

Registrar of Cos.

TURBINE BLADING LIMITED

1265008

FINANCIAL STATEMENTS

YEAR ENDED 30TH APRIL, 1997



DIRECTORS AND OFFICERS :

DIRECTORS

M.J. Fraser
S.J. Jordan
I.M. Bremner
P.E. Levitch
D.J.W. Parkes

SECRETARY

R.H. Jaffa

AUDITORS

Farmiloes,
Chartered Accountants,
Winston Churchill House,
Ethel Street,
Birmingham, B2 4BG.

REGISTERED OFFICE

Station Road,
Shipston on Stour,
Warwickshire, CV36 4BL.

BANKERS

Midland Bank PLC,
33 Bennetts Hill,
Birmingham, B2 5RJ.

SOLICITORS

Herbert Wilkes,
41 Church Street,
Birmingham, B3 2RT.

COMPANY NUMBER

1265008

REPORT OF THE DIRECTORS

The directors present their report together with the financial statements of the company for the year ended 30th April, 1997.

RESULTS AND DIVIDENDS

The results for the year are set out in the profit and loss account on page 6. The directors do not recommend the payment of a dividend.

REVIEW OF THE BUSINESS

The principal activity of the company during the year was precision engineering, specialising in turbine blading.

The loss on operating activities during the year was due to problems in respect of one particularly large contract where a subcontractor manufactured a substantial quantity of defective components which delayed the company's fulfilment of the contract. The directors are confident that a successful claim can be made against the sub-contractor.

HOLDING COMPANY

The company is a wholly owned subsidiary of Turbine Blading Group Limited.

DIRECTORS AND THEIR SHARE INTERESTS

The directors who acted during the year were :

M.J. Fraser

S.J. Jordan

G.A. Fraser - died 19th July, 1997

I.M. Bremner

P.E. Levitch

D.J.W. Parkes - appointed 3rd December, 1996.

S.J. Jordan and I.M. Bremner retire in accordance with the company's articles of association and, being eligible, offer themselves for re-election.

REPORT OF THE DIRECTORS (CONTINUED)**DIRECTORS AND THEIR SHARE INTERESTS (CONTINUED)**

The directors held the following interests in the ordinary shares of Turbine Blading Group Limited at the beginning and end of the year :

	Ordinary shares of £1 each
M.J. Fraser	27,745
G.A. Fraser	3,013

POLITICAL AND CHARITABLE CONTRIBUTIONS

There were no political or charitable contributions during the year.

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 :

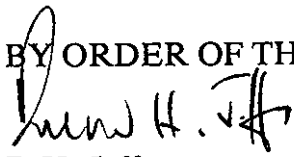
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE DIRECTORS (CONTINUED)

AUDITORS

The auditors, Messrs. Farmiloes, having indicated their willingness, will be proposed for reappointment at the forthcoming annual general meeting.

BY ORDER OF THE BOARD

R.H. Jaffa

SECRETARY

Station Road,
Shipston on Stour,
Warwickshire, CV36 4BL.

3rd September, 1997.

**AUDITORS REPORT TO THE SHAREHOLDERS OF
TURBINE BLADING LIMITED**

We have audited the financial statements on pages 6 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective responsibilities of the directors and auditors

As described on page 3, 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 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 of the state of the company's affairs at 30th April, 1997 and of its results for the year then ended, and have been properly prepared in accordance with the Companies Act, 1985.



**FARMILOES
CHARTERED ACCOUNTANTS
AND REGISTERED AUDITOR**

3rd September, 1997.

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30TH APRIL, 1997

	Notes	1997	1996
Turnover - continuing operations	2	<u>£6,669,056</u>	<u>£5,697,161</u>
(Loss)/profit on operating activities - continuing operations	3	(151,530)	279,766
Interest payable		(139,787)	(124,220)
Interest received		<u>4,767</u>	<u>5,022</u>
(Loss)/profit on ordinary activities before taxation - continuing operations		(286,550)	160,568
Tax on ordinary activities	4	<u>(91,900)</u>	<u>52,000</u>
(Loss)/profit on ordinary activities after taxation	5	(194,650)	108,568
Retained profit brought forward		<u>867,084</u>	<u>758,516</u>
Retained profit carried forward		<u>£672,434</u>	<u>£867,084</u>

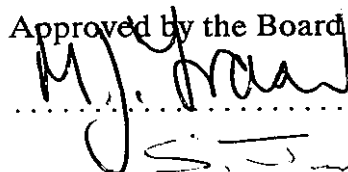
There are no recognised gains or losses other than the loss for the financial year.

BALANCE SHEET

AS AT 30TH APRIL, 1997

	Notes	1997	1996
FIXED ASSETS			
Tangible assets	8	2,358,635	2,153,679
Intangible assets	9	263,692	264,328
Investments	10	650	650
		<u>2,622,977</u>	<u>2,418,657</u>
CURRENT ASSETS			
Stocks	11	807,778	645,549
Debtors	12	1,994,133	1,755,724
Cash in hand and at bank		36,737	309,170
		<u>2,838,648</u>	<u>2,710,443</u>
CREDITORS - Amounts falling due within one year	13	<u>2,860,004</u>	<u>2,624,005</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(21,356)</u>	<u>86,438</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,601,621</u>	<u>2,505,095</u>
CREDITORS - Amounts falling due after more than one year	13	1,409,699	1,078,523
Provisions for liabilities and charges	14	191,000	231,000
		<u>1,600,699</u>	<u>1,309,523</u>
NET ASSETS		<u><u>£1,000,922</u></u>	<u><u>£1,195,572</u></u>
CAPITAL AND RESERVES			
Called up share capital	15	12,300	12,300
Share premium		7,290	7,290
Revaluation reserve	16	308,898	308,898
Profit and loss account		672,434	867,084
SHAREHOLDERS FUNDS	17	<u><u>£1,000,922</u></u>	<u><u>£1,195,572</u></u>

Approved by the Board on 3rd September, 1997.



) M.J. Fraser

)



) S.J. Jordan

DIRECTORS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH APRIL, 1997

1. ACCOUNTING POLICIES

a. Accounting convention

These financial statements have been prepared in accordance with the historical cost convention, modified to include the revaluation of certain fixed assets. The accounts are prepared in accordance with applicable accounting standards.

b. Fixed assets

Fixed assets are stated at cost or valuation less accumulated depreciation. Depreciation is provided on a straight line basis at rates which are estimated to write off each asset over its useful life. Assets are depreciated from the first day of the month following the month in which the assets are invoiced to the company. The rates of depreciation are as follows :

Freehold buildings	-	1 1/2% on revalued amount
Plant and machinery	-	10% on cost
Fixtures and fittings	-	15% on cost
Computers	-	25% on cost
Motor vehicles	-	25% on cost

c. Patents and trademarks

Patent and trademark fees are capitalised and the costs are amortised over the estimated useful lives of the assets. The costs are written off over a five year period commencing in the year after they have been incurred.

d. Stocks and work in progress

Work in progress and raw material stocks are stated at the lower of cost and net realisable value. Cost includes all direct costs incurred in bringing stocks and work in progress to their present location and condition, including an appropriate proportion of manufacturing overheads and, in the case of long term contracts, an appropriate proportion of commercial, administration and selling overheads. Provision is made for all anticipated liabilities and foreseeable losses on long term contracts.

A deduction is made to the extent that finished goods and work in progress are covered by progress payments received and receivable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

e. Deferred taxation

Deferred taxation is provided for in full.

f. Hire purchase

Additions to fixed assets purchased under hire purchase and lease purchase contracts are capitalised at cost. Interest applicable to the accounting period is charged in the trading account.

g. Leasing and rental transactions

Lease and rental payments for items acquired under operating leases are charged in the trading account.

h. Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated at the rate ruling on the date of the transaction. Exchange differences are taken into account in the operating profit.

2. TURNOVER

Turnover represents the amounts (net of value added tax) derived from the provision of goods and services within the company's ordinary activities, and includes £517,303 (1996 : £490,178) being the proportion of long-term contracts completed at the year end.

Turnover is derived from activities in the following geographical markets :

	1997	1996
United Kingdom	1,342,595	1,437,179
E.U.	1,392,392	876,240
U.S.A.	1,322,027	1,053,414
Rest of World	2,612,042	2,330,328
	<u>£6,669,056</u>	<u>£5,697,161</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. (LOSS)/PROFIT ON OPERATING ACTIVITIES

	1997	1996
Turnover	6,669,056	5,697,161
Cost of sales	<u>4,009,546</u>	<u>2,873,286</u>
Gross profit	<u>2,659,510</u>	<u>2,823,875</u>
Profit on sale of fixed assets	(3,892)	(9,902)
Depreciation costs	328,499	274,192
Amortisation costs	79,377	65,381
Administrative expenses	1,771,717	1,467,864
Selling expenses	<u>635,339</u>	<u>746,574</u>
	<u>2,811,040</u>	<u>2,544,109</u>
	<u>£(151,530)</u>	<u>£279,766</u>

4. TAXATION

	1997	1996
Tax on ordinary activities based on the results for the year :		
Corporation tax (repayable)/payable	(51,900)	26,000
Deferred taxation movement	<u>(40,000)</u>	<u>26,000</u>
	<u>£(91,900)</u>	<u>£52,000</u>

5. **(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION**

	1997	1996
This is stated after charging the following amounts :		
Profit on sale of fixed assets	(3,892)	(9,902)
Depreciation	328,499	274,192
Amortisation of patents	79,377	65,381
Auditors remuneration - audit	19,594	21,000
other	9,508	8,896
Directors emoluments	339,624	277,558
Interest on bank loans and overdraft	89,988	85,980
Hire purchase interest	40,724	38,240
Finance lease interest	6,098	-
Hire of equipment	12,348	3,053

8.	DIRECTORS AND EMPLOYEES	1997	1996

Directors :		
Emoluments of highest paid director	£143,649	£133,935

Emoluments of other directors were in the following ranges :

	1997	1996
£15,001 - £20,000	1	-
£20,001 - £25,000	-	1
£25,001 - £30,000	-	1
£35,001 - £40,000	1	-
£40,001 - £45,000	2	1
£50,001 - £55,000	-	1
£55,001 - £60,000	1	-
	<hr/>	<hr/>

Staff costs :	1997	1996
Wages and salaries (excluding directors)	2,227,263	1,981,363
Social Security costs	195,856	186,845
Other pension costs	121,128	107,848
	<u>£2,544,247</u>	<u>£2,276,056</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. DIRECTORS AND EMPLOYEES (CONTINUED)

The average number of employees during the year (excluding directors), analysed by activity, was 121 (1996 : 108), made up as follows :

	1997	1996
Production	91	81
Management and administration	<u>30</u>	<u>27</u>
	<u>121</u>	<u>108</u>

7. RELATED PARTY TRANSACTIONS

During the year the company utilized office space owned by Mr. M.J. Fraser on a rent free basis.

At 30th April, 1997 Mr. M.J. Fraser owed the company £26,096 (1996 : £39,737) and members of his family, who are employees of the company, owed the company £27,206 (1996 : £23,428). No interest has been charged.

The company has taken advantage of the exemption afforded by FRS 8, whereby it is not required to report transactions with its fellow subsidiary.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. TANGIBLE FIXED ASSETS

	Freehold property	Plant and machinery	Motor vehicles	Fixtures, fittings and tools	Total
Cost or valuation					
At 1st May, 1996	860,949	2,905,042	316,503	864,796	4,947,290
Additions	53,282	256,475	11,460	228,439	549,656
Disposals	-	(2,503)	(55,007)	(9,232)	(66,742)
Transfers	-	(1,995)	-	1,995	-
At 30th April, 1997	<u>914,231</u>	<u>3,157,019</u>	<u>272,956</u>	<u>1,085,998</u>	<u>5,430,204</u>
Depreciation					
At 1st May, 1996	25,819	1,953,454	191,303	623,035	2,793,611
Charge for year	13,148	176,964	38,279	100,108	328,499
Disposals	-	(2,503)	(38,806)	(9,232)	(50,541)
At 30th April, 1997	<u>38,967</u>	<u>2,127,915</u>	<u>190,776</u>	<u>713,911</u>	<u>3,071,569</u>
Net book values					
At 30th April, 1997	<u>£875,264</u>	<u>£1,029,104</u>	<u>£82,180</u>	<u>£372,087</u>	<u>£2,358,635</u>
At 30th April, 1996	<u>£835,130</u>	<u>£951,588</u>	<u>£125,200</u>	<u>£241,761</u>	<u>£2,153,679</u>

a) The revaluation of various assets took place as follows :

i) Freehold property :	Valuation	Original cost
21st April, 1994	<u>£860,000</u>	<u>£846,326</u>

The freehold properties of the company were revalued as at 21st April, 1994 by International property consultants, Chesterton of 84 Colmore Row, Birmingham, B3 2HG, in the sum of £860,000 on the basis of full vacant possession value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. TANGIBLE FIXED ASSETS (CONTINUED)

ii)	Plant and machinery :	Valuation
	12th June, 1986	£932,860
	31st October, 1987	<u>£290,080</u>

The revalued plant and machinery has been depreciated at a rate of 15% per annum and has now been fully depreciated.

b) The net book value of tangible fixed assets includes an amount of £793,025 (1996: £605,912) and the depreciation charge for the year includes a charge of £114,894 (1996 : £70,421) in respect of assets held under hire purchase and finance lease agreements.

9. INTANGIBLE FIXED ASSETS

	Patents and trademarks
Cost	
At 1st May, 1996	701,860
Additions	<u>78,741</u>
At 30th April, 1997	<u>780,601</u>
Amortisation	
At 1st May, 1996	437,532
Charge for year	<u>79,377</u>
At 30th April, 1997	<u>516,909</u>
Net book value	
At 30th April, 1997	<u>£263,692</u>
At 30th April, 1996	<u>£264,328</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. INVESTMENTS

	1997	1996
Shares held in a quoted company (market value £657 - 1996 : £1,026)	<u>£650</u>	<u>£650</u>

11. STOCKS

	1997	1996
Raw materials and consumables	210,278	206,080
Work in progress	1,120,200	1,390,478
Brochures	<u>12,000</u>	<u>24,000</u>
	1,342,478	1,620,558
Payments on account	<u>(534,700)</u>	<u>(975,009)</u>
	<u>£807,778</u>	<u>£645,549</u>

12. DEBTORS

	1997	1996
Trade debtors	727,389	839,306
Amounts recoverable on contracts	517,303	490,178
Amounts owed by group company - U.S.A.	229,831	122,881
Other debtors	327,251	103,356
Monies held on bond deposits	44,391	54,219
Prepayments and accrued income	112,116	106,047
Directors loan account	26,096	39,737
Corporation tax	<u>9,756</u>	<u>-</u>
	<u>£1,994,133</u>	<u>£1,755,724</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. DEBTORS (CONTINUED)

The monies held on bond deposits are payments received on account from customers. These monies are held by the company's bankers as security against advance payment bonds and performance bonds, and will not be available for use by the company until the bonds are satisfied.

The amounts recoverable on contracts relates to the proportion of long-term contracts completed at the year end (see note 2).

13. CREDITORS

	Under 1 year	1997 Over 1 year	Under 1 year	1996 Over 1 year
Bank loans and overdrafts (note a)	493,187	549,015	565,782	380,001
Trade creditors	1,319,902	-	1,154,014	-
Obligations under hire purchase agreements	155,513	274,552	160,107	244,942
Obligations under finance leases (note b)	29,854	127,013	-	-
Other loans	1,302	5,539	-	-
Corporation tax	-	-	42,144	-
Other creditors, including taxation and Social Security	101,728	-	98,197	-
Accruals and deferred income	350,580	-	285,204	-
Amounts owed to group companies	-	453,580	-	453,580
Payments on account received and receivable	407,938	-	318,557	-
	<u>£2,860,004</u>	<u>£1,409,699</u>	<u>£2,624,005</u>	<u>£1,078,523</u>

The amounts owed to group companies have been classified as due in over one year since they will not be paid in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. CREDITORS (CONTINUED)

a) The bank borrowings shown above are stated gross. "Cash in hand and at bank" as shown under current assets includes £29,135 (1996 : £300,332) of credit bank balances over which the bank has the right of set-off and £5,891 (1996 : £6,561) of credit bank balances over which the bank has a charge, so that net bank borrowings at 30th April, 1997 amounted to £1,007,176 (1996 : £638,890). The bank borrowings are secured by a debenture on the bank's standard form giving the bank fixed and floating charges over the company's assets. There is an unlimited multilateral guarantee given by the Turbine Blading Group Limited U.K. subsidiaries.

b) Of the total amount shown as obligations under finance leases £116,732 is secured on assets, the balance is unsecured.

The bank loans are repayable by monthly instalments of £7,848, which will end in December, 2006. This will result in payments falling due as follows:

	1997	1996
Within one year	38,845	93,332
Two to five years	198,777	290,001
Over five years	350,238	90,000
	<u>£587,860</u>	<u>£473,333</u>

14. PROVISIONS FOR LIABILITIES AND CHARGES

	1997	1996
Deferred taxation		
Movement in year :		
Balance at beginning of year	231,000	205,000
Adjustment to taxation account based on the results for the year	<u>(40,000)</u>	<u>26,000</u>
Balance at end of year	<u>£191,000</u>	<u>£231,000</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

	1997		1996	
	Full potential liability	Provision made	Full potential liability	Provision made
Accelerated capital allowances and other timing differences	<u>£191,000</u>	<u>£191,000</u>	<u>£231,000</u>	<u>£231,000</u>

No provision for deferred tax is required on the potential gain arising from the revaluation of the freehold property due to the availability of indexation relief.

15. CALLED UP SHARE CAPITAL

	Authorised	Allotted, issued and fully paid
Ordinary shares of £1 each	<u>100,000</u>	<u>12,300</u>

16. REVALUATION RESERVE

	1997	1996
Balance at beginning and end of year	<u>£308,898</u>	<u>£308,898</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997	1996
(Loss)/profit for the financial year	(194,650)	108,568
Opening shareholders' funds	<u>1,195,572</u>	<u>1,087,004</u>
Closing shareholders' funds	<u><u>£1,000,922</u></u>	<u><u>£1,195,572</u></u>

18. CAPITAL COMMITMENTS

There were no capital commitments at the year end (1996 : £Nil)

19. CONTINGENT LIABILITIES

- a) The company has given an unlimited multilateral guarantee to the company's bankers in respect of any bank borrowings of Turbine Blading Group Limited and its U.K. subsidiaries. At 30th April, 1997 the group had indebtedness to the bank amounting to £1,013,067 (1996 : £645,451) which is all dealt with in these financial statements.
- b) The company's main bankers, Midland Bank PLC, has issued a guarantee in favour of Barclays Bank PLC in the sum of £160,641 (1996 : £Nil).
- c) There are contingent liabilities amounting to £121,862 (1996 : £177,589) in respect of Performance Bonds, against which the bank holds a deposit of £44,391 (1996 : £54,219) and the remainder is covered by a chattel mortgage.
- d) The company's bankers have given advance payment bonds totalling £72,529 (1996 : £Nil). The bank holds a chattel mortgage to cover this.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**20. PENSION SCHEME**

The pension scheme is a defined benefit scheme and is a funded scheme. Formal actuarial valuations of the scheme are carried out every three years, and such a triennial valuation is currently being prepared. The actuary has provisionally reported that in April, 1995 the assets of the scheme would have been sufficient to cover at least 120% of the liabilities on a discontinuance basis. This solvency level is arrived at by comparing the value of existing assets to the level of pensions in payment, preserved benefits for members whose pensionable service has ceased, and accrued benefits for active members based on completed service and current pensionable salaries increased in line with statutory requirements only; and is based on pensions in payment being secured externally and all other members taking cash equivalent transfer values.

At 30th April, 1997, the company owed £19,400 to the Scheme (1996 : £29,320), and this is included in creditors.

21. PARENT COMPANY

The parent company is Turbine Blading Group Limited, a company incorporated in England.