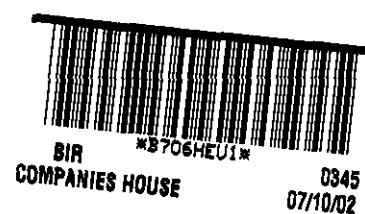


Primary Fluid Power Limited

**Directors' report and financial
statements**

Registered number 926679

For the period ended 31 December 2001



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Directors' report

The directors present their annual report and the audited financial statements for the period ended 31 December 2001.

Principal activity

The company's principal activity is the supply of hydraulic and pneumatic components to the engineering industry.

Business review

The results for the period are shown on page 4 of the financial statements.

On 14 September 2001, the company changed its name to Primary Fluid Power Limited.

Dividends

The directors do not recommend the payment of a dividend (*period ended 4 January 2001: £Nil*).

Directors and directors' interests

The directors who held office during the period were as follows:

R Knott (resigned 31 October 2001)
E Dorhout Mees
G Meijerink
S Merrie

The directors have no beneficial interests in the ordinary shares of the company or any notifiable interests in the shares of group companies.

Auditors

KPMG were re-appointed auditors on 31 August 2001. However, since that date their business was transferred to a limited liability partnership, KPMG LLP. Accordingly, KPMG resigned as auditors on 13 June 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising. A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board

J Burke
Secretary



Caddick Road
Knowsley Industrial Park
Knowsley
Merseyside
L34 9HP

30 September 2002

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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Primary Fluid Power Limited

We have audited the financial statements on pages 4 to 14.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

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 2001 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors

30 September 2002

Profit and loss account
for the period ended 31 December 2001

	<i>Note</i>	Period ended 31 December 2001 £000	Period ended 4 January 2001 £000
Turnover	2	12,700	14,311
Cost of sales		(8,769)	(10,806)
Gross profit		3,931	3,505
Administrative expenses		(2,670)	(3,718)
Other operating charges		(865)	(1,011)
Operating profit/(loss)			
Before exceptional items		396	(1,224)
Exceptional items	4	98	(1,097)
		494	(2,321)
Loss on sale of fixed assets		(43)	-
Interest receivable and similar income	7	9	20
Interest payable and similar charges	8	(232)	(250)
Profit/(loss) on ordinary activities before taxation	3	228	(2,551)
Tax on profit/(loss) on ordinary activities	9	-	-
Profit/(loss) for the financial period		228	(2,551)

Turnover and operating profit/(loss) arise from the company's continuing operations.

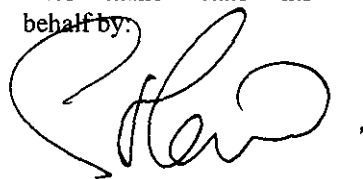
There were no recognised gains or losses during the current or preceding period apart from the loss for the financial period shown above.

Movements in reserves are set out in note 19 to the financial statements.

Balance sheet
at 31 December 2001

	<i>Note</i>	31 December 2001		4 January 2001	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	10		-		-
Tangible assets	11		1,623		1,910
			<u>1,623</u>		<u>1,910</u>
Current assets					
Stocks	12	3,150		3,335	
Debtors	13	2,864		3,032	
Cash at bank and in hand		175		-	
		<u>6,189</u>		<u>6,367</u>	
Creditors: Amounts falling due within one year	14	(6,206)		(5,833)	
Net current (liabilities)/assets			(17)		534
Total assets less current liabilities			<u>1,606</u>		<u>2,444</u>
Creditors: Amounts falling due after more than one year	15		-		(968)
Provisions for liabilities and charges	16		(69)		(167)
Net assets			<u>1,537</u>		<u>1,309</u>
Capital and reserves					
Called up share capital	18		7,800		7,800
Profit and loss account	19		(6,263)		(6,491)
Equity shareholders' funds			<u>1,537</u>		<u>1,309</u>

These financial statements were approved by the board of directors on 30 September 2002 and were signed on its behalf by:



S Merrie
Director

Notes

(forming part of the financial statements)

1 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 preparation

The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost accounting rules.

Fixed assets and depreciation

Depreciation is provided by the company on the cost of fixed assets (less their residual value) on a straight line basis over their estimated useful economic lives as follows:

Freehold buildings	-	2% per annum
Plant and machinery	-	20% per annum
Office equipment	-	20% per annum
Motor vehicles	-	25% per annum

No depreciation is provided on freehold land.

Hire purchase and leases

Assets held under hire purchase contracts are integrated with owned tangible fixed assets and the obligations relating thereto, excluding finance charges, are included in creditors. Costs in respect of operating leases are charged in arriving at the operating result.

Pension costs

The company operates three defined contribution pension schemes. The assets of the schemes are held separately from those of the company in independently administered funds. The amounts charged against profits represents the contributions payable to the schemes in respect of the accounting period.

Stocks

Stocks are stated at the lower of cost and estimated net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the value is on an average cost basis. For work in progress and finished goods manufactured by the company, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

Taxation

The charge for taxation is based on the result for the period 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.

Notes (continued)

1 Accounting policies (continued)

Goodwill

Goodwill represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired.

Goodwill arising on acquisitions before 1 January 1998 was eliminated against reserves on acquisition. In accordance with the transitional rules of FRS10, this treatment has continued to be applied to such acquisitions. On a subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the amount of any related goodwill not written off through the profit and loss account, including any previously taken direct to reserves.

Goodwill arising on acquisitions since 1 January 1998 will be capitalised and amortised to nil by equal annual instalments over its estimated useful life of 5 years.

2 Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period.

Analysis of turnover by geographical market is as follows:

	Period ended 31 December 2001 £000	Period ended 4 January 2001 £000
United Kingdom	12,442	13,722
Rest of Europe	153	414
Rest of world	105	175
	<u>12,700</u>	<u>14,311</u>

3 Profit/(loss) on ordinary activities before taxation

	Period ended 31 December 2001 £000	Period ended 4 January 2001 £000
<i>Profit/(loss) on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Depreciation	198	332
Amortisation	-	294
Vehicle contract hire payable under operating leases	160	230
Property rental payable under operating leases	36	85
Hire of office equipment	7	7
Auditors' remuneration	23	21
- audit fees		
- non audit fees	5	4
	<u></u>	<u></u>

Notes (continued)

4 Exceptional items

	Period ended 31 December 2001 £000	Period ended 4 January 2001 £000
Release of surplus provisions set up on acquisition of the Lucas Fluid Power Division (see note 16)	(98)	-
Restructuring costs	-	884
Write down of Powerflow goodwill (see note 10)	-	213
	<u>(98)</u>	<u>1,097</u>

5 Remuneration of directors

	Period ended 31 December 2001 £000	Period ended 4 January 2001 £000
Salary and benefits	100	78
Compensation for loss of office	76	-
Pension contributions to money purchase schemes	3	13
	<u>179</u>	<u>91</u>

One director was a member of a money purchase scheme operated by the company until he left the company during the year (*period ended 4 January 2001: 1*).

6 Staff numbers and costs

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

	Number of employees	
	Period ended 31 December 2001	Period ended 4 January 2001
Administration	13	19
Sales and service	90	107
Warehouse	15	21
	<u>118</u>	<u>147</u>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	2,178	2,775
Social security costs	247	359
Other pension costs (see note 21)	110	144
	<u>2,535</u>	<u>3,278</u>

Notes (continued)

7 Interest receivable and similar income

	Period ended 31 December 2001 £000	Period ended 4 January 2001 £000
Bank interest	9	20

8 Interest payable and similar charges

	Period ended 31 December 2001 £000	Period ended 4 January 2001 £000
On bank loans, overdrafts and other loans	232	250

9 Taxation

	Period ended 31 January 2001 £000	Year ended 4 January 2001 £000
UK corporation tax charge at 30%	-	-

The taxation credit for the period is lower than the standard rate for UK corporation tax due to deferred tax assets arising from unutilised losses carried forward not recognised at 4 January 2001.

10 Intangible assets

	£000
<i>Cost</i>	
At beginning and end of period	405
<i>Amortisation</i>	
At beginning and end of period	405
<i>Net book value</i>	
At 31 December 2001 and 4 January 2001	-

Notes (continued)

11 Tangible fixed assets

	Freehold property £000	Leasehold property £000	Plant and machinery £000	Motor vehicles £000	Office equipment £000	Total £000
Cost						
At beginning of period	1,557	201	383	158	1,145	3,444
Additions	-	-	-	-	84	84
Disposals	(196)	-	-	-	-	(196)
At end of period	1,361	201	383	158	1,229	3,332
Depreciation						
At beginning of period	188	10	294	143	899	1,534
Charge for period	23	-	42	15	119	199
On disposals	(24)	-	-	-	-	(24)
At end of period	187	10	336	158	1,018	1,709
Net book value						
At 31 December 2001	1,174	191	47	-	211	1,623
At 4 January 2001	1,369	191	89	15	246	1,910

Included in the total net book value of motor vehicles is £Nil (4 January 2001: £1,000) in respect of assets held under hire purchase contracts. Depreciation for the period on these assets was £1,000 (4 January 2001: £3,000).

Land of £217,500 (4 January 2001: £217,500) included in freehold property is not depreciated.

12 Stocks

	31 December 2001 £000	4 January 2001 £000
Finished goods and goods for resale	3,150	3,170
Work in progress	-	165
	3,150	3,335

13 Debtors

	31 December 2001 £000	4 January 2001 £000
Trade debtors	2,782	2,860
Amounts owed by group undertakings	-	26
Prepayments and accrued income	82	146
	2,864	3,032

Notes (continued)

14 Creditors: amounts falling due within one year

	31 December 2001		4 January 2001	
	£000	£000	£000	£000
Bank loans and overdrafts		1,708		2,075
Obligations under hire purchase contracts		-		-
Trade creditors		2,097		1,847
Amounts owed to group undertakings		2,009		953
Other creditors including taxation and social security:				
Other taxes and social security	282		252	
Other creditors	37		42	
		<u>319</u>		<u>294</u>
Accruals and deferred income		73		664
		<u>6,206</u>		<u>5,833</u>

15 Creditors: amounts falling due after more than one year

	31 December 2001 £000	4 January 2001 £000
Amounts owed to group undertakings	-	968

Borrowings, excluding bank overdrafts, outstanding at 31 December 2001 are repayable as follows:

	Other loans	
	31 December 2001 £000	4 January 2001 £000
Debts can be analysed as falling due:		
Between one and two years	-	66
Between two and five years	-	281
In five years or more	-	621
	<u>-</u>	<u>968</u>

Notes (continued)

16 Provisions for liabilities and charges

(a) Rationalisation and other provisions

	31 December 2001 £000	4 January 2001 £000
At beginning of period	167	150
Utilised during the period	-	(63)
Additional amounts provided	-	80
Surplus provisions released to profit and loss account	(98)	-
At end of year	69	167

The surplus provision released in 2001 of £98,000 relates to provisions set up in respect of the acquisition of part of the Lucas Fluid Power Division in 1993. The balance at the end of the period comprises provisions for future costs of vacant leased property.

(b) Deferred taxation

The provided and unprovided amounts for deferred taxation at 30% (31 December 1999: 30%) are as follows:

	31 December 2001		4 January 2001	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Accelerated capital allowances	-	(43)	-	48
Short term timing differences	-	(32)	-	(124)
Losses	-	(1,059)	-	(900)
	-	1,134	-	(976)

Notes (continued)

17 Commitments

(a) Capital expenditure

At 31 December 2001 there were outstanding capital commitments of £50,000 (4 January 2001: £Nil).

(b) Operating leases

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

	31 December 2001		4 January 2001	
	Vehicle contract hire £000	Property Rent £000	Vehicle contract hire £000	Property rent £000
Operating leases which expire:				
Within one year	81	-	35	-
In the second to fifth years inclusive	57	-	156	51
After more than five years	-	36	-	56
	<u>138</u>	<u>36</u>	<u>191</u>	<u>107</u>

Included within the annual commitment for property rent are amounts of £36,000 (4 January 2001: £36,000) which are charged to third parties under sub-lease arrangements.

18 Called up share capital

	31 December 2001 £000	4 January 2001 £000
<i>Authorised</i>		
7,850,000 ordinary shares of £1 each	<u>7,850</u>	<u>7,850</u>
<i>Allotted, called up and fully paid</i>		
7,800,100 ordinary shares of £1 each	<u>7,800</u>	<u>7,800</u>

19 Reserves

	31 December 2001 £000	4 January 2001 £000
At beginning of period	(6,491)	(3,940)
Profit/(loss) for the period	<u>228</u>	<u>(2,551)</u>
At end of period	<u>(6,263)</u>	<u>(6,491)</u>

The cumulative amount of goodwill written off against reserves is £5,650,000 (4 January 2001: £5,650,000).

Notes (continued)

20 Reconciliation of movements in shareholders' funds

	31 December 2001 £000	4 January 2001 £000
Profit/(loss) for the financial period being the net reduction in shareholders' funds	228	(2,551)
Opening shareholders' funds	1,309	3,860
Closing shareholders' funds	1,537	1,309

21 Pension scheme

The company operates three defined contribution schemes; one for the directors and two for other eligible employees. The cost for the year amounted to £110,000 (4 January 2001: £144,000).

22 Cash flow statement

Under Financial Reporting Standard 1 the company is exempt from the requirements to prepare a cash flow statement as it is a wholly owned subsidiary of a parent undertaking which has produced a group cash flow statement in accordance with the provisions of the standard.

23 Ultimate holding company

By virtue of the company being a wholly owned subsidiary included in the consolidated financial statements of a larger EU group, the company is exempt under Financial Reporting Standard 8 from disclosing transactions or balances with entities which are part of the group that qualify as related parties.

The company's immediate holding company is S Berendsen Limited.

Copies of the financial statements can be obtained from:

S Berendsen Limited
c/o Primary Fluid Power Limited
Caddick Road
Knowsley Business Park
Knowsley
Merseyside
L34 9HP

The largest group in which the results of the company are consolidated is that headed by Sito Financial Services BV, incorporated in the Netherlands.

Copies of the financial statements can be obtained from:

Sito Financial Services BV
Driebergseweg 17
NL-3708 JA Zeist
Netherlands