

LAPMASTER INTERNATIONAL LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 1997



Registered Number: 537328

LAPMASTER INTERNATIONAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997

The directors present their report and the audited financial statements for the year ended 31 December 1997.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the company during the year continued to be the manufacture and sale of lapping machines and ancillary products. Strong sales in the UK and US markets offset a decline in other regions resulting in flat sales when compared against 1996. However, the establishment of more efficient business practices saw a considerable improvement in the overall results for the year.

The company is investing considerably in new product development to expand its current range of machines and is anticipating sales growth in the forthcoming year.

RESULTS

The loss for the year after taxation amounted to £159,372 (1996: loss £233,000). The directors recommend that no dividend be paid (1996: Nil).

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year were :

K R Bennett
K Fisher

The beneficial interest of the directors in the share options of TI Group Plc during the year were as follows:

TI Group Plc Shares Under Option			
	at 31 December 1996	Granted	at 31 December 1997
K R Bennett	5,088	-	5,088
K Fisher	1,481	-	1,481

Options are held under the TI (1981) Savings-Related Share Option Scheme. This Scheme was adopted at the 1981 Annual General Meeting of TI Group Plc and has been approved by the Inland Revenue.

The effect of the Scheme is to enable eligible employees to acquire options on TI Group Plc ordinary shares in conjunction with a Save-As-You-Earn contract.

None of the directors had any beneficial interest in the shares of the company.

LAPMASTER INTERNATIONAL LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

PAYMENT POLICY

The company's ultimate parent undertaking, TI Group plc, is a registered supporter of the Confederation of British Industry's (CBI) Prompt Payers Code of Good Practice, copies of which are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU.

It is the company's policy to agree terms of settlement with its suppliers which are appropriate for the markets in which they operate, and to abide by such terms where suppliers have also met their obligations.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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:

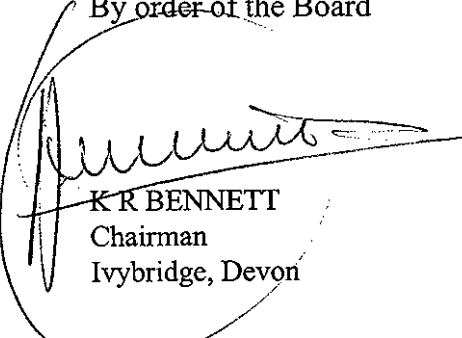
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare 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.

AUDITORS

The auditors, Price Waterhouse, have indicated their willingness to continue in office and a resolution for their re-appointment will be submitted to the Annual General Meeting.

By order of the Board



K R BENNETT
Chairman
Ivybridge, Devon

18 May 1998

AUDITORS' REPORT TO THE MEMBERS OF LAPMASTER INTERNATIONAL LIMITED

We have audited the financial statements on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 2 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.

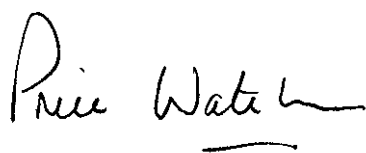
Basis of opinion

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 loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors
31 Great George Street
Bristol BS1 5QD

18 May 1998

LAPMASTER INTERNATIONAL LIMITED**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1997**

	Notes	1997 £	1996 £
TURNOVER	2	2,692,828	2,686,008
Cost of sales		<u>(2,000,154)</u>	<u>(2,146,392)</u>
GROSS PROFIT		692,674	539,616
Distribution costs		(192,909)	(177,735)
Administrative expenses		(642,671)	(583,575)
Other operating income	3	<u>24,057</u>	<u>22,713</u>
OPERATING LOSS		(118,849)	(198,891)
Interest payable	4	<u>(38,117)</u>	<u>(31,748)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(156,966)	(230,729)
Taxation	7	<u>(2,406)</u>	<u>(2,271)</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION TRANSFERRED FROM RESERVES	13, 17	<u>(159,372)</u>	<u>(233,000)</u>

The loss for the year includes all recognised gains and losses.

All operations are continuing.

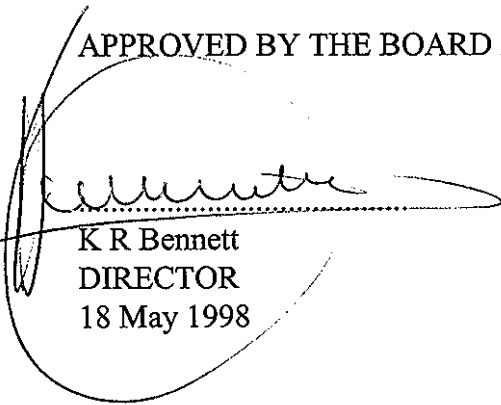
The accompanying notes are an integral part of the profit and loss account.

LAPMASTER INTERNATIONAL LIMITED
BALANCE SHEET AT 31 DECEMBER 1997

	Notes	1997 £	1996 £
FIXED ASSETS			
Tangible assets	8	<u>323,302</u>	<u>262,129</u>
CURRENT ASSETS			
Stocks	9	890,113	555,037
Debtors	10	491,343	602,703
Cash at bank and in hand		2,039	1,185
		<u>1,383,495</u>	<u>1,158,925</u>
CREDITORS			
Amounts falling due within one year	11	<u>(1,363,955)</u>	<u>(918,840)</u>
NET CURRENT ASSETS			
		<u>19,540</u>	<u>240,085</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>342,842</u>	<u>502,214</u>
CAPITAL AND RESERVES			
Called up equity share capital	12	40,000	40,000
Profit and loss account	13	<u>302,842</u>	<u>462,214</u>
EQUITY SHAREHOLDERS FUNDS			
	17	<u>342,842</u>	<u>502,214</u>

The accompanying notes are an integral part of the balance sheet.

APPROVED BY THE BOARD AND SIGNED ON ITS BEHALF BY:


K R Bennett
DIRECTOR
18 May 1998

LAPMASTER INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997

1. ACCOUNTING POLICIES

(1) Basis of accounting

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

(2) Turnover

Turnover represents the amounts invoiced, excluding Value Added Tax, in respect of goods and services provided to customers during the year.

(3) Fixed assets

Land and buildings are stated in the balance sheet at cost less depreciation on buildings. Other tangible fixed assets are stated in the balance sheet at cost less depreciation. Depreciation is charged on a straight line basis, at the following annual rates in order to write off the cost less estimated residual value of the assets over their estimated useful lives:

Freehold buildings	2%
Plant and machinery	10%
Office furniture and equipment	10-20%

(4) Stocks

Stocks are stated in the balance sheet at the lower of cost and net realisable value. Cost includes direct materials and labour costs and also those overheads that have been incurred in bringing the stocks to their present location and condition.

(5) Research and development expenditure

Research and development expenditure is written off in the profit and loss account as incurred.

(6) Deferred taxation

Deferred taxation relating to capital allowances and other timing differences is provided in the financial statements only in so far as a liability is expected to crystallise in the foreseeable future.

LAPMASTER INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (continued)

1. ACCOUNTING POLICIES (continued)

(7) Foreign currency transactions

Assets and liabilities of the company denominated in foreign currency are translated into sterling at the rates of exchange ruling at the balance sheet date. Revenue transactions are converted into sterling at the rate of exchange ruling at the transaction date.

(8) Leased assets

All annual rental payments under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

(9) Pension costs

Pension costs are recognised on the basis of providing for pensions on a systematic basis over the periods benefiting from the employees' services, including the amortisation of scheme surpluses or deficits.

(10) Cash flows

As the financial statements of the ultimate parent company, TI Group plc, include a consolidated cash flow statement dealing with the cash flows of the group, Lapmaster International Limited is exempt from preparing a cash flow statement and accordingly, no statement is included within the financial statements.

2. TURNOVER

Turnover is derived from the ordinary activities of the company originating in the UK, and arose in the following geographical markets:

	1997	1996
	£	£
United Kingdom	923,126	852,631
USA	1,180,513	799,496
Other overseas countries	589,189	1,033,881
	<u>2,692,828</u>	<u>2,686,008</u>

LAPMASTER INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (continued)

3.	OTHER INCOME	1997	1996
		£	£
	Royalties received	24,057	22,713
		<u> </u>	<u> </u>

4.	INTEREST PAYABLE	1997	1996
		£	£
	Interest on bank overdraft	38,117	31,748
		<u> </u>	<u> </u>

5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging:

	1997	1996
	£	£
Depreciation	32,115	27,879
Auditors' remuneration	8,630	8,265
Operating lease rentals		
- plant and machinery	34,421	33,816
- land and buildings	38,780	33,696
	<u> </u>	<u> </u>

6.	DIRECTORS AND EMPLOYEES	1997	1996
		£	£
	Staff costs:		
	Wages and salaries	695,172	669,246
	Social security costs	54,992	51,541
	Other pension costs (see note 15)	59,673	67,420
		<u> </u>	<u> </u>
		809,837	788,207
		<u> </u>	<u> </u>

The average number of persons (including directors) employed by the company during the year was 44 (1996: 44)

The remuneration paid to directors was:	1997	1996
Aggregate Emoluments (exc pension contributions)	£	£
	99,659	137,810
Pension contributions	43,877	43,552
Compensation for loss of office	-	34,383
	<u> </u>	<u> </u>
	143,536	215,745
	<u> </u>	<u> </u>

There are two (1996: 2) Directors accruing pension benefits on a Defined Contributions Money Purchase Scheme.

LAPMASTER INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (continued)

7.	TAXATION	1997 £	1996 £
	The taxation charge for the year comprises the following:		
	Withholding taxes paid on overseas royalty receipts	2,406	2,271
		<u>2,406</u>	<u>2,271</u>

At 31 December 1997 tax losses carried forward of £350,000 (1996: £45,000) remain available for relief against future profits derived from the same trade.

8. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Plant and machinery £	Office furniture and equipment £	Total £
COST				
At 1 January 1997	186,858	313,350	99,485	599,693
Additions	-	80,949	12,339	93,288
Disposals	-	-	-	-
	<u>186,858</u>	<u>394,299</u>	<u>111,824</u>	<u>692,981</u>
At 31 December 1997	186,858	394,299	111,824	692,981
DEPRECIATION				
At 1 January 1997	78,185	197,922	61,457	337,564
Provided during the year	3,433	18,041	10,641	32,115
Disposals	-	-	-	-
	<u>81,618</u>	<u>215,963</u>	<u>72,098</u>	<u>369,679</u>
At 31 December 1997	81,618	215,963	72,098	369,679
NET BOOK AMOUNT				
At 31 December 1997	<u>105,240</u>	<u>178,336</u>	<u>39,726</u>	<u>323,302</u>
At 31 December 1996	<u>108,673</u>	<u>115,428</u>	<u>38,028</u>	<u>262,129</u>

Freehold land amounting to £15,137 (1996: £15,137) has not been depreciated.

LAPMASTER INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (continued)

9.	STOCKS	1997 £	1996 £
	Raw materials	503,534	483,917
	Work in progress	340,745	36,879
	Finished goods	45,834	34,241
		<u>890,113</u>	<u>555,037</u>

In the opinion of the directors there is no material difference between the replacement value of stock and the amount at which it is stated in the balance sheet.

10.	DEBTORS	1997 £	1996 £
	Trade debtors	234,960	421,009
	Amounts owed by group undertakings	148,287	97,980
	Prepayments and accrued income	108,096	83,714
		<u>491,343</u>	<u>602,703</u>

Prepayments and accrued income include amounts of £15,184 (1996: £24,384) relating to the pension fund surplus which are not expected to be due within one year (see note 15).

11.	CREDITORS		
	All falling due within one year	1997 £	1996 £
	Bank overdraft	418,389	554,457
	Trade creditors	577,593	221,878
	Amounts owed to group undertakings	122,871	13,894
	Taxation and social security	16,113	11,974
	Accruals and deferred income	228,989	116,637
		<u>1,363,955</u>	<u>918,840</u>

LAPMASTER INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (continued)

12. CALLED UP EQUITY SHARE CAPITAL

	1997 £	1996 £
Authorised:		
Ordinary shares of £1 each	50,000	50,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid:		
Ordinary shares of £1 each	40,000	40,000
	<u> </u>	<u> </u>

13. PROFIT AND LOSS ACCOUNT

	£
At 1 January 1997	462,214
Loss for the year	(159,372)
	<u> </u>
At 31 December 1997	302,842
	<u> </u>

14. OBLIGATIONS UNDER OPERATING LEASES

Annual commitments under non-cancellable operating leases are as follows:

	1997		1996	
	Land and buildings £	Plant and machinery £	Land and buildings £	Plant and machinery £
Expiring within one year	-	5,359	-	20,408
Expiring between one and five years inclusive	37,942	30,518	37,942	13,568
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	37,942	35,877	37,942	33,976
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

LAPMASTER INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (continued)

15. PENSION ARRANGEMENTS

The company operates a funded defined benefit pension scheme providing benefits based upon final pensionable pay.

Contributions to the scheme are charged so as to spread the cost of pensions over the employees' working lives with the 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 as at 1 August 1994 and showed the market value of assets as £996,000, representing a funding level of 172%. Key assumptions employed in the valuation are that investment yields will be 9% p.a. compound and that pensionable earnings of members will increase by 7% p.a. compound plus promotional increases.

The pension charge for the period in respect of this scheme was £9,200 (1996: £8,400). This included the amortisation of surpluses arising from variations from pension cost estimates that are being recognised over 12 years, being the average remaining service lives of the employees. An amount of £15,184 (1996: £24,384) is included in debtors, being the cumulative difference between the pension cost, calculated in accordance with SSAP 24, and the amount of contributions made by the company to the scheme.

The company also provides pension benefits to certain employees through individual defined contribution plans. Amounts charged in respect of these arrangements were £50,473 (1996: £59,020). An amount of £31,255 (1996: £10,081) is included in creditors as the amount provided in respect of the current year charge. An amount of £0 (1996: £17,337) is included in debtors as the amount prepaid in respect of future years' charges.

16. DEFERRED TAXATION

The potential amount of deferred taxation calculated on the liability method at a rate of 31% at 31 December 1997

	1997 £	1996 £
Excess of capital allowances over depreciation	30,601	33,774
Prepaid pension contributions	8,154	5,610
Other short term timing differences	(3,565)	(8,594)
Available tax losses utilised	(35,190)	(30,790)
	<hr/>	<hr/>
Amount provided	-	-
	<hr/>	<hr/>

LAPMASTER INTERNATIONAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1997 (continued)

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1997 £	1996 £
Loss for the year and change in shareholders' funds	(159,372)	(233,000)
Opening shareholders' funds	<u>502,214</u>	<u>735,214</u>
Closing shareholders' funds	<u>342,842</u>	<u>502,214</u>

18. PARENT UNDERTAKINGS

The immediate parent undertaking is John Crane Inc, incorporated in the USA. This is the parent undertaking of the smallest group to consolidate the financial statements of the company.

The company's ultimate parent undertaking is TI Group plc which is incorporated in the UK. The largest group in which the company's results are consolidated is that headed by TI Group plc. Copies of the consolidated accounts can be obtained from:

TI Group plc
Lambourn Court
Abingdon
Oxon OX14 1UH

19. RELATED PARTIES

The company has taken advantage of the exemption provided by paragraph 3c of Financial Reporting Standard 8, "Related Party Disclosures", not to disclose transactions with entities that are part of TI Group plc. As explained in note 18 above, the company is controlled by TI Group plc.

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