Danks Holdings Limited

Report and Financial Statements

31 March 2003

Registered No. 328871

Directors

J A Biles (Chairman)
P Heiden (appointed 17 February 2003)
M J R Porter
R G Beeston (retired 5 February 2003)

Secretary

M J R Porter

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Registered Office

15-19 New Fetter Lane
London EC4A 1LY

Directors' report

The directors present their report and audited financial statements for the year ended 31 March 2003.

Results and dividends

The audited financial statements for the year ended 31 March 2003 are set out on pages 8 to 12. The profit for the year after taxation amounted to £243,000 (2002: £1.4m).

The directors do not recommend the payment of a dividend for the year.

Principal activities

The principal activity of the company is to act as an intermediate holding company.

Directors and their interests

The directors who served during the year ended 31 March 2003 and thereafter were as listed on page 1.

No directors had any interests in the shares of the company at 31 March 2003.

J A Biles, P Heiden and R G Beeston are/were also directors of the ultimate parent undertaking, and their interests in the shares of that company are disclosed in that company's financial statements.

The interests of the remaining director in the shares of the ultimate parent undertaking are set out below:

Ordinary 10p shares

	2003 *No.*	*2002* *No.*
M J R Porter	417	417

Executive share option scheme

	1 April 2002 *No.*	*Granted* *No.*	*Exercised* *No.*	*Lapsed* *No.*	*31 March 2003* *No.*
M J R Porter	31,000	43,571	–	–	74,571

All options granted in the year were at an option price of 140 pence per share.

SAYE share option scheme

	1 April 2002 *No.*	*Granted* *No.*	*Exercised* *No.*	*Lapsed* *No.*	*31 March 2003* *No.*
M J R Porter	5,152	–	–	–	5,152

Directors' report (continued)

Directors and their interests (continued)

Options in existence at 31 March 2003 are exercisable between 2003 and 2012 at prices of 186.75 pence, 188 pence and 140 pence per share.

The market price of the ordinary shares of FKI plc at 31 March 2003 was 64 pence (2002: 192.5 pence) and the range during the year was 192.5 pence to 57 pence (2002: 288.25 pence to 122 pence).

All interests shown above are beneficial.

Long term incentive plan (LTIP)

The ultimate parent company operates a LTIP which was approved by its shareholders in 2001 and under which participants receive annual conditional awards of shares in FKI plc of a value equal to up to 70% of basic salary per annum, which may vest only after the achievement of certain long-term performance conditions. Participants may receive up to the maximum number of shares, three years after the award, provided the performance conditions are met. Until then, the shares are held in a trust, which is administered by a trustee company.

The level of vesting of awards under the LTIP is determined by the performance of FKI plc's total shareholder return against a comparator group of all companies which on the date of grant are constituent companies of the Engineering and Machinery Index as determined by the FTSE Actuaries Industry Classification Committee, excluding those not listed at the end of a three year performance period. No awards vest for below median performance and 50% of an award will vest for median performance. Full vesting occurs only at upper quartile performance, and 75% of an award will vest for performance above the median but below upper quartile. Accrued dividends on vested awards are paid to the executives pending transfer of the shares into the name of the respective participant.

The performance condition is based upon total shareholder return as this is considered to be the best means of aligning the interests of directors with shareholders by requiring superior total shareholder return performance compared to competitor companies. The assessment as to whether the performance conditions have been met is independently calculated by Mercer Human Resource Consulting in conjunction with Datastream and is ratified by the Remuneration Committee of FKI plc.

During the year ended 31 March 2003, the performance period relating to the 1999 award expired. The Remuneration Committee exercised its discretion, in accordance with the rules of the scheme, to include in the final peer group two companies which had been previously omitted, both having been put into receivership during the three-year performance period. The Remuneration Committee considered the change to be fair and reasonable such that, were an adjustment not made, the terms of the scheme would cease to be a fair measure of performance. As a consequence of this adjustment, 30% of the award became exercisable. As required under the rules of the scheme, Ernst & Young LLP confirmed that the adjustment was considered fair and reasonable.

Directors' report (continued)

Directors and their interests (continued)

Long term incentive plan (LTIP) (continued)

Those participating in the LTIP are expected to retain part of their vested LTIP awards, so that they build up a minimum shareholding of FKI plc of one times basic salary over five years.

The maximum number of ordinary shares that the director could receive under the LTIP is detailed below:

	Shares allocated at 1 April 2002	*Shares allocated during year*	*Shares vested during year*	*Shares lapsed during year*	*Shares transferred during year*	*Value of award at date of grant £*	*Shares allocated at 31 March 2003*	*Earliest date for transfer*	*Value of shares vested**	*Market value***
M J R Porter										
	28,716	–	–	–	–	42,500	28,716	n/a	–	n/a
	29,037	–	29,037	–	–	45,589	29,037	28/07/02	28,747	n/a
	26,110	–	–	18,277	–	59,139	7,833	12/08/03	–	5,013
	22,345	–	–	–	–	54,075	22,345	13/06/04	–	14,301
	21,740	–	–	–	–	42,610	21,740	04/12/04	–	13,914
	–	30,500	–	–	–	43,615	30,500	08/07/05	–	19,520

*The value of the shares that vested during the year is calculated at 99 pence (2002: 197 pence), the market value on the date on which the shares were first transferable to the directors.

**Market value of LTIP shares as yet unvested at 64 pence (2002: 192.5 pence), the closing mid-market price on 31 March 2003.

There are no other interests required to be disclosed under section 234 of the Companies Act 1985.

Auditors

Arthur Andersen resigned as auditors on 31 July 2002 and Ernst & Young LLP were appointed in their place.

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board

J A Biles
Director

2 October 2003

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Danks Holdings Limited

We have audited the company's financial statements for the year ended 31 March 2003 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 10. These financial statements have been prepared under the accounting policies set out in the Statement of accounting policies.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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.

Independent auditors' report

to the members of Danks Holdings Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2003 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
2 October 2003

Profit and loss account

for the year ended 31 March 2003

	Notes	2003 £000	2002 £000
Administrative expenses		243	(30)
Operating profit/(loss)		243	(30)
Loss on disposal of investment		-	(1,561)
Profit/(loss) on ordinary activities before interest		243	(1,591)
Interest receivable and similar income	3	-	143
Profit/(loss) on ordinary activities before taxation		243	(1,448)
Tax on profit/(loss) on ordinary activities	4	-	-
Retained profit/ (loss) for the financial year	10	243	(1,448)

All results relate to continuing operations.

There are no recognised gains or losses in either period other than the result/loss for the period.

Balance sheet

at 31 March 2003

	Notes	2003 £000	2002 £000
Current assets			
Debtors	5	3,904	3,661
Creditors: amounts falling due within one year	6	(379)	(379)
Net current assets		3,525	3,282
Net assets		3,525	3,282
Capital and reserves			
Called up share capital	7	410	410
Share premium account	8	1,448	1,448
Profit and loss account	8	1,667	1,424
Equity shareholders' funds	8	3,525	3,282

The financial statements were approved by the Board
and signed on its behalf by:

J A Biles
Director
2 October 2003

Notes to the financial statements

at 31 March 2003

1. Accounting policies

Basis of preparation

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

Group financial statements

The company has not prepared group financial statements as it is exempt from the requirement to do so by section 228 of the Companies Act 1985 as it is a subsidiary undertaking of FKI plc, a company incorporated in Great Britain and registered in England and Wales, and is included in the consolidated financial statements of that company.

Cash flow statement

Under the provisions of FRS 1 "Cash flow statements (Revised 1996)", the company has not prepared a cash flow statement because its ultimate parent company, FKI plc, has prepared consolidated financial statements which include the financial statements of the company and which contain a cash flow statement.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid or recovered, using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued asset and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

2. Directors, employees and audit fee

The directors received no remuneration for their services to the company during the year (2002 – £nil). There were no staff employed other than directors (2002: none). The audit fee in 2002 and 2003 was borne by the parent undertaking.

Notes to the financial statements

at 31 March 2003

3. Interest receivable and similar income

	2003 £000	2002 £000
From fellow subsidiary undertakings	–	143

4. Tax on profit/(loss) on ordinary activities

	2003 £000	2002 £000
UK corporation tax	–	–

Group relief has been surrendered by the parent company for nil consideration.

The tax assessed for the year is lower than the standard rate of corporation tax in the UK as explained below:

	2003 £000	2002 £000
Profit/(loss) on ordinary activities before taxation	243	(1,448)
Tax credit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002 – 30%)	73	(434)
Permanent differences – write off of inter-company balance	(73)	434
Current tax charge for the year	–	–

5. Debtors

	2002 £000	2001 £000
Amounts owed by fellow subsidiary undertakings	3,904	3,661

6. **Creditors:** amounts falling due within one year

	2003 £000	2002 £000
Amounts owed to fellow subsidiary undertakings	285	285
Corporation tax	94	94
	379	379

Notes to the financial statements

at 31 March 2003

7. Share capital

Authorised, allotted, called-up and fully paid	*No.*	*£*
£1 Ordinary shares		
1 April 2002 and 31 March 2003	410,000	410,000

8. Reserves

	Share premium account £000	*Profit and loss account £000*	*Total £000*
At 1 April 2002	1,448	1,424	2,872
Retained profit for the financial year	–	243	243
At 31 March 2003	1,448	1,667	3,115

9. Related party transactions

The company is exempt from the requirement of FRS 8 to include details of transactions with related parties who are fellow group undertakings.

10. Ultimate parent company

The directors regard FKI plc, a company incorporated in Great Britain and registered in England and Wales, as the company's ultimate parent company.

FKI plc is the parent undertaking of the only group of which Danks Holdings Limited is a member and for which group financial statements are drawn up. Copies of the group financial statements of FKI plc are available from the Company Secretary, 15-19 New Fetter Lane, London EC4A 1LY.