

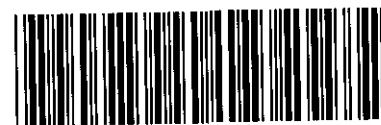
SMITHS DETECTION – WATFORD LIMITED

(Registered Number 480992)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 5 AUGUST 2006

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SMITHS DETECTION-WATFORD LIMITED**DIRECTORS' REPORT FOR THE PERIOD ENDED 5 AUGUST 2006**

The directors present their report and audited financial statements for the period ended 5 August 2006.

PRINCIPAL ACTIVITIES

The principal activities of the company are those of the design, manufacture and selling of trace detection equipment, the distribution of X-Ray and hazardous materials detection equipment, and the carrying out of research and development projects for Government and commercial customers. The company operates within the Detection Division of Smiths Group plc.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company's business is comprised of Smiths Detection – Watford, SensIR Europe, and Smiths Heimann UK. The nature of the business is straightforward and no further analysis on KPI's is necessary although a good performance was recorded in accordance with expectations. Reference to Smiths Group plc pages 12 to 29 of the Annual report will provide key performance indicators and a description of the principal risks and uncertainties facing the Group.

We intend to maintain our good performance record through internal investment in research and development in detection technologies, and will continue in our principal activities of design, manufacture and selling of trace detection equipment, the distribution of X-Ray and hazardous materials detection equipment, and carrying out research and development projects for Government and commercial customers.

The markets served by the company are particularly influenced by specific events and the perception of the threat of terrorist activity or other security issues. This perception itself has been and is likely to remain variable.

RESULTS AND DIVIDENDS

The retained profit for the year of £1,774,000 (2005: £5,896,000) has been transferred to reserves.

A final dividend of £22,690,000 (2005: £nil) is proposed.

POST BALANCE SHEET EVENTS

On 16 August 2006 the Company announced a reorganisation programme, at a cost of approximately £300,000, in a response to a reduction in manufacturing demand. The related actions were largely completed by October 2006, resulting in an expected annual cost base reduction of £800,000.

On 15 January 2007, Smiths Group plc ("Smiths") and General Electric Company ("GE") announced that they had signed a letter of intent to form Smiths GE Detection. Smiths will own 64% and GE will own 36% of Smiths GE Detection.

Smiths GE Detection will combine Smiths Detection with GE Homeland Protection to create a leading global business serving the fast-growing detection and homeland protection market.

Completion of the transaction is conditional, inter alia, on the consent of the Smiths and GE boards, Smiths shareholder consent, certain regulatory approvals and the completion of the sale of Smiths Aerospace Division to GE.

If this transaction is completed, the ultimate ownership of Smiths Detection – Watford Limited will change. Currently Smiths is the ultimate owner of Smiths Detection – Watford Limited. After the transaction, the ultimate owners of Smiths Detection – Watford Limited will be Smiths (64%) and GE (36%).

DIRECTORS' REPORT FOR THE PERIOD ENDED 5 AUGUST 2006 (CONTINUED)

DISCLOSURE OF INFORMATION TO THE AUDITOR

As far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware. Each director has taken steps as he should have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

DIRECTORS

The directors who held office during the year are given below:

Mr. D.L. Barson
Dr. R.B. Turner
Mr. W.R. Mawer
Mr. B.J. Semling (appointed on 3 April 2006)
Mr. A.E. Baxter (appointed on 16 March 2006)

DIRECTORS' INTERESTS IN SHARES

The interests of those persons who were directors on 5 August 2006 in the shares of Smiths Group plc, being the company's ultimate holding company, were as follows:-

	31 July 2005				5 August 2006	
	Ordinary Shares *	Options **	Options Granted	Options Exercised	Ordinary Shares *	Options **
Mr. W.R. Mawer	7,977	120,310	26,730	9,002	17,651	138,038
Mr. D.L. Barson	-	36,029	-	-	-	36,029
Dr. R.B. Turner	1,481	57,143	8,000	4,193	1,481	60,950
Mr. B.J. Semling	-	16,000	-	-	-	16,000
Mr. A.E. Baxter	-	3,500	-	-	-	3,500

* Ordinary shares of 25 pence each fully paid in Smiths Group plc.

** Options to purchase ordinary shares of 25 pence each in Smiths Group plc in accordance with the provisions of that company's share option schemes.

All the interests shown were beneficial and include family interests where appropriate.

The directors of the company have no interests in the shares or debentures of the company or of any other subsidiary company of the holding company.

SUPPLIER PAYMENT POLICY

The company agrees payment terms with its suppliers when it enters into purchase contracts and seeks to abide by those payment terms once it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. Trade creditors in the balance sheet at 5 August 2006 represented an average of 44 days purchases (2005: 61 days). This ratio has been calculated in accordance with the Companies Act 1985 (Directors Report).

DIRECTORS' REPORT FOR THE PERIOD ENDED 5 AUGUST 2006 (CONTINUED)EMPLOYEE INVOLVEMENT

The main method of employee involvement is the Company Forum which meets approximately eight times a year, and the European Communication Forum which meets annually, reviewing all aspects of the business and any other matters of concern to employees. Minutes are taken and posted on notice boards and intranet for the information of all employees.

The company also recognises the importance of keeping employees informed of the overall progress of Smiths Group. An on-line electronic news site contains news of significant commercial developments at group and operating company level, as well as summaries of reports made to shareholders. The group also ensures that any announcements to shareholders and The London Stock Exchange are published simultaneously in all offices and factories of the group.

Involvement in the group's performance is further encouraged through the savings related share option schemes of Smiths Group plc.

DISABLED PERSONS

It is the company's policy that disabled persons (whether registered or not) shall be considered for employment, continuing employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities.

AUDITORS

PricewaterhouseCoopers LLP will remain as auditors by virtue of an elective resolution to dispense with the holdings of annual general meetings and the appointment of auditors, passed on 8 July 1991.

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 the group at the end of the financial period, and of the profit and loss of the group 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Neil Burdett
Secretary

765 Finchley Road
London
NW11 8DS

Date: 5 February 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SMITHS DETECTION – WATFORD LIMITED

We have audited the financial statements of Smiths Detection – Watford Limited for the period from 1 August 2005 to 5 August 2006 (the "period") which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 5 August 2006 and of its profit for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
5 February 2007

SMITHS DETECTION-WATFORD LIMITEDProfit and Loss Accountfor the period ended 5 August 2006

	Notes	Year to 05.08.06 £000	Year to 31.07.05 £000
TURNOVER	2	71,222	69,056
Cost of sales		(54,320)	(48,325)
Gross profit		16,902	20,731
Net operating expenses (before exceptional items)	3	(13,709)	(10,988)
Exceptional net operating expenses		-	(145)
OPERATING PROFIT	4	3,193	9,598
Exceptional gain	5	22,693	-
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		25,886	9,598
Interest payable and similar charges	6	(1,142)	(1,308)
Interest receivable and similar income	7	478	130
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		25,222	8,420
Tax on profit on ordinary activities	8	(758)	(2,524)
PROFIT FOR THE FINANCIAL PERIOD		24,464	5,896
Dividends	9	(22,690)	-
RETAINED PROFIT FOR THE FINANCIAL PERIOD		1,774	5,896

All turnover is attributable to continuing operations.

The profit and loss account contains all gains and losses in the period and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the period stated above, and the historical cost equivalent.

SMITHS DETECTION-WATFORD LIMITEDBalance Sheet – 05 August 2006

	Notes	05.08.06		31.07.05	
		£000	£000	£000	£000
FIXED ASSETS					
Tangible assets	10		7,379		7,451
CURRENT ASSETS					
Stock	11	6,599		16,268	
Debtors:					
Falling due within one year	12	16,288		19,414	
Falling due after more than one year	13	4,500		632	
Cash at bank and in hand		1,715		13,480	
		29,102		49,794	
Creditors – amounts falling due within one year	14	(13,636)		(17,759)	
NET CURRENT ASSETS			15,466		32,035
TOTAL ASSETS LESS CURRENT LIABILITIES			22,845		39,486
Creditors – amounts falling due after one year	15		(8,281)		(26,911)
Provisions for liabilities and charges	16		(2,490)		(2,275)
NET ASSETS			12,074		10,300
CAPITAL AND RESERVES					
Called up share capital	18		77		77
Share premium account	19		630		630
Profit and loss account	20		11,367		9,593
SHAREHOLDERS' FUNDS	21		12,074		10,300

The financial statements on pages 5 to 18 were approved by the board of directors on 5 February 2007 and were signed on its behalf by:



D.L. Barson, Director

SMITHS DETECTION-WATFORD LIMITEDNotes to the accounts – 05 August 20061. Accounting policiesChanges to accounting policies

The Company has adopted, FRS 21, 'Events after the balance sheet date', FRS 25, 'Financial instruments; disclosure and presentation', and FRS 28, 'Corresponding amounts', in these financial statements. The adoption of these standards represent changes in accounting policies. However there was no material effect within the accounts and no impact on the comparative figures.

Principal accounting policies

The accounts have been prepared on a going concern basis in accordance with the Companies Act 1985, as amended, and with all applicable financial reporting and accounting standards under the historical cost convention. A summary of the more important accounting policies, which have been applied consistently, is set out below.

(a) Turnover

Turnover comprises the fair value for the sale of goods and services, net of trade of trade discounts and sales related taxes and the value of work undertaken during the year on long-term contracts. Turnover is recognised when the risks and rewards of the underlying sale have been transferred to the customer, which is usually where title passes.

(b) Foreign currency

Assets and liabilities denominated in a foreign currency are translated at the closing exchange rate, unless covered by forward exchange contracts where the balance is translated at the contract rate. All exchange gains and losses are taken to the profit and loss account.

(c) Fixed assets

Fixed assets are stated at historical cost less depreciation. Depreciation of fixed assets is provided on a straight-line basis at such rates as will write off the cost of the assets over their expected useful working lives. The principal annual rates used for this purpose are as follows:-

Buildings	2.5%
Plant and machinery	10.0%
Fixtures, fittings and equipment	10.0%
Test equipment	10.0%
Motor Vehicles	25.0%
Computers	33.0%

(d) Stocks

Stocks and work in progress are valued at cost, including related production overheads, reduced to estimated net realisable value where appropriate. Provision for contract losses is made as soon as they are recognised and progress payments received relating to work in progress are deducted from gross stocks.

(e) Long Term contracts

Profit is taken on long-term contracts by reference to the work completed.

(f) Research and development

Expenditure, other than that recoverable from third parties, is written off in the year in which it is incurred.

SMITHS DETECTION-WATFORD LIMITEDNotes to the accounts – 5 August 2006 (continued)Principal accounting policies (continued)(g) Post retirement benefits

The cost of providing pensions and post retirement healthcare for employees is charged in the profit and loss account over the working life of the employees taking into account the recommendation of qualified actuaries.

(h) Operating Leases

Rentals arising under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

(i) Taxation

The tax on profit on ordinary activities represents the amount paid for Group relief in respect of tax losses claimed in the current period.

(j) Deferred Taxation

Deferred taxation, where material, is recognised in respect of timing differences that have originated but not reversed as at the balance date. Timing differences are differences between the company's taxable profits and its results as disclosed in the accounts, arising from the inclusion of gains and losses in the tax computations in periods different from those in which they are recognised in the accounts. Deferred tax is not discounted.

(k) Financial instruments

The company uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange rates. Foreign currency assets and liabilities covered by forward contracts are translated at the contract rate of exchange.

(l) Cash flow statement

The company is a wholly owned subsidiary of Smiths Group plc and the cash flows of the company are included in the consolidated group cash flow statement of Smiths Group plc. (note 23). Consequently the company is exempt, under the terms of Financial Reporting Standard 1 (revised 1996), from publishing a cash flow statement.

SMITHS DETECTION-WATFORD LIMITEDNotes to the accounts – 5 August 2006 (continued)2. Turnover

Turnover represents the invoiced amount of goods sold and services provided during the year, after the deduction of trade discounts and sales related taxes, and the value of work undertaken during the year on long-term contracts.

The geographical analysis of turnover by destination is:-

	Period to 05.08.06 £000	Year to 31.07.05 £000
United Kingdom	25,762	16,679
E.U.	5,217	2,913
Other European Countries	1,969	195
U.S.A.	21,952	36,902
Rest of the World	16,322	12,367
	<u>71,222</u>	<u>69,056</u>

3. Net operating expenses

	Period to 05.08.06 £000	Year to 31.07.05 £000
Distribution and selling costs	3,226	3,388
Administrative expenses	6,616	4,703
Research and development costs	3,867	2,897
Net operating expenses	<u>13,709</u>	<u>10,988</u>
Exceptional operating costs - redundancy costs	-	145
Total operating expenses	<u>13,709</u>	<u>11,133</u>

Distribution and selling costs represent the expenditure incurred in distributing and making sales of goods and services to customers including all related overheads.

Administrative expenses represent the costs of general management and all other overheads not directly related to production, distribution or selling.

Exceptional operating costs comprise redundancy costs in respect of the Company's reorganisation.

SMITHS DETECTION-WATFORD LIMITEDNotes to the accounts – 5 August 2006 (continued)4. Operating profit

This is stated after charging:-

	Period to 05.08.06 £000	Year to 31.07.05 £000
Auditors' remuneration – audit services	61	49
Auditors' remuneration – non-audit services	16	10
Operating lease rentals - land and buildings	125	99
- plant and machinery	113	140
Depreciation of tangible fixed assets	1,149	1,425
Loss on disposal of fixed assets	67	7
Research and development expenditure	3,867	2,897
Redundancy costs	-	145
Foreign exchange losses	120	133

(i) Directors' emoluments

All directors have been employed as managers by Smiths Group plc and are remunerated in respect of their services to the group as a whole, of which a charge is included within these accounts.

The remuneration of the directors in respect of their services to this company amounted to £264,773 (year to 31.07.05: £280,787). Excluding pension contributions, the emoluments of the highest paid director were £142,986 (year to 31.07.05: £143,758), with pension contributions of £19,284 (year to 31.07.05: £19,917).

The accrued pension benefit from the defined benefit pension scheme for the highest paid director was £18,548 (31.07.05: £15,616).

Retirement benefits are accruing to four (year to 31.07.05: three) directors under a defined benefit scheme.

The value of compensation received by a former director amounted to £Nil (year to 31.07.05: £124,177).

(ii) Employee costs

(a) The employment costs of all employees including directors were:-

	Period to 05.08.06 £000	Year to 31.07.05 £000
Wages and salaries	10,372	10,053
Social security	845	1,021
Pension costs	1,286	1,230
	<u>12,503</u>	<u>12,304</u>

SMITHS DETECTION-WATFORD LIMITED

Notes to the accounts – 5 August 2006 (continued)

- (b) The average number of persons employed during the year is analysed as follows:-

	Period to 05.08.06	Year to 31.07.05
<u>By geographical location</u>		
UK	293	292
USA	-	-
RoW	1	1
	<u>294</u>	<u>293</u>
<u>By activity</u>		
Engineering	103	102
Production	136	135
Selling and Distribution	20	22
Administration	35	34
	<u>294</u>	<u>293</u>

5. Exceptional item

	Period to 05.08.06 £000	Period to 31.07.05 £000
Exceptional gain	22,693	-

The exceptional gain relates to profit on disposal of intellectual property rights to an affiliate company. The asset disposed was not previously recognised as a capital asset due to it being an internally developed intangible asset with no readily ascertainable market value. No chargeable gain arose for tax purposes as the sale was made to a fellow UK subsidiary company.

6. Interest payable

	Period to 05.08.06 £000	Year to 31.07.05 £000
Interest payable on inter-company loan	1,063	1,157
Other interest payable & similar charges	79	151
	<u>1,142</u>	<u>1,308</u>

7. Interest receivable

	Period to 05.08.06 £000	Year to 31.07.05 £000
Interest receivable	478	130

Comprises interest receivable from bank, on account balances, and customers on late payment of debts.

SMITHS DETECTION-WATFORD LIMITEDNotes to the accounts – 5 August 2006 (continued)8. Tax on profit on ordinary activities

	Period to 05.08.06 £000	Year to 31.07.05 £000
Profit before taxation	25,222	8,420
UK corporation tax at 30% (2005: 30%)	7,566	2,524
Less: non-taxable asset disposal	(6,808)	-
	758	2,524
Adjustment to prior year taxation	221	-
	979	2,524
Group relief surrendered from fellow subsidiary:		
- current year	(758)	-
- prior year	(221)	-
Payment to subsidiary for group relief	758	-
Current tax per profit and loss account	758	2,524

9. Dividends

	Period to 05.08.06 £000	Year to 31.07.05 £000
Ordinary shares		
Final proposed: £295.56 (2005: £ Nil) per £1 share	22,690	-

SMITHS DETECTION-WATFORD LIMITED

Notes to the accounts – 5 August 2006 (continued)

10. Tangible fixed assets

<u>COST</u>	Freehold Land and Buildings £000	Fixtures & Fittings £000	Plant & Machinery £000	Motor Vehicles £000	Total £000
At 1 August 2005	3,939	6,059	2,609	499	13,106
Additions	-	689	515	162	1,366
Disposals	-	(400)	(226)	(164)	(790)
At 5 August 2006	3,939	6,348	2,898	497	13,682

ACCUMULATED DEPRECIATION

At 1 August 2005	55	3,670	1,675	255	5,655
Disposals	-	(326)	(48)	(127)	(501)
Charge for the year	11	770	249	119	1,149
At 5 August 2006	66	4,114	1,876	247	6,303

NET BOOK VALUE

At 5 August 2006	3,873	2,234	1,022	250	7,379
At 31 July 2005	3,884	2,389	934	244	7,451

11. Stocks

	05.08.06	31.07.05
	£000	£000
Raw materials and consumables	1,178	5,766
Work in progress: long term contracts	1,231	3,327
: other	1,439	5,036
Finished goods and goods for resale	<u>2,751</u>	<u>2,525</u>
	6,599	16,654
Less: progress payments on long term contracts	<u>-</u>	<u>(386)</u>
	6,599	16,268

SMITHS DETECTION-WATFORD LIMITEDNotes to the accounts – 5 August 2006 (continued)12. Debtors – amounts falling due within one year

	05.08.06 £000	31.07.05 £000
Trade debtors	6,538	17,888
Amounts recoverable on contracts	7,629	270
Amounts owed by group undertakings	1,927	970
Other debtors	3	4
Prepayments and accrued income	191	282
	<u>16,288</u>	<u>19,414</u>

Amounts due from group undertakings are unsecured, interest free and repayable on demand.

13. Debtors – amounts falling due after one year

	05.08.06 £000	31.07.05 £000
Amounts owed by group undertakings	4,500	630
Prepayments and accrued income	-	2
	<u>4,500</u>	<u>632</u>

Amounts due from group undertakings are unsecured, interest free and repayable on demand.

14. Creditors - amounts falling due within one year

	05.08.06 £000	31.07.05 £000
Trade creditors	3,301	8,526
Amounts owed to group undertakings	1,947	3,185
Other taxation and social security	306	584
Payments on account	2,288	2,306
Bank overdraft	1,881	-
Accruals and deferred income	3,913	3,158
	<u>13,636</u>	<u>17,759</u>

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

SMITHS DETECTION-WATFORD LIMITED

Notes to the accounts – 5 August 2006 (continued)15. Creditors – amounts falling due after one year

	05.08.06 £000	31.07.05 £000
Amounts owed to group undertakings	8,281	26,523
Accruals and deferred income	-	388
	<u>8,281</u>	<u>26,911</u>

Amounts owed to group undertakings includes £8,083,000 owed to the holding company and shall be repaid by 1 April 2009 at latest or upon demand. The directors regard this loan as long term in nature, although the balance may fluctuate in the short term. The loan account became interest bearing in April 2004 at Libor plus 1.5 per cent per annum.

16. Provisions for liabilities and charges

Includes the following provisions:-

	1 August 2005 £000	Charged £000	Released £000	Utilised £000	5 August 2006 £000
Warranty	657	763	(140)	(70)	1,210
Reorganisation	145	-	-	(145)	-
Dilapidations	-	21	-	-	21
Contract losses	1,473	297	-	(511)	1,259
	<u>2,275</u>	<u>1,081</u>	<u>(140)</u>	<u>(726)</u>	<u>2,490</u>

Warranty provisions are made to cover the anticipated cost of repair/replacement of goods returned within the contractual warranty period of one year.

Reorganisation provisions are made to cover committed restructuring costs and expected to be utilised during the next financial year.

Dilapidation provisions are made to cover cost of work to bring state of premises in line with contractual conditions on termination of lease agreement and are expected to be utilised within five years.

Provisions for losses on long term contracts are recorded as soon as they are identified. Most of this balance is expected to be utilised within one to two years.

SMITHS DETECTION-WATFORD LIMITEDNotes to the accounts – 5 August 2006 (continued)17. Pensions

The company's principal pension arrangements are provided through the independent Smiths Group Pension Fund Plan, which is a defined benefit scheme to which eligible employees contribute, and whose assets are held in separate trustee administered funds. The company also operates an additional pension scheme (defined contribution) for some employees.

The total pension cost for the company, for both schemes, was £1,286,000 (year to 31.07.05: £1,230,000). This represents contributions payable to Smiths Group which is responsible for making contributions to the pension funds on behalf of the group as a whole. The outstanding pension contributions owed to Smiths Group amount to £284,000 (year to 31.07.05: £135,000).

The Company is unable to identify its share of the underlying assets and liabilities of the Plan on a consistent and reasonable basis, and each participating employer is exposed to actuarial risks associated with the current and former employees of the other employers participating in the Plan. Paragraph 9(b) of FRS17 allows that in this case, the pension cost is equal to the Company's contributions to the Plan during the accounting period and there will be no balance sheet item.

Further details of this group pension plan, the actuarial assumptions used, and the latest actuarial valuation can be found in the financial statements of Smiths Group plc for the period ended 5 August 2006.

18. Called up share capital

	Period to 05.08.06 £000	Year to 31.07.05 £000
Authorised		
80,000 ordinary shares of £1 each (2005: 80,000)	80	80
Issued and fully paid		
76,771 shares of £1 each (2005: 76,771)	77	77

19. Share premium account

	£000
At 1 August 2005 and 5 August 2006	630

20. Reserves

	Profit and loss account £000
Profit and loss account as at 1 August 2005	9,593
Retained profit for the period	1,774
Profit and loss account as at 5 August 2006	11,367

SMITHS DETECTION-WATFORD LIMITEDNotes to the accounts – 5 August 2006 (continued)21. Reconciliation of movement in Shareholders' funds

	Period to 05.08.06 £000	Year to 31.07.05 £000
Shareholders' funds as at 1 August	10,300	4,404
Profit for the period	1,774	5,896
Shareholders' funds as at 5 August	<u>12,074</u>	<u>10,300</u>

22. Commitments under leases

There are annual commitments falling due in the subsequent year under non-cancellable operating leases for the rent of premises and hire of plant and machinery, having expiry periods as follows:

	05.08.06 £000	£000	31.07.05 £000	£000
Land and Buildings:				
Within one year	-		-	
Between two and five years	90		20	
Over five years	<u>-</u>		<u>-</u>	
		90		20
Other:				
Within one year	80		6	
Between two and five years	5		100	
Over five years	<u>-</u>		<u>-</u>	
		85		106
		<u>175</u>		<u>126</u>

23. Capital expenditure commitments

	05.08.06 £000	31.07.05 £000
Capital expenditure contracted but not provided for in the financial statements	43	62

SMITHS DETECTION-WATFORD LIMITEDNotes to the accounts – 5 August 2006 (continued)24. Contingencies

- (a) Guarantees and performance bonds given by banks to third parties on behalf of the company amounted to £2,396,000 (year to 31.07.05: £2,377,000).
- (b) The company has a contingent liability under a composite banking arrangement with other companies in the group, limited to the amount standing to the credit of the company's own bank account. In addition the company has entered into a joint and several guarantee of the bank borrowings of the parent company.
- (c) The company is registered with H.M. Customs and Excise as a member of the Smiths Group for VAT group purposes and as a result is jointly and severally liable on a continuing basis for amounts owing by the group for unpaid VAT.

25. Related party transactions

There were no transactions during the period with the related parties as defined in Financial Reporting Standard number 8 "related parties disclosures" other than with fellow group companies. As the company is a wholly owned subsidiary it is exempt under paragraph 3(c) of FRS 8 from the obligation to disclose transactions with fellow group companies.

26. Ultimate holding company and controlling party

The ultimate parent undertaking and controlling party of Smiths Detection – Watford Limited is Smiths Group plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The company's immediate parent company is Smiths Detection Group Limited, which is registered in England and Wales. Copies of the consolidated financial statements of the parent maybe obtained from Smiths Group plc, 765 Finchley Road, London NW11 8DS.

27. Post balance sheet events

On 16 August 2006 the Company announced a reorganisation programme, at a cost of approximately £300,000, in a response to a reduction in manufacturing demand. The related actions were largely completed by October 2006, resulting in an expected annual cost base reduction of £800,000.

On 15 January 2007, Smiths Group plc ("Smiths") and General Electric Company ("GE") announced that they had signed a letter of intent to form Smiths GE Detection. Smiths will own 64% and GE will own 36% of Smiths GE Detection.

Smiths GE Detection will combine Smiths Detection with GE Homeland Protection to create a leading global business serving the fast-growing detection and homeland protection market.

Completion of the transaction is conditional, inter alia, on the consent of the Smiths and GE boards, Smiths shareholder consent, certain regulatory approvals and the completion of the sale of Smiths Aerospace Division to GE.

If this transaction is completed, the ultimate ownership of Smiths Detection – Watford Limited will change. Currently Smiths is the ultimate owner of Smiths Detection – Watford Limited. After the transaction, the ultimate owners of Smiths Detection – Watford Limited will be Smiths (64%) and GE (36%).