

Kontak Manufacturing Company Limited

(Registered Number 429714)

Directors' Report and Accounts

7 Months to 31 July 2001



The directors have pleasure in submitting their report together with the audited accounts for the 7 month period to 31 July 2001.

Activity

The principal activity of the company continues to be precision engineering.

Review of the business

After absorbing the impact of the prior period's reorganisation, the company enjoyed a period of improved sales and profitability. The company anticipates a tightening of market conditions during the next 12 months, which will impact on its growth prospects.

No dividends were paid during the period (2000: £597,000).

Directors

The directors who served during the period were:

B S Wiggins (Managing Director) (Appointed 1 January 2001)

W T Morgan (Resigned 1 January 2001)

J R Edwards

G Norris

Directors' interests

Directors' interests in the share capital of the ultimate holding company, as recorded in the register of directors' interests were:

	Interest in 25p Ordinary Shares	
	31 July 2001	1 Jan 2001*
W T Morgan	-	-
B S Wiggins	-	-
J R Edwards	87,593	87,593
G Norris	52,797	52,797

* or date of appointment if later

The Directors' interests in options of TI Group plc and Smiths Group plc are shown below:

TI Shares	1 Jan 2001	Options	Options	31 July 2001
		Granted	Converted	
B S Wiggins	2,681	-	2,681	-
W T Morgan	-	-	-	-
J R Edwards	472,549	-	(472,549)	-
G Norris	85,872	-	(85,872)	-
Smiths Shares				
	1 Jan 2001	Options	Options	Options
		Converted	Granted	Exercised
B S Wiggins	-	1,319	-	-
W T Morgan	-	-	-	-
J R Edwards	-	232,439	-	(1,504)
G Norris	-	42,239	8,734	-

Smiths Group plc equivalent of TI Group plc share options were converted on 4 June 2001. Options were originally granted under TI Group (1990) Executive Share Option Scheme, the TI Group 1999 Executive Share Option Scheme, The TI (1981) Savings-Related Share Option Scheme and the TI Group (1994) Savings-Related Share Option Scheme. Options granted since 1 January 2001 were granted under The Smiths Industries 1995 Executive Share Option Scheme and The Smiths Industries 1982 SAYE Share Option Scheme. With the exception of the interests disclosed above, no director had any interest in the shares or debentures of any group company at either 31 July 2001 or 31 December 2000.

Further details regarding these options are disclosed within the financial statements of Smiths Group plc.

Payment policy

It is the company's payment policy to negotiate terms with its suppliers in all sectors to ensure that they know the terms on which payment will take place when the business is agreed. It is our policy to abide by these terms.

Research and development

The company is committed to a policy of investment in the future both by acquisition of new capital equipment and by expenditure on product development and improvement.

Political and charitable contributions

No charitable or political donations were made during the period.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit of the company for the 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;
- 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 of fraud and other irregularities.

Auditors

A resolution to reappoint PricewaterhouseCoopers will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



N G Wilkinson

Secretary

Dated: 22nd April 2002

Independent auditors' Report to the members of Kontak Manufacturing Company Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

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 other information contained in the annual report, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report.

Basis of audit 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.

**Independent auditors' Report to the members of
Kontak Manufacturing Company Limited**

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 July 2001 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

Dated: 22 APRIL 2002

	7 Months to 31 July 2001 £'000	Year ended 31 Dec 2000 £'000
Turnover (note 2)	2,515	4,063
Cost of sales	(1,623)	(3,134)
Gross Profit	892	929
Distribution costs	(35)	(85)
Administrative expenses	(565)	(564)
Operating Profit (note 3)	292	280
Other interest receivable and similar income (note 4)	30	49
Profit on Ordinary Activities Before Taxation	322	329
Taxation on profit on ordinary activities (note 7)	(54)	(51)
Profit on Ordinary Activities After Taxation	268	278
Dividends (note 8)	-	(597)
Transfer to/ from reserves (note 15)	268	(319)

Statement of Total Recognised Gains and Losses

	7 Months to 31 July 2001 £'000	Year ended 31 Dec 2000 £'000
Profit / (loss) attributable to shareholders	268	(319)
Total recognised gains and losses relating to the period	268	(319)
Dividend restated (note 21)	278	-
Total gains and losses recognised since the last annual report	546	(319)

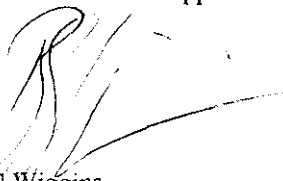
The notes on pages 7 to 13 form part of these accounts.

The movements on reserves are shown in note 15.

All turnover and operating profit arose from continuing activities.

	31 July 2001 £'000	31 Dec 2000 £'000
Fixed Assets (note 9)	1,021	732
Current Assets		
Stock (note 10)	938	728
Debtors (note 11)	844	955
Cash at bank and in hand	1,144	938
	2,926	2,621
Creditors - Amounts falling due within one year (note 12)	(1,653)	(1,578)
Net Current Assets	1,273	1,043
Total Assets Less Current Liabilities	2,294	1,775
Provisions for Liabilities and Charges (note 13)	(10)	(37)
Net assets	2,284	1,738
Capital and Reserves		
Share capital (note 14)	300	300
Profit and loss account (note 15)	1,984	1,438
Equity shareholders' funds (note 17)	2,284	1,738

The accounts were approved by the board of directors on 22nd April 2002.


B S Wiggins
Director

The notes on pages 7 to 13 form part of these accounts.

1 Principal accounting policies

The following accounting policies which are in accordance with applicable accounting standards have been applied consistently in dealing with items which are considered material in relation to the company's accounts.

Basis of accounting

The accounts have been prepared under the historical cost convention.

Accounting standards

The company has adopted Financial Reporting Standard No. 18 ("FRS 18") Accounting Policies, which required a full review of the Company's accounting policies and estimation techniques (the latter being the methods by which accounting policies are implemented). This review was conducted in accordance with FRS 18, which requires that where a choice of treatment is available, the "most appropriate" accounting policies and estimation techniques shall be used. Implementation of the FRS has not resulted in any material changes to accounting policies and estimation techniques. Therefore there has been no impact on the profit and loss account and no prior year adjustment in respect of this.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Fixtures and fittings	10% to 20%
Plant and machinery	10% to 25%
Freehold buildings	2%
Leasehold buildings	2%

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes works overheads where applicable. Provision is made where necessary for obsolete, slow moving and defective stocks based on forecasted use.

Research and development

Research and development expenditure is written off against profit in the period in which the expenditure arises.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date or, where there are matching forward contracts in respect of trading transactions, the rates of exchange specified in the contracts are used. All realised differences are taken to the profit and loss account and unrealised differences on forward contracts are taken to the balance sheet.

Pension costs

Contributions to Group Pension schemes are based on the advice of actuaries. Contributions are charged to the profit and loss account on a basis that spreads the expected cost of providing pensions over the service lives of members.

Cash flow statement

The company has not produced a cash flow statement as it is a wholly owned subsidiary of Smiths Group plc, whose accounts include a consolidated cash flow statement.

Operating leases

All leases are accounted for as operating leases and the rental charges are charged to the profit and loss account in the period in which these are incurred.

2 Turnover

Turnover represents invoiced sales during the period exclusive of value added tax.

All of the company's turnover and profit on ordinary activities before taxation relate to the company's principal activity.

The geographic analysis of turnover is as follows:

	<i>7 Months to 31 July 2001 £'000</i>	<i>Year ended 31 Dec 2000 £'000</i>
United Kingdom	2,267	3,730
Asia, Far East and Australia	29	81
North, South & Central America	219	252
	2,515	4,063

3 Operating profit

Operating profit is stated after charging/ (crediting) the following items:

	<i>7 Months to 31 July 2001 £'000</i>	<i>Year ended 31 Dec 2000 £'000</i>
Auditors' remuneration - audit	7	6
- non audit	-	-
Depreciation	74	147
Operating lease charges – plant and machinery	15	36
Research and development expenditure	60	30
Redundancy costs	-	157
Profit on sale of fixed assets	(2)	-

4 Other interest receivable and similar income

	<i>7 Months to 31 July 2001 £'000</i>	<i>Year ended 31 Dec 2000 £'000</i>
Bank interest receivable	30	49

5 Directors' Emoluments

	<i>7 Months to 31 July 2001 £'000</i>	<i>Year ended 31 Dec 2000 £'000</i>
Emoluments for services as directors	32	101
Company contributions to pension scheme	2	4
	Number	Number
Members of defined contributions schemes	1	2

6 Staff Costs

The average weekly number of employees, including directors, during the period was as follows:

	<i>7 Months to 31 July 2001</i>	<i>Year ended 31 Dec 2000</i>
Sales, administration and distribution	9	9
Manufacturing	71	77
	80	86

The aggregate payroll costs of these persons were as follows:

	<i>7 Months to 31 July 2001 £'000</i>	<i>Year ended 31 Dec 2000 £'000</i>
Redundancy costs	-	157
Wages and salaries	932	1,586
Social security costs	80	126
Other pension costs	61	101
	1,073	1,970

7 Taxation on profit on ordinary activities

	7 Months to 31 July 2001 £'000	Year ended 31 Dec 2000 £'000
Based on the profit for the period		
Corporation tax at 30% (2000 : 30%)	81	71
Deferred taxation (<i>note 13</i>)	(27)	(20)
	54	51

Responsibility for the current and future taxation liabilities have been assumed by Smiths Group plc.

8 Dividends

	7 Months to 31 July 2001 £'000	Year ended 31 Dec 2000 £'000
Proposed – re 1999 @ 106.45 per share	-	319
Proposed – re 2000 @ 92.66 per share	-	278
	-	597

9 Tangible fixed assets

	<i>Land & buildings £'000</i>	<i>Plant & machinery £'000</i>	<i>Total £'000</i>
Cost			
At 1 January 2001	187	2,692	2,879
Additions	38	325	363
Disposals	-	(2)	(2)
At 31 July 2001	225	3,015	3,240
Depreciation			
At 1 January 2001	111	2,036	2,147
Charge for the period	1	73	74
Disposals	-	(2)	(2)
At 31 July 2001	112	2,107	2,219
Net book value			
At 31 July 2001	113	908	1,021
At 31 December 2000	76	656	732

Included in land and buildings is land at £15,000 (2000: £15,000) on which no depreciation is charged.

10 Stocks

	31 July 2001 £'000	31 Dec 2000 £'000
Raw materials	60	66
Work in progress	878	662
	938	728

11 Debtors

	31 July 2001 £'000	31 Dec 2000 £'000
Amounts falling due within one year:		
Trade debtors	674	775
Amounts owed by group companies	144	153
Prepayments and accrued income	26	27
	844	955

12 Creditors : Amounts falling due within one year

	31 July 2001 £'000	31 Dec 2000 £'000
Trade creditors	719	384
Corporation tax	30	193
Other taxation and social security	95	122
Proposed dividends (<i>note 8</i>)	-	597
Amounts owed to group companies	497	106
Accruals and deferred income	312	176
	1,653	1,578

The Smiths Group has a group overdraft facility, secured on the assets of the group. The Company has an overdraft as part of this facility.

13 Provision for liabilities and charges

	£'000
Warranty provision at 1 January 2001 and 31 July 2001	10
Deferred tax:	
At 1 January 2001	27
Movement in the period	(27)
At 31 July 2001	-
Total	10

Unprovided deferred taxation in respect of accelerated capital allowances amounts to £27,000 (2000 Nil).

14 Share capital

	<i>Authorised allotted, called up and fully paid</i>	
	<i>No</i>	<i>£'000</i>
Ordinary shares of £1 each at 31 December 2000 and 31 July 2001	300,000	300

15 Share capital and reserves

	<i>Share Capital £'000</i>	<i>Profit & loss £'000</i>	<i>Total £'000</i>
Brought forward at 1 January 2001	300	1,438	1,738
Dividend restatement (note 21)	-	278	278
Profit for the year	-	268	268
At 31 July 2001	300	1,984	2,284

16 Operating leases

The commitments which fall to be paid in the following year under non-cancellable operating leases are:

	31 July 2001 £'000	<i>31 Dec 2000 £'000</i>
Plant and Machinery operating lease expiry:		
Within 1 year	11	27
Between 2 and 5 years	17	16
	28	43

17 Reconciliation of movement in shareholders' fund

	31 July 2001 £'000	31 Dec 2000 £'000
Profit for the period	268	278
Dividend paid (note 8)	-	(597)
Dividend restated (note 21)	278	-
Net additions to shareholders' fund	546	(319)
Shareholders' fund at 1 January 2001	1,738	2,057
Shareholders' fund at 31 July 2001	2,284	1,738

18 Pensions

The Company operates a pension scheme providing benefits on final pensionable pay. The assets of the scheme are held separately from those of the company being invested with an insurance company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 6th April 1999 and showed that the market value of the scheme's assets were £158m and that the actuarial value of those assets represented 111% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The valuation assumed that the investment return would be 2.25% higher than the rate of annual salary increase and that present and future pensions would increase at a rate of 3% per annum.

The pension charge for the period was £61,000 (2000: £101,000) and has been determined over the average remaining service lives of the employees.

The Company is applying the transitional rules as permitted under FRS 17 Retirement Benefits, however as it participates in a group scheme it is unable to identify its share of the underlying assets and liabilities. Full details of the group scheme can be found in the financial statements of the ultimate parent company, Smiths Group plc.

19 Related party disclosure

The company is a wholly owned subsidiary of Smiths Group plc. In accordance with paragraph 3(c) of FRS 8 'Related Party Transactions', the company is exempt from disclosing details of transactions with other companies in the Smiths Group.

20 Ultimate holding company

The ultimate holding company is Smiths Group plc, a company incorporated in England. Copies of the group accounts are available from:

Company Secretary
Smiths Group plc
765 Finchley Road
London
NW11 8DS

21 Dividend restated

The year to 31 December 2000 included a proposed dividend of £278,000 which was subsequently not required due to a change in the ultimate holding company. This has been reversed in this period.