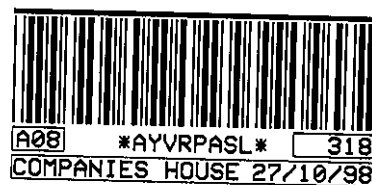


IMI Marston Limited

Directors' report and financial statements

31 December 1997

Registered number 155987



Directors' report and financial statements

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Directors

Directors

MJ Lamb
KR Collie
TJ Davies
SL Hiscox
BK Watton
M Hodson

Secretary

TJ Davies

Registered office

Fordhouses
Wolverhampton
WV10 6QJ

Auditor

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Directors' report

The directors present their annual report to the shareholders, together with the financial statements for the year ended 31 December 1997.

Results for the year

	1997 £000	1996 £000
Turnover	39,718	33,132
Profit on ordinary activities before taxation	<u>3,504</u>	<u>2,704</u>
Taxation charge	(1,127)	(863)
Profit on ordinary activities after taxation and for the financial year	<u>2,377</u>	<u>1,841</u>
Dividends proposed	(2,370)	(1,835)
Transfer to reserves for the financial year	<u>7</u>	<u>6</u>

Dividends and transfers to reserves

The directors propose that a first and final dividend of £2,370,000 (1996: £1,835,000) be declared for the year ended 31 December 1997, leaving £7,000 (1996: £6,000) to be transferred to reserves.

Principal activity

The principal activity of the company is the provision of components, assemblies and systems to the aerospace, defence, chemical and process industries.

Review of the business

The company again achieved growth in its major aerospace and process industry markets.

The directors regard the company's financial position as satisfactory.

Research and development

Throughout 1997 the company has continued its policy of investment in research and development.

Policy on the payment of creditors

The company policy is to make its suppliers aware of the terms of payment, to agree such terms with its suppliers for each business transaction and to make payments to suppliers in accordance with these terms, provided that the supplier is also complying with all relevant terms.

Employees' development

The company has maintained its policy of making full use of training facilities provided both by IMI and by external training bodies, in particular to retrain employees in a variety of different, more relevant skills. During the year the prestigious Investors in People accreditation was attained.

The company continues to participate in the IMI EPS scheme which provides an annual profit related bonus to employees. An option to take the bonus in the form of IMI shares has remained part of the scheme.

Each employee has available to him a summary of the IMI annual report through IMI's in-house news sheet and a copy of the full IMI annual report is available on request to any employee.

Directors' report (continued)

Employment of disabled people

During the year the company continued to give full and fair consideration to applications for employment from disabled persons and wherever practicable to retain, by arranging appropriate re-training, any employees who became disabled. Disabled employees share equally in training, career development and promotion programmes.

Directors

A list of the directors in office at the date of this report and who have held office throughout the year is given on page 1.

Directors' interests

Mr MJ Lamb is a director of IMI plc and his interests in the shares and debentures of IMI plc are shown in the directors' report and financial statements of IMI plc. The interests of other persons (including their families), who were directors at the end of the year, in the shares and debentures of the ultimate holding company, IMI plc, are shown below. None of the directors (or their families) had any interest in the share capital of the company or any other subsidiaries of IMI plc. During the year 8,500 options on ordinary shares were granted to Mr SL Hiscox and 9,500 options on ordinary shares to Mr KR Collie.

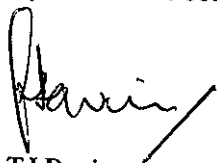
Beneficial interests

	At 31 December 1997		At 1 January 1997	
	Ordinary shares of 25p Number	Loan stock £	Ordinary shares of 25p Number	Loan stock £
KR Collie	2,703	-	1,999	-
TJ Davies	1,042	-	741	-
BK Watton	2,256	-	1,833	-
M Hodson	1,856	-	1,727	-
SL Hiscox	780	-	752	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Statement of directors' responsibilities

The directors are required to prepare financial statements for each financial period which comply with the provisions of the Companies Act 1985 and give a true and fair view of the state of affairs of the company as at the end of the accounting period and of the profit or loss for that period. Suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the financial statements. Applicable Accounting Standards have been followed and the financial statements have been prepared on a going concern basis. The directors are responsible for maintaining adequate accounting records, for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



TJ Davies
Secretary

5 February 1998



2 Cornwall Street
Birmingham
B3 2DL

Auditor's report to the members of IMI Marston Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

As described on page 3, the company's 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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which 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 the company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

5 February 1998

Profit and loss account
 for the year ended 31 December 1997

	Note	1997 £000	1996 £000
Turnover			
Cost of sales	2	39,718 (32,498)	33,132 (27,078)
Gross profit		<u>7,220</u>	<u>6,054</u>
Distribution costs		(3,791)	(3,354)
Administrative expenses		(514)	(478)
		<u>2,915</u>	<u>2,222</u>
Other operating income		203	189
Operating profit		<u>3,118</u>	<u>2,411</u>
Net interest receivable	3	386	293
Profit on ordinary activities before taxation	4	<u>3,504</u>	<u>2,704</u>
Taxation on profit on ordinary activities	5	(1,127)	(863)
Profit on ordinary activities after taxation for the financial year		<u>2,377</u>	<u>1,841</u>
Dividends proposed		(2,370)	(1,835)
Transfer to reserves for the financial year	12	<u>7</u>	<u>6</u>

A statement of movements on reserves is set out in note 12 on page 14.

There are no other recognised gains or losses in either the current or preceding year other than the retained profit for the year.

In both the current and preceding years, there was no difference between the profit before taxation and the retained profit for the year as shown in the company profit and loss account and their historical cost equivalents.

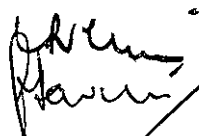
The above results derive entirely from the continuing operations of the company.

Balance sheet
at 31 December 1997

	<i>Note</i>	1997 £000	£000	1996 £000	£000
Fixed assets					
Tangible assets	6		4,208		4,080
Current assets					
Stocks	7	5,511		5,026	
Debtors	8	13,526		12,949	
Cash at bank and in hand		106		4	
		<u>19,143</u>		<u>17,979</u>	
Creditors: Amounts falling due within one year	9	(11,198)		(9,890)	
Net current assets			<u>7,945</u>		<u>8,089</u>
Total assets less current liabilities			<u>12,153</u>		<u>12,169</u>
Provisions for liabilities and charges	10		(138)		(161)
Net assets			<u>12,015</u>		<u>12,008</u>
Capital and reserves					
Called up share capital	11		67		67
Share premium account			3,120		3,120
Other reserves			8,000		8,000
Profit and loss account	12		828		821
Equity shareholders' funds			<u>12,015</u>		<u>12,008</u>

These financial statements were approved by the board of directors on 5 February 1998 and were signed on its behalf by:

KR Collie
TJ Davies
Directors



Reconciliation of movement in shareholders' funds
at 31 December 1997

	1997 £000	1996 £000
Profit on ordinary activities after taxation	2,377	1,841
Dividends	(2,370)	(1,835)
	<hr/>	<hr/>
Net increase in shareholders' funds for the year	7	6
Shareholders' funds at 1 January 1997	12,008	12,002
	<hr/>	<hr/>
Shareholders' funds at 31 December 1997	12,015	12,008
	<hr/> <hr/>	<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Basis of accounting

The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost convention, modified to include the revaluation of certain plant and machinery.

Depreciation

Depreciation is calculated so as to write off the cost of tangible fixed assets, net of any estimated residual value, by equal instalments over their estimated useful economic lives as follows:

Plant	-	5-15 years
Tools	-	3-10 years
Fixtures and fittings	-	3-10 years
Computer equipment	-	3-5 years

Stocks and work in progress

Stocks are valued on the following bases:

Raw materials	-	at cost
Work in progress and finished goods	-	at cost of production, including related production overheads less any progress payments that have been received or are receivable

For this purpose, cost of production excludes selling, distribution and administrative costs. If the cost of any item exceeds its net realisable value it is written down to the lower value.

Research and development

Expenditure on research and development is charged against profits in the year in which it is incurred, except for expenditure on tangible assets which is depreciated in the normal manner.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Balances denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the balance sheet date. Exchange differences arising in respect of transactions and balances denominated in foreign currencies are reflected in the results for the year.

Notes (continued)

1 Principal accounting policies (continued)

Pensions

The company is a member of a group operated defined benefit pension scheme, the assets being held in independently administered funds.

Contributions to the pension scheme, which is fully funded, are based on pension costs across the group as a whole. Contributions are charged to the profit and loss account so as to spread the cost of pensions over the average remaining service of the employees. The contributions due to the pension fund at 31 December 1997 amounted to £127,000 (1996: £106,000).

Pension costs are charged in accordance with the advice of independent qualified actuaries.

The latest formal actuarial valuation was at 31 March 1996. Particulars of the actuarial valuation of the group scheme are contained in the financial statements of IMI plc.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Leasing

Operating lease rentals are charged to the profit and loss account on a straight line basis.

Cash flow statement

A group cash flow statement in accordance with Financial Reporting Standard 1 (Revised) is included in the IMI plc annual report and, accordingly, no cash flow statement is shown in these financial statements.

Contingent liabilities

Some of the company's products are sold with the benefit of guarantees or warranties. In addition, certain contracts undertaken by the company contain penalty clauses for late delivery. The company's accounting policy in respect of these matters is specifically to provide for any liabilities under guarantees, warranties or penalty clauses as and when the probability of any liability becomes apparent.

Related party transactions

The company, being a wholly owned subsidiary of IMI plc, is exempt from the requirement to disclose transactions with entities that are part of the IMI group or investees of the IMI Group qualifying as related parties.

Notes (continued)

2 Turnover

Turnover represents amounts invoiced, excluding value added tax, less allowances and returns.

The analysis of turnover of the company by geographical area is as follows:

	1997 £000	1996 £000
United Kingdom	22,880	19,695
Rest of Europe	5,698	5,441
Australasia	1	29
North America	10,075	7,135
Africa	141	88
Asia	793	732
Central and South America	130	12
	<hr/> 39,718 <hr/>	<hr/> 33,132 <hr/>

The directors consider that there is only one class of business, as described in the directors' report.

3 Net interest receivable

	1997 £000	1996 £000
Interest received from group undertakings	397	303
Interest payable on bank loans and overdrafts	(11)	(10)
	<hr/> 386 <hr/>	<hr/> 293 <hr/>

Notes (continued)

4 Profit on ordinary activities before taxation

	1997	1996
	£000	£000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Depreciation on tangible fixed assets	1,223	1,224
Hire of plant and machinery	97	94
Auditor's remuneration:		
Audit	36	35
Research and development	336	189
	<u> </u>	<u> </u>

5 Taxation on profit on ordinary activities

The taxation charge/(credit) based on the profit for the year at 31% (1996: 33%) comprises:

	1997	1996
	£000	£000
Corporation tax	1,150	910
Deferred taxation	(13)	(39)
Adjustment relating to prior years:		
Corporation tax	-	(6)
Deferred taxation	(10)	(2)
	<u> </u>	<u> </u>
	1,127	863
	<u> </u>	<u> </u>

Notes (continued)

6 Tangible fixed assets

	Plant, tools fixtures, fittings and equipment	Payments on account and assets in course of construction	Total
	£000	£000	£000
Gross book value			
At beginning of year	14,355	328	14,683
Additions	967	401	1,368
Disposals	(581)	-	(581)
Transfers	328	(328)	-
	<hr/>	<hr/>	<hr/>
At end of year	15,069	401	15,470
	<hr/>	<hr/>	<hr/>
Depreciation			
At beginning of year	10,603	-	10,603
Charged in year	1,223	-	1,223
Disposals	(564)	-	(564)
	<hr/>	<hr/>	<hr/>
At end of year	11,262	-	11,262
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 1997	3,807	401	4,208
	<hr/>	<hr/>	<hr/>
At 31 December 1996	3,752	328	4,080
	<hr/>	<hr/>	<hr/>

The gross book value of plant and machinery is made up as follows:

	1997 £000	1996 £000
Revaluation 1958	93	95
Cost	15,377	14,588
	<hr/>	<hr/>
	15,470	14,683
	<hr/>	<hr/>

At 31 December 1997 the net book value of revalued plant and machinery determined according to both the historical cost accounting rules and the alternative accounting rules was £Nil (1996: £Nil).

Notes (continued)

7 Stocks and work in progress

	1997 £000	1996 £000
Raw materials and consumables	2,004	2,152
Work in progress	3,635	3,714
Finished goods and goods for resale	374	622
Payments on account	(502)	(1,462)
	<u>5,511</u>	<u>5,026</u>

8 Debtors

	1997 £000	1996 £000
Trade debtors	7,250	6,738
Amounts owed by group undertakings	6,009	5,727
Other debtors	177	2
Prepayments and accrued income	90	482
	<u>13,526</u>	<u>12,949</u>

Included within other debtors is an amount of £1,000 due in more than one year (1996: £1,000).

9 Creditors: Amounts falling due within one year

	1997 £000	1996 £000
Bank overdraft	408	663
Payments received on account	451	1,066
Trade creditors	4,371	3,673
Amounts owed to group undertakings	880	759
Other creditors including taxation and social security	1,655	1,381
Accruals and deferred income	1,063	513
Proposed dividend	2,370	1,835
	<u>11,198</u>	<u>9,890</u>

Other creditors including taxation and social security comprise:

Corporation tax	1,144	901
Other taxes	-	217
Social security	144	126
	<u>1,288</u>	<u>1,244</u>
Other creditors	367	137
	<u>1,655</u>	<u>1,381</u>

Notes (continued)

10 Provisions for liabilities and charges

	Deferred taxation £000
At beginning of year	161
Transfer to profit and loss account	(23)
	<hr/>
At end of year	138
	<hr/>

Deferred tax calculated at 31% (1996: 33%) is set out below:

	1997		1996	
	Provided £000	Not provided £000	Provided £000	Not provided £000
Accelerated capital allowances	138	92	161	107
	<hr/>	<hr/>	<hr/>	<hr/>

11 Called up share capital

	1997 £000	1996 £000
<i>Authorised:</i>		
75,000 ordinary shares of £1 each	75	75
	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>		
66,667 ordinary shares of £1 each	67	67
	<hr/>	<hr/>

12 Profit and loss account

	£000
Balance at 1 January 1997	821
Transfer to reserves for the year	7
	<hr/>
Balance at 31 December 1997	828
	<hr/>

13 Contingent liabilities

Contingent liabilities relating to guarantees in the normal course of business amounted to £2,647,000.

The company has overdraft facilities which form part of a composite accounting arrangement with those of IMI plc and certain of its subsidiaries. Accordingly, the company in concert with those other group companies has entered into arrangements whereby each has offered a limited guarantee in respect of the others' overdraft borrowings from time to time. The company's liability is limited to the extent of its cash balance on its current bank account from time to time, which at 31 December 1997 amounted to £Nil (1996: £Nil).

Notes (continued)

14 Commitments

Capital commitments at 31 December, for which no provision has been made in these financial statements, were as follows:

	1997 £000	1996 £000
Contracted	191	240
	<u> </u>	<u> </u>

15 Emoluments of the directors

Directors of the company received the following emoluments:

	1997 £000	1996 £000
Remuneration	256	304
Pensions	14	19
	<u> </u>	<u> </u>
	270	323
	<u> </u>	<u> </u>

	Number of directors	
	1997 £000	1996 £000
The number of directors who are accruing benefits under money purchase pension schemes was	4	5
	<u> </u>	<u> </u>

Highest paid director

	1997 £000	1996 £000
Total remuneration excluding pension contributions	72	71
Company pension contributions to money purchase schemes	3	4
	<u> </u>	<u> </u>

Notes (continued)

16 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1997	1996
Management	29	31
Administration	19	20
Production	425	378
Selling	62	61
	<hr/>	<hr/>
	535	490
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	11,449	9,936
Social security costs	909	803
Other pension costs	1,273	1,032
	<hr/>	<hr/>
	13,631	11,771
	<hr/>	<hr/>

17 Ultimate holding company

IMI plc, incorporated in Great Britain and registered in England and Wales, is the company's ultimate holding company.

A copy of the financial statements of that company can be obtained from:

The Company Secretary
 IMI plc
 PO Box 216
 Witton
 Birmingham
 B6 7BA

The immediate holding company is IMI Kynoch Limited which is incorporated in Great Britain and registered in England and Wales.