)	1,708	**63**	382
Total discontinued	**316**	—	**316**	3,548	(86)	3,462	**29**	360
Exceptional losses							**(107)**	(754)
Net interest							**(527)**	(506)
(Loss)/profit before taxation							**(667)**	300

Other discontinued activities comprise Construction and Distribution Services activities which were discontinued during the year ended 30 June 1994.

	Sales						Profit/(loss)	
GEOGRAPHIC SEGMENT BY ORIGIN	Total 1996 £'000	Inter-Segment 1996 £'000	Third Parties 1996 £'000	Total 1995 £'000	Inter-Segment 1995 £'000	Third Parties 1995 £'000	1996 £'000	1995 £'000
United Kingdom	**24,318**	**(2,001)**	**22,317**	27,746	(1,235)	26,511	**(177)**	685
Mainland Europe	**2,226**	**(207)**	**2,019**	2,303	—	2,303	**16**	105
Rest of World	**1,285**	—	**1,285**	995	—	995	**21**	16
	27,829	**(2,208)**	**25,621**	31,044	(1,235)	29,809	**(140)**	806
Net interest							**(527)**	(506)
(Loss)/profit before taxation							**(667)**	300

	Sales	
GEOGRAPHIC SEGMENT BY DESTINATION	1996 £'000	1995 £'000
United Kingdom	**17,549**	23,379
Mainland Europe	**3,876**	3,965
Rest of World	**4,196**	2,465
	25,621	29,809

2 Turnover and segmental analysis (continued)

	Net assets 1996 £'000	Net assets 1995 £'000
CLASS OF BUSINESS		
Continuing activities		
Structural products	**6,737**	6,357
Engineered products	**3,701**	4,244
Property	**2,327**	2,163
Corporate	**(299)**	(247)
Discontinued activities		
Housing development	**174**	462
Other	**—**	(540)
Net operating assets	**12,640**	12,439
Unallocated net assets/(liabilities)		
Net bank and lease finance debt	**(4,928)**	(5,995)
Corporate tax	**189**	208
Dividends	**(194)**	—
	7,707	6,652

	1996 £'000	1995 £'000
GEOGRAPHIC SEGMENT		
United Kingdom	**12,169**	12,079
Mainland Europe	**142**	141
Rest of World	**329**	219
Net operating assets	**12,640**	12,439

3 Turnover, cost of sales and other operating income and expenses

	1996 Continuing £'000	1996 Discontinued £'000	1996 Total £'000	1995 Continuing £'000	1995 Discontinued £'000	1995 Total £'000
Turnover	**25,305**	**316**	**25,621**	26,347	3,462	29,809
Cost of sales	**16,481**	**332**	**16,813**	17,081	3,497	20,578
Reversal of prior year property development provisions	—	—	—	—	(518)	(518)
	16,481	**332**	**16,813**	17,081	2,979	20,060
Gross profit	**8,824**	**(16)**	**8,808**	9,266	483	9,749
Distribution costs	**1,517**	**—**	**1,517**	1,719	—	1,719
Selling and administration expenses	**7,389**	**(45)**	**7,344**	6,663	407	7,070
Reversal of prior year property development provisions	—	—	—	—	(69)	(69)
	8,906	**(45)**	**8,861**	8,382	338	8,720
Less:						
Other operating income	**20**	**—**	**20**	316	—	316
Net operating expenses	**8,886**	**(45)**	**8,841**	8,066	338	8,404
Operating profit/(loss)	**(62)**	**29**	**(33)**	1,200	145	1,345
Reversal of prior year provisions	—	—	—	—	215	215
	(62)	**29**	**(33)**	1,200	360	1,560

4 Loss on sale of discontinued operations

	1996 £'000	1995 £'000
Loss and provision for losses on sale of operations	—	991
Goodwill charged on disposals	—	—
	—	991

5 Employee information

The average monthly number of employees during the year, including directors, was made up as follows:

	1996 Number	1995 Number
Management	**30**	34
Production and sales	**270**	294
Administration	**41**	50
	341	378

Staff costs during the year, including directors, but excluding compensation for loss of office, amounted to:

	1996 £'000	1995 £'000
Wages and salaries	**6,154**	6,764
Social Security costs	**546**	598
Pension costs (note 6)	**81**	257
	6,781	7,619

6 Pension costs

The Group operates two defined benefit pension schemes, being the Eleco Holdings Retirement & Benefits Scheme and the Eleco Holdings Employees Pension Fund, which provide benefits based on final pensionable pay. The assets of the schemes are held in separate trustee administered funds. Contributions into the defined benefit pension schemes are determined by a qualified actuary on the basis of triennial valuations.

The total pension cost for the year was £81,000 (1995: £257,000). The cost includes the regular pension cost less the amortisation of an experience surplus of £882,000 shown by the 1993 valuation of the Eleco Holdings Retirement & Benefits Scheme, as adjusted for the significant reduction in the number of employee members following the disposal of subsidiary undertakings since that valuation.

Formal valuation reports were completed in October 1996 for the Eleco Holdings Retirement & Benefits Scheme (as at 1 July 1996) and the Eleco Holdings Employees Pension Fund (as at 6 April 1996) on the projected unit and attained age methods respectively.

The assumptions that have the most significant effect on the valuations are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 9% per annum, that salary increases would average 7.5% per annum, and that present and future pensions would increase at the rate of 3% per annum.

At the date of the latest actuarial valuations, the total market value of the schemes' assets, together with their actuarial funding level as a percentage of accrued benefits after allowing for future increases in earnings, were £9.0 million and 115%.

7 Interest receivable

	1996 £'000	1995 £'000
Bank and other interest receivable	**32**	12

8 Interest payable

	1996 £'000	1995 £'000
On bank loans, overdrafts and other loans		
Repayable within 5 years, not by instalments	**413**	526
Repayable within 5 years, by instalments	**58**	64
Repayable wholly or partly in more than 5 years	**32**	—
On finance leases	**41**	84
Other	**15**	23
	559	697

9 (Loss)/profit on ordinary activities before taxation

(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION IS STATED AFTER CHARGING/(CREDITING)	1996 £'000	1995 £'000
Loss/(profit) on disposal of tangible fixed assets	**11**	(126)
Depreciation charge for the year:		
Tangible owned fixed assets	**760**	746
Tangible fixed assets held under finance leases and hire purchase agreements	**106**	98
Auditors' remuneration for:		
Audit (Company £30,000; 1995: £23,000)	**110**	113
Other services to the Company and its UK subsidiaries	**63**	48
Research and development	**800**	649
Hire of plant, machinery and vehicles – operating leases	**210**	152
Hire of other assets – operating leases	**1,154**	1,258
EXCEPTIONAL CHARGES/(CREDITS)		
Litigation costs net of insurance recoveries	—	(216)

A further £75,000 of fees were paid to the auditors for their report in respect of the rights issue. This amount has been charged directly to the share premium account.

10 Taxation

Corporation tax at 33% (1995: 33%) on the result for the year comprises:

	1996 £'000	1995 £'000
Overprovision in respect of prior years' corporation tax payable	—	(2)
Deferred – current year	**67**	91
	67	89

The Group has tax losses to carry forward against future profits of certain continuing operations of approximately £4,500,000. The total amount of surplus ACT carried forward is £417,000 (1995: £369,000).

11 Dividends

	1996 pence per share	1995 pence per share	1996 £'000	1995 £'000
Ordinary shares				
Interim	**0.25**	—	**97**	—
Proposed final	**0.25**	—	**97**	—
	0.50	—	**194**	—

12 (Loss)/earnings per share

The calculation of (loss)/earnings per share on the net basis is based on the loss attributable to members of the holding company of £734,000 (1995: profit £214,000) and on 33,246,900 (1995: 29,715,178) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

13 Intangible fixed assets

GROUP	Development costs £'000
Cost	
At 1 July 1995	**113**
Additions	**5**
At 30 June 1996	**118**
Amounts written off	
At 1 July 1995 and 30 June 1996	—
Net book value at 30 June 1996	**118**
Net book value at 30 June 1995	113

These costs will be written off in accordance with the accounting policy stated in note 1 to the financial statements.

14 Tangible fixed assets

GROUP	Investment properties freehold £'000	Land and buildings £'000	Plant equipment and vehicles £'000	Total £'000
Cost or valuation				
At 1 July 1995	1,226	4,040	8,155	13,421
Additions at cost	—	20	639	659
Disposals	(625)	—	(270)	(895)
Exchange difference	—	—	(91)	(91)
At 30 June 1996	**601**	**4,060**	**8,433**	**13,094**
Analysis of properties:				
Valuation – 1986 to 1993	601	1,072		
Cost	—	2,988		
	601	4,060		

GROUP	Investment properties long leasehold £'000	Land and buildings £'000	Plant equipment and vehicles £'000	Total £'000
Accumulated depreciation				
At 1 July 1995	—	599	4,708	5,307
Charge for the year	—	55	811	866
Disposals	—	—	(227)	(227)
Exchange difference	—	—	(46)	(46)
At 30 June 1996	—	**654**	**5,246**	**5,900**
Net book value at 30 June 1996	**601**	**3,406**	**3,187**	**7,194**
Net book value at 30 June 1995	1,226	3,441	3,447	8,114

14 Tangible fixed assets (continued)

Land and buildings net book values comprise:

	1996 £'000	1995 £'000
Freehold property	**3,268**	3,295
Short leasehold land	**10**	10
Improvement to leasehold premises	**128**	136
	3,406	3,441

The net book value of plant, equipment and vehicles includes an amount of £553,000 (1995: £630,000) in respect of assets held under finance leases and hire purchase agreements.

On an historical cost basis, the original cost and related depreciation of revalued tangible fixed assets are:

GROUP	Investment properties freehold £'000	Land and buildings £'000	Total £'000
Cost			
At 1 July 1995	269	3,732	4,001
Additions	—	20	20
Disposals	(5)	—	(5)
At 30 June 1996	**264**	**3,752**	**4,016**
Accumulated depreciation			
At 1 July 1995	—	614	614
Charge for the year	—	54	54
Disposals	—	—	—
At 30 June 1996	**—**	**668**	**668**
Net historical cost at 30 June 1996	**264**	**3,084**	**3,348**
Net historical cost at 30 June 1995	269	3,118	3,387

The Group's investment properties were valued on an open market basis by Weatherall Green & Smith, a firm of independent Chartered Surveyors, as at 30 June 1993. As noted in the Directors' Report on page 16, the directors consider there to be no material difference between market and book value.

COMPANY	Plant, equipment and vehicles £'000
The tangible fixed assets of Eleco Holdings plc consist entirely of plant, equipment and vehicles	
Cost	
At 1 July 1995	214
Additions	22
Intra group transfers	14
Disposals	(21)
At 30 June 1996	**229**
Accumulated depreciation	
At 1 July 1995	131
Charge for the year	36
Intra group transfers	13
Disposals	(16)
At 30 June 1996	**164**
Net book value at 30 June 1996	**65**
Net book value at 30 June 1995	83

The net book value of plant, equipment and vehicles includes an amount of £53,000 (1995: £56,000) in respect of assets held under finance leases and hire purchase agreements.

15 Investments

GROUP

Investments of £81,000 represent investments at cost in the shares of associated undertakings, all of which were acquired during the year. As the directors consider that the results of the associated undertakings are immaterial this year, no equity accounting has been applied.

	Investment in subsidiaries		
COMPANY	Shares at cost £'000	Long term loans £'000	Total £'000
Cost			
At 1 July 1995	21,747	13,914	35,661
Disposals	(250)	—	(250)
Additions	9	945	954
At 30 June 1996	**21,506**	**14,859**	**36,365**
Provisions			
At 1 July 1995	8,479	12,916	21,395
Disposals	(250)	—	(250)
Decrease in provisions	(170)	—	(170)
At 30 June 1996	**8,059**	**12,916**	**20,975**
Net book value at 30 June 1996	**13,447**	**1,943**	**15,390**
Net book value at 30 June 1995	13,268	998	14,266

All of the investments were unlisted. A list of the Group's principal operating companies is set out on page 39.

16 Operating lease obligations

The Group has the following annual commitments as at 30 June 1996 in respect of non-cancellable operating leases which expire:

	1996 Property £'000	1996 Other £'000	1995 Property £'000	1995 Other £'000
Within one year	**105**	**89**	9	66
Between two and five years	**134**	**153**	493	132
After five years	**562**	—	716	—
	801	**242**	1,218	198

The property leases are subject to periodic rent reviews. The Group has annual rental income in respect of property sub-leases of £360,000.

17 Capital commitments

Capital expenditure contracts of £75,000 (1995: £98,000) have been placed with suppliers at 30 June 1996.

18 Stocks

	1996 £'000	1995 £'000
Raw materials and components	**919**	1,095
Work in progress	**1,687**	1,650
Finished goods	**2,143**	2,259
Other	**158**	167
	4,907	5,171

19 Debtors

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
DUE WITHIN ONE YEAR:				
Trade debtors	**6,290**	5,290	**19**	12
Amounts due from subsidiary undertakings	—	—	**510**	128
Dividends receivable from subsidiary undertakings	—	—	**750**	175
Other debtors	**245**	547	**67**	27
Prepayments and accrued income	**551**	527	**158**	14
Deferred tax (note 23)	**141**	208	—	—
Advance corporation tax recoverable	**48**	—	**48**	—
	7,275	6,572	**1,552**	356

20 Creditors: amounts falling due within one year

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Bank loans (see below)	**875**	197	**684**	—
Bank overdrafts (see below)	**1,640**	5,023	—	111
Trade creditors	**4,862**	4,270	**337**	167
Amounts due to subsidiary undertakings	—	—	**1,532**	5,493
Other taxation and social security	**546**	491	**75**	39
Obligations under finance leases	**106**	235	**19**	15
Other creditors	**288**	927	**107**	64
Accruals and deferred income	**972**	1,153	**40**	79
Proposed dividend	**194**	—	**194**	—
	9,483	12,296	**2,988**	5,968

The bank loans and bank overdrafts are secured by fixed and floating charges over the Group's assets.

21 Creditors: amounts falling due after more than one year

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Bank loans (see below)	**2,320**	459	**2,080**	—
Obligations under finance leases	**218**	254	**39**	40
	2,538	713	**2,119**	40

The bank loans are secured by fixed and floating changes over the Group's assets.

Bank loans and overdrafts are repayable as follows:				
In one year or less	**2,515**	5,220	**684**	111
Between one and two years	**1,064**	203	**892**	—
Between two and five years	**255**	256	**187**	—
After more than five years	**1,001**	—	**1,001**	—
	4,835	5,679	**2,764**	111

21 Creditors: amounts falling due after more than one year (continued)

The principal commitments of the Group under finance leases are repayable as follows:

	1996 £'000	1995 £'000
In one year or less	**106**	235
Between one and two years	**93**	85
Between two and five years	**125**	169
	324	489

22 Provisions for liabilities and charges

GROUP	Provisions on sale or termination of operations £'000
At 1 July 1995	482
Utilised	(246)
Transfer from/(to) profit and loss account	(158)
At 30 June 1996	**78**

COMPANY	Provisions for losses in subsidiaries £'000
At 1 July 1995	2,864
Utilised	(68)
Transfer from/(to) profit and loss account	1,167
At 30 June 1996	**3,963**

23 Deferred taxation

	Group £'000	Company £'000
At 1 July 1995	(208)	—
Transfer to profit and loss account	67	—
At 30 June 1996	**(141)**	—

The total deferred taxation (asset)/liability to date based on a corporation tax rate of 33% (1995: 33%) comprises:

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Accelerated relief on capital expenditure	**(78)**	(77)	—	—
Other timing differences	**(63)**	(131)	—	—
	(141)	(208)	—	—

The deferred taxation asset is included in debtors (note 19).

The total deferred taxation (asset)/liability not provided based on a corporation tax rate of 33% (1995: 33%) comprises:

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Accelerated relief on capital expenditure	**84**	685	**(33)**	(13)
Other timing differences	**(84)**	(685)	—	4
	—	—	**(33)**	(9)

24 Called up share capital

Ordinary shares of 10p each	Authorised Number	Authorised £'000	Allotted and fully paid Number	Allotted and fully paid £'000
At 1 July 1995	39,500,000	3,950	29,715,178	2,972
Issued by way of rights	—	—	8,914,553	891
At 30 June 1996	**52,720,000**	**5,272**	**38,629,731**	**3,863**

On 7 February 1996, 8,914,553 new ordinary shares were issued at a price of 28 pence per share pursuant to the rights issue announced on 16 January 1996. An Extraordinary General Meeting was held on 9 February 1996 at which the authorised share capital was increased by the creation of 13,220,000 additional ordinary shares.

The following options to subscribe for ordinary shares granted under various share option schemes were outstanding at 30 June 1996.

ELECO HOLDINGS EXECUTIVE SHARE OPTION SCHEME

Date of grant	Number of ordinary shares under option	Exercise price per share	Exercise period From	Exercise period To
05.04.1991	88,988	63.55p	05.04.1994	04.04.2001
18.10.1994	756,883	25.42p	18.10.1997	17.10.2004
03.06.1996	199,000	20.00p	03.06.1999	02.06.2006

The options, which were granted for nil consideration, may be exercised in certain circumstances earlier than the dates given.

ELECO HOLDINGS SAYE SHARE SCHEME

Date of grant	Number of ordinary shares under option	Exercise price per share	Exercise period From	Exercise period To
01.05.1991	264,796	44.00p	01.05.1996	31.10.1996

The options, which were granted for nil consideration, may be exercised in certain circumstances earlier than the dates given.

25 Reserves

GROUP	Share premium £'000	Merger reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 July 1995	3,276	794	1,280	(1,670)
Exchange difference	—	—	—	(66)
Realisation of merger reserve on capital reorganisation	—	(427)	—	427
Realised revaluation surplus on the sale of investment properties	—	—	(619)	619
Arising on rights issue (net of expenses charged)	1,158	—	—	—
Transfer	—	—	(2)	2
Retained loss for the year	—	—	—	(928)
At 30 June 1996	**4,434**	**367**	**659**	**(1,616)**

COMPANY	Share premium £'000	Merger reserve £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 July 1995	3,276	7,930	—	(8,345)
Realisation of merger reserve on capital reorganisation	—	(7,930)	—	7,930
Arising on rights issue (net of expenses charged)	1,158	—	—	—
Retained profit for the year	—	—	—	1,750
At 30 June 1996	**4,434**	**—**	**—**	**1,335**

On 28 December 1995, the Company transferred its shareholdings in Stramit Industries Limited and Gang-Nail Systems Limited to Eleco Building Products Limited a wholly owned subsidiary of Eleco Holdings plc. Accordingly, the Merger Reserve of £7,503,000 created in the balance sheet of the Company on their original acquisition has been transferred to the profit and loss account. In addition, an amount of £427,000 included in the Merger Reserves of both the Company and the Group relating to subsidiaries disposed of in prior years has been transferred to the profit and loss accounts of both the Company and the Group.

25 Reserves (continued)

The revaluation reserve includes £338,000 (1995: £957,000) in respect of surpluses on the revaluation of investment properties. The transfer from revaluation reserve to the profit and loss account comprises the difference between the depreciation charge for the year based on revalued amounts and the depreciation charge for the year based on cost.

Accumulated goodwill charged to Group reserves at 30 June 1996 in respect of retained businesses is £8,704,000 (1995: £8,704,000).

26 Reconciliation of operating (loss)/profit to net cash flow from operating activities

	Continuing		Discontinued	
	1996 £'000	1995 £'000	**1996 £'000**	1995 £'000
Operating (loss)/profit	**(62)**	1,200	**29**	360
Depreciation charge	**865**	819	**—**	25
Loss/(profit) on sale of tangible fixed assets	**11**	(123)	**—**	(3)
(Decrease)/increase in provisions	**(291)**	(135)	**(113)**	(951)
(Decrease)/increase in accruals	**(51)**	(564)	**(127)**	(499)
Increase/(decrease) in other taxation and social security	**47**	72	**(40)**	(598)
Changes in intra group indebtedness	**12**	51	**(12)**	(51)
Increase/(decrease) in creditors	**557**	331	**(604)**	(1,421)
Decrease/(increase) in stocks	**24**	(1,071)	**240**	909
(Increase)/decrease in prepayments and accrued income	**(187)**	80	**163**	318
(Increase)/decrease in debtors	**(1,350)**	284	**277**	3,859
Decrease in loan notes	**—**	35	**—**	—
Net cash (outflow)/inflow from operating activities	**(425)**	979	**(187)**	1,948

27 Analysis of changes in financing during the year

	Share capital (including premium) £'000	Loans, finance and lease obligations £'000
Balance at 1 July 1995	6,248	1,145
Ordinary shares issued	2,049	—
Inception of finance lease contracts	—	70
Bank loans	—	3,720
Repayment of principal on finance leases and bank loans	—	(1,383)
Effects of foreign exchange rates	—	(33)
Balance at 30 June 1996	**8,297**	**3,519**

28 Analysis of changes in cash and cash equivalents during the year

	1996 £'000	1995 £'000
Balance at 1 July 1995	**(4,850)**	(7,044)
Net cash inflow before adjustments for the effects of foreign exchange rates	**3,459**	2,181
Effects of foreign exchange rates	**(18)**	13
Balance at 30 June 1996	**(1,409)**	(4,850)

Analysis of cash and cash equivalents:

	1996 £'000	1995 £'000	Change in year £'000
Cash at bank and in hand	**231**	173	**58**
Bank overdrafts	**(1,640)**	(5,023)	**3,383**
	(1,409)	(4,850)	**3,441**

29 Sale of subsidiary undertakings

£340,000 of outstanding consideration from the sale of the Distribution Division on 18 August 1994 was received during the year.

30 Major non-cash transactions

During the year the Group entered into finance lease agreements in respect of fixed assets with a total capital value at the inception of the leases and loans of £70,000 (1995: £300,000).

31 Contingent liabilities

The Group has outstanding counter indemnities in respect of performance bonds and guarantees previously given by banks in the normal course of business of discontinued activities.

There are a number of legal claims or potential claims against the Group and in certain cases the Group has issued counter claims in higher amounts. The final outcomes cannot at present be foreseen. Provision is made in these financial statements for all liabilities which are expected to arise.

The Company has guaranteed banking facilities of certain subsidiary undertakings. At 30 June 1996 the sum guaranteed by the Company in respect of obligations of subsidiary undertakings totalled £3,338,000 (1995: £4,913,000).

32 Directors' emoluments

Detailed information concerning directors' emoluments, shareholdings and options is shown in the Remuneration Committee Report on pages 14 to 15.

Structural Products Division

GANG-NAIL SYSTEMS LIMITED
Aldershot
Hampshire
Tel: 01252 334691

MD: Mike Beale

Manufacturer and supplier of roof truss connector plates and associated computer software systems

ELECO BAUPRODUKTE GMBH
Munich
Germany
Tel: 00 49 89 854 5034

MD: Vitus Rottmüller
(Incorporated in Germany)

Supplier of roof truss connector plates and associated computer software systems

INTERNATIONAL TRUSS SYSTEMS (PTY) LIMITED
Johannesburg
South Africa
Tel: 00 27 11 807 3312

MD: Manny Piyackis
(Incorporated in South Africa)

Supplier of roof truss connector plates and associated computer software systems

GANG-NAIL HUNGARY KFT
Budapest
Hungary
Tel: 00 36 1 2 84 5745

MD: Josef Kornhoffer

(Incorporated in Hungary)

Supplier of roof truss connector plates and associated computer software systems

STRAMIT INDUSTRIES LIMITED
Yaxley
Suffolk
Tel: 01379 783465

MD: John Peters

Manufacturer and supplier of secret-fix roofing and panel systems and strawboard products

BELL & WEBSTER CONCRETE LIMITED
Grantham
Lincolnshire
Tel: 01476 562277

MD: Fred Newby

Manufacturer and supplier of pre-cast concrete retaining walls, terracing units and other concrete products

ELECO TECHNOLOGY LIMITED
Aldershot
Hampshire
Tel: 01252 334691

MD: Luke Whale

Research and computer software and systems design and development

Engineered Products Division

DAVIS INTERNATIONAL LIMITED
Haverhill
Suffolk
Tel: 01440 704411

MD: Derek Henderson

Manufacturer and supplier of cable management systems

ABTUS LIMITED
Haverhill
Suffolk
Tel: 01440 702938

MD: Russell Owen

Manufacturer and supplier of railtrack measurement systems and marine engineering equipment

Property

WEBSTER PROPERTIES LIMITED
Hoddesdon
Hertfordshire
Tel: 01992 440311

MD: Steve Ellis

Property investment and property management

Associated Companies

SPEEDDECK GMBH
(50% owned)
(Incorporated in Germany)

HIT ROOF TRUSSES CLL
(20% owned)
(Incorporated in the Republic of Macedonia)

DAVIS QUANTEC SYSTEMS (ASIA) SDN BHD
(30% owned)
(Incorporated in Malaysia)

DAVIS TRUNKINGS LIMITED
(20% owned)
(Incorporated in Hong Kong)

Except where indicated otherwise, the above companies are ultimately wholly owned subsidiaries of Eleco Holdings plc and are all registered and operate in England. All holdings are of ordinary shares.

Notice of Meeting

Notice is hereby given that the fifty-seventh Annual General Meeting of Eleco Holdings plc (the "Company") will be held at Belcon House, Essex Road, Hoddesdon, Hertfordshire EN11 0DR, on 2 December 1996, at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as regards resolutions numbered 1 to 3 as Ordinary Resolutions and as regards resolution number 4 as a Special Resolution.

Ordinary Resolutions

ORDINARY BUSINESS

1 To receive the financial statements for the year ended 30 June 1996, together with the reports of the directors and auditors, and to declare a final dividend on the ordinary shares.

2 To re-elect A Plumpton as a director.

3 To reappoint the auditors, Coopers & Lybrand, and to authorise the directors to fix their remuneration.

Special Business

SPECIAL RESOLUTION

4 Disapplication of pre-emption rights

That the directors be and they are hereby empowered pursuant to Section 95(1) of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of that Act) for cash as if Section 89(1) of the said Act did not apply to any such allotment provided that this power shall be limited to:

a) the allotment of equity securities in connection with an issue by way of rights in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them (but subject to such exclusions, variations or other arrangements on such allotment as the directors may deem necessary or expedient in relation to fractional entitlements or as a result of legal or practical problems under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever); and

b) the allotment (otherwise than pursuant to sub-paragraph (a) hereof or to an employees' share scheme (within the meaning of Section 743 of the Companies Act 1985)) of equity securities up to an aggregate nominal value of £193,148;

at any time or times before the earlier of the conclusion of the next annual general meeting of the Company after the passing of this resolution or 2 March 1998 save that the Company may prior to such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offers or agreements notwithstanding the expiry of any power conferred by this resolution.

By order of the Board

P J Gravett
Secretary

6 November 1996

NOTES

1 A member entitled to attend and vote at this Meeting may appoint one or more proxies (who need not be members of the Company) to attend and vote instead of him. A proxy form is enclosed. To be effective, an instrument appointing a proxy must be returned so as to reach the Company's registrars, Independent Registrars Group Limited, PO Box 25, Beckenham, Kent BR3 4BR at least 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof. The appointment of a proxy will not preclude a member from attending and/or voting at the Meeting should he subsequently decide to do so.

2 Copies of directors' service agreements and the register of directors' interests in the capital of the Company will be available for inspection at the registered office of the Company during normal business hours from the date hereof until the close of the above Meeting and at the place of the Meeting for 15 minutes prior to and during the Meeting.

EXPLANATION OF SPECIAL BUSINESS

The Notice of Meeting contains an item of Special Business which, as it is of a technical nature, is explained below:

4 Disapplication of pre-emption rights

It's proposed to renew for a further year the authority of the directors to allot equity securities for cash without first being required to offer such securities to existing shareholders. The authority relates to 1,931,480 ordinary shares being approximately 5% of the issued ordinary share capital of the company. This resolution complies with Institutional Investment Committee guidelines.