

ERIEZ MAGNETICS EUROPE LIMITED
(Registered number 1397255)

DIRECTORS' REPORT AND ACCOUNTS

31 DECEMBER 2002



ERIEZ MAGNETICS EUROPE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2002

The directors submit their report and the audited accounts of the company for the year ended 31 December 2002.

REVIEW OF THE BUSINESS

The principal activity of the company continues to be the design and manufacture of equipment for use in material movement, separation, purification and metal detection.

FUTURE DEVELOPMENTS

The company will continue to seek to expand its sales in continental Europe.

RESULTS AND DIVIDENDS

The company's profit for the financial year was £540,232 (2001 loss: £(332,780)). The directors did not pay a dividend in the year (2001: £Nil). The final proposed dividend is £Nil (2001: £Nil) in respect of the year and the retained profit of £540,232 (2001 loss: £(332,780)) will be added to reserves.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year and their shareholdings in the ultimate parent undertaking and the company at the end of the year were as follows:

	<u>Ultimate parent undertaking</u>		<u>Company</u>	
	<u>Class A Ordinary shares</u>		<u>Ordinary £1 shares</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	Number	Number	Number	Number
A J Lewis	250	250	1	1
Mrs J Jamieson	-	-	1	1
P Fears	-	-	-	-

CHARITABLE DONATIONS

During the year the company made charitable donations of £559 (2001: £410).

PAYMENT OF CREDITORS

The company's standard settlement terms are 60 days from the delivery. Actual payments are made 30 days from the end of the month following delivery. At 31 December 2002 the company's creditor days compared to the value of suppliers' invoices received in the year was 49 days (2001: 56 days).

ERIEZ MAGNETICS EUROPE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

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:

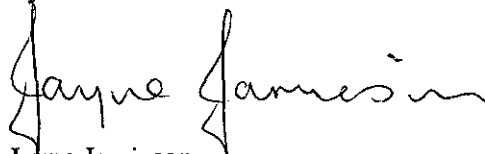
- (1) select suitable accounting policies and then apply them consistently;
- (2) make judgements and estimates that are reasonable and prudent;
- (3) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (4) 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

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from January 2003, PricewaterhouseCoopers resigned in February 2003 and the directors appointed its successor PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By Order of the Board



Jayne Jamieson
Company Secretary

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF ERIEZ MAGNETICS EUROPE LIMITED

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 in to 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 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 is not disclosed.

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

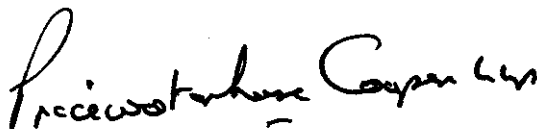
Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its profit and cashflows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cardiff

12 May 2003

ERIEZ MAGNETICS EUROPE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

	<u>2002</u> £	As restated <u>2001</u> £
TURNOVER – Continuing operations (Note 1,2)	8,845,763	8,860,156
COST OF SALES		
- Normal	(6,997,215)	(6,779,995)
- Exceptional (Note 5)	-	(679,326)
	<u>(6,997,215)</u>	<u>(7,459,321)</u>
GROSS PROFIT	1,848,548	1,400,835
Distribution costs	(1,022,936)	(996,738)
Administrative expenses	(589,761)	(869,940)
Other operating income	6,036	4,356
Other income	<u>535,000</u>	<u>-</u>
OPERATING PROFIT/(LOSS) – Continuing operations	776,887	(461,487)
Interest payable and similar charges (Note 3)	(711)	(10,070)
Interest receivable	<u>6,539</u>	<u>1,054</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION (Note 5)	782,715	(470,503)
Tax on profit/(loss) on ordinary activities (Note 7)	<u>(242,483)</u>	<u>137,723</u>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	<u>540,232</u>	<u>(332,780)</u>

There is no difference between the profit / (loss) on ordinary activities before taxation and the retained profit / (loss) for the year stated above, and their historical cost equivalents.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2002

	<u>2002</u> £	As restated <u>2001</u> £
Profit / (loss) for the year	540,232	(332,780)
Prior year adjustment	173,677	-
TOTAL GAINS AND LOSSES RECOGNISED SINCE THE LAST ANNUAL REPORT	<u>713,909</u>	<u>(332,780)</u>

ERIEZ MAGNETICS EUROPE LIMITED

BALANCE SHEET - 31 DECEMBER 2001

	2002		As restated 2001	
	£	£	£	£
FIXED ASSETS				
Intangible assets (Note 8)		-		-
Tangible assets (Note 9)		1,610,574		1,638,868
Investments (Note 10)		43,769		43,769
		<u>1,654,343</u>		<u>1,682,637</u>
CURRENT ASSETS				
Stocks (Note 11)	923,066		1,727,089	
Debtors (Note 12)	1,877,224		1,934,061	
Cash at bank and in hand	401,023		43,310	
	<u>3,201,313</u>		<u>3,704,460</u>	
CREDITORS – Amounts falling due within one year (Note 13)	<u>(1,655,477)</u>		<u>(2,508,530)</u>	
NET CURRENT ASSETS		<u>1,545,836</u>		<u>1,195,930</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,200,179		2,878,567
CREDITORS – Amounts falling due in more than one year (Note 14)		(121,188)		(116,414)
PROVISIONS FOR LIABILITIES AND CHARGES (Note 17)		<u>(75,339)</u>		<u>(298,733)</u>
NET ASSETS		<u>3,003,652</u>		<u>2,463,420</u>
CAPITAL AND RESERVES				
Called up share capital (Note 18)		200,000		200,000
Profit and loss account (Note 19)		<u>2,803,652</u>		<u>2,263,420</u>
EQUITY SHAREHOLDERS' FUNDS (Note 20)		<u>3,003,652</u>		<u>2,463,420</u>

The financial statements on pages 4 to 22 were approved by the board of directors on
and were signed on its behalf by:



AJ Lewis
DIRECTOR

6 May 2003

ERIEZ MAGNETICS EUROPE LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

	2002		2001	
	£	£	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES (Note 21)		552,637		997,151
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received	6,539		1,054	
Interest paid: Overdraft and loan interest	(305)		(8,586)	
Finance lease interest	(406)		(1,484)	
Net cash outflow from returns on investments and servicing of finance		5,828		(9,016)
TAXATION				
Corporation tax paid	(85,252)		1,375	
Corporation tax refunds	18,195		-	
		(67,057)		1,375
CAPITAL EXPENDITURE				
Payments to acquire tangible fixed assets	(130,825)		(334,803)	
Proceeds from sale of fixed assets	2,040		3,000	
Net cash outflow from capital expenditure		(128,785)		(331,803)
NET CASH IN INFLOW/(OUTFLOW) BEFORE FINANCING		362,623		657,707
FINANCING				
Capital repaid on finance leases	(4,910)		(4,991)	
Repayment of loan capital	-		(245,341)	
NET CASH (OUTFLOW)/INFLOW FROM FINANCING		(4,910)		(250,332)
INCREASE/(DECREASE) IN CASH (Note 22)		357,713		407,375

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002

1 ACCOUNTING POLICIES

The financial statements contain information about Eriez Magnetics Europe Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 248 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as the group it heads qualifies as a medium sized group.

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

Changes in accounting policies

In December 2000 the Accounting Standards Board issued FRS 19 "Deferred Tax". The company has adopted FRS 19 "Deferred Tax" in the financial statements. The adoption of this new standard represents a change in accounting policy and the comparative figures have been restated accordingly.

The effect of the change in accounting policy was to increase tax on profit on ordinary activities by £173,677 (2001 decrease £136,348) and to reduce the profit for the financial year by £173,677 (2001 increase £136,348).

FRS 18 has been adopted in the current year but this did not require any changes in accounting policies.

Turnover

Turnover represents the value of goods invoiced and work carried out during the period excluding value added tax.

Foreign currency

Transactions expressed in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Amounts payable and receivable in foreign currencies at the balance sheet date are translated at rates approximating to current rates of exchange at that date. Differences arising from changes in exchange rates are incorporated in the profit on ordinary activities before taxation.

Research and development

Expenditure on research and development is charged to the profit and loss account in the period in which the costs are incurred.

Goodwill

Goodwill arising on acquisitions is capitalised in the year in which it arises and is eliminated by amortisation through the profit and loss account on a straight line basis over its useful economic life, being not more than 20 years.

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition, except for freehold properties that are held at their depreciated re-valued amounts.

Fixed assets are depreciated on a straight line basis at rates calculated to write off the cost of the assets over their expected useful lives. The annual rates used are between 10% and 25% for plant and machinery and 4% for buildings. Freehold land is not depreciated. Leased assets are written off over the shorter of the lease term and their expected useful lives.

Fixed asset investments

Fixed asset investments are stated in the balance sheet at cost less provision for any permanent diminution in value.

Stocks

Stocks are stated at the lower of cost, including appropriate production overheads, and net realisable value.

Government grants

Government grants which are of a capital nature are credited to deferred income when received. They are released to the profit and loss account over the useful lives of the assets to which they relate.

Leased assets

Assets held under finance leases are capitalised at inception at their original cost and a lease obligation recognised for that capitalised amount. The rental payments during the lease period are apportioned between capital repayment and finance cost by the "rule of 78" method. The finance cost is charged to the profit and loss account in the year incurred.

For operating leases the rental charges are taken to profit and loss account on a straight line basis over the life of the lease.

Deferred taxation

FRS 19 'Deferred Tax' has been adopted in the preparation of these accounts. The Standard requires full provision to be made for deferred tax arising from timing difference between the recognition of gains and losses in the financial statements and their recognition in tax computations, where future payment or receipt is more likely than not to occur. In adopting FRS 19, the company has chosen not to discount deferred tax assets and liabilities.

Pensions

The company operates a defined benefit pension scheme. The expected cost of pensions is assessed in accordance with the advice of qualified actuaries, and charged to the profit and loss account so as to spread the cost of pensions over the service lives of the scheme members.

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

2 SEGMENTAL INFORMATION

The company's activity represents substantially one class of business.

A geographical analysis of turnover, results and net assets has not been given as, in the opinion of the directors, the disclosure of this information would be seriously prejudicial to the interests of the company (Schedule 4, Part III, para. 55(5) Companies Act 1985 and Statement of Standard Accounting Practice Number 25).

3 INTEREST PAYABLE AND SIMILAR CHARGES

	<u>2002</u>	<u>2001</u>
	£	£
Interest on bank overdraft	305	2,640
Interest on long term Euro loan	-	5,946
Interest on finance leases	406	1,027
Interest on HP Loans	-	457
	<u>711</u>	<u>10,070</u>

4 EMPLOYEES

	<u>2002</u>	<u>2001</u>
	£	£
Wages and salaries	2,158,846	2,191,701
Social security costs	179,740	181,910
Other pension costs	269,444	301,333
	<u>2,608,030</u>	<u>2,674,944</u>

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

	<u>2002</u>	<u>2001</u>
	Number	Number
By activity		
Production	53	53
Office and management	38	38
Marketing	1	1
	<u>92</u>	<u>92</u>

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

5 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/Profit on ordinary activities before taxation is stated after charging/(crediting) the following:

	<u>2002</u> £	<u>2001</u> £
Depreciation on fixed assets - owned assets	163,995	140,584
- leased assets	4,910	4,991
Loss / (profit) on disposal of fixed assets	1,830	(3,000)
Auditors' remuneration - audit services	19,500	18,715
- non audit services	6,096	-
Royalties payable to parent undertaking	317,979	233,093
(Profit) / loss on foreign currency transactions (net)	(49,609)	43,750
Operating lease expense - hire of motor vehicles	51,756	43,237
Amortisation of government grants	<u>(6,036)</u>	<u>(4,356)</u>

Exceptional items

Included within cost of sales are certain items that the Directors consider are exceptional in nature, and of sufficient size to be disclosed on the face of the profit and loss account. These consist of costs incurred in the research and development of the Companys' new super conductor magnet product line.

6 DIRECTORS' EMOLUMENTS

	<u>2002</u> £	<u>2001</u> £
Management Services	266,078	199,379
Pension costs	47,855	41,113
	<u>313,933</u>	<u>240,492</u>

Retirement benefits are accruing under defined benefit schemes for three directors.

Emoluments payable to the highest paid director are as follows:

	<u>2002</u> £	<u>2001</u> £
Aggregate emoluments	105,926	79,244
Pension costs	19,142	16,376
	<u>125,068</u>	<u>95,620</u>

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

6 DIRECTORS' EMOLUMENTS (CONTINUED)

Pension benefits accruing to the highest paid director at the year end were:

	<u>2002</u> £	<u>2001</u> £
Accrued pension	<u>34,356</u>	<u>28,439</u>
Accrued lump sum	<u>-</u>	<u>-</u>

7 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

	<u>2002</u> £	As restated <u>2001</u> £
Based on the results for the year:		
United Kingdom corporation tax at 30% (2001: 30%)	7,700	(1,375)
Deferred tax:		
Origination and reversal of timing difference	234,783	(136,348)
Total tax on profit on ordinary activities	<u>242,483</u>	<u>(137,723)</u>

The tax assessed for the year is lower than the corporation tax rate applying in the UK (30%). The differences are explained below:

	<u>2002</u> £	As restated <u>2001</u> £
Profit on ordinary activities at the UK tax rate 30% (2001: 30%)	234,815	(141,151)
Effects of:		
Expenses not deductible for tax purposes	7,668	3,428
Accelerated capital allowances & other timing differences	<u>(234,783)</u>	<u>136,348</u>
Current tax charge for the year	<u>7,700</u>	<u>(1,375)</u>

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

8 INTANGIBLE FIXED ASSETS

	<u>Goodwill</u> £
COST	
At 1 January and 31 December 2002	<u>17,000</u>
AMORTISATION	
At 1 January and 31 December 2002	<u>17,000</u>
NET BOOK VALUE	
At 31 December 2002 and 31 December 2001	<u>-</u>

9 TANGIBLE FIXED ASSETS

	<u>Freehold land and buildings</u> £	<u>Leased assets</u> £	<u>Plant and Equipment</u> £	<u>Total</u> £
COST				
At 1 January 2001	1,153,370	22,907	1,565,405	2,741,682
Additions	10,140	14,723	120,685	145,548
Disposals	-	(20,761)	(48,553)	(69,314)
At 31 December 2002	<u>1,163,510</u>	<u>16,869</u>	<u>1,637,537</u>	<u>2,817,916</u>
ACCUMULATED DEPRECIATION				
At 1 January 2001	218,723	17,455	866,636	1,102,814
Charge for the year	36,333	4,910	127,662	168,905
Released on disposals	-	(19,694)	(44,683)	(64,377)
At 31 December 2002	<u>255,056</u>	<u>2,671</u>	<u>949,615</u>	<u>1,207,342</u>
NET BOOK VALUE				
At 31 December 2002	<u>908,454</u>	<u>14,198</u>	<u>687,922</u>	<u>1,610,574</u>
At 31 December 2001	<u>934,647</u>	<u>5,452</u>	<u>698,769</u>	<u>1,638,868</u>

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

10 FIXED ASSET INVESTMENTS

	<u>Shares in group undertakings</u> £
COST	
At 1 January and 31 December 2002	<u>232,347</u>
PROVISION	
At 1 January and 31 December 2002	<u>188,578</u>
NET BOOK VALUE	
At 31 December 2002 and 31 December 2001	<u><u>43,769</u></u>

The subsidiaries of the company as at 31 December 2002 were as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Class of shares</u>	<u>% holding</u>	<u>Nature of business</u>
Pulse Technology Limited	England and Wales	Ordinary	100%	Dormant
Prisecter Services Limited	England and Wales	Ordinary	100%	Dormant
Prisecter India AVT Limited	India	Ordinary	51%	Dormant
Boxmag Rapid Limited	England and Wales	Ordinary	100%	Dormant

The directors have taken advantage of the exemption from the requirement to prepare group accounts under Section 248 (1) of the Companies Act 1985.

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	Capital and reserves	Profit after taxation for the year
	£	£
Pulse Technology Limited	43,769	-
Prisecter Services Limited	2	-
Prisecter India AVT Limited	200	-
Boxmag Rapid Limited	1	-

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

11 STOCKS

	<u>2002</u> £	<u>2001</u> £
Raw materials and consumables	223,230	273,890
Work in progress	487,278	1,076,627
Finished goods	212,558	376,572
	<u>923,066</u>	<u>1,727,089</u>

The replacement cost of stocks is not significantly different from that shown above.

12 DEBTORS

	<u>2002</u> £	As restated <u>2001</u> £
Trade debtors	1,622,346	1,433,435
Amounts owed by group companies	72,692	111,680
Prepayments and accrued income	95,737	188,177
Corporation tax	86,449	27,092
Deferred tax (see note 17)	-	173,677
	<u>1,877,224</u>	<u>1,934,061</u>

13 CREDITORS - Amounts falling due within one year

	<u>2002</u> £	<u>2001</u> £
Trade creditors	677,474	1,654,775
Amounts owed to parent undertaking	304,338	417,439
Amounts due to subsidiary undertakings	43,769	43,769
Other taxation and social security	60,549	59,176
Accruals and deferred income	567,026	328,986
Obligations under finance leases (Note 15)	2,321	4,385
	<u>1,655,477</u>	<u>2,508,530</u>

The company's bankers hold a mortgage charge over the freehold property of the company, a fixed charge over the book debts and a floating charge over all other assets in respect of various facilities and guarantees that are made available to the company.

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

14 CREDITORS - Amounts falling due after more than one year

	<u>2002</u> £	<u>2001</u> £
Deferred income (see below)	109,311	115,347
Obligations under finance leases (Note 15)	11,877	1,067
	<u>121,188</u>	<u>116,414</u>

Deferred income represents the portion of government grants not released to profit and loss account.

15 OBLIGATIONS UNDER LEASES

(a) Finance leases

The minimum lease payments to which the company is committed under finance leases mature as follows :

	<u>2002</u> £	<u>2001</u> £
Within one year	3,880	4,791
Within two and five years inclusive	14,550	1,095
Gross obligations	<u>18,430</u>	<u>5,886</u>
Less :		
Finance charges allocated to future periods	(4,232)	(434)
	<u>14,198</u>	<u>5,452</u>
Falling due within one year (Note 13)	2,321	4,385
Falling due after one year (Note 14)	11,877	1,067
	<u>14,198</u>	<u>5,452</u>

(b) Operating leases

The company's annual commitments under non-cancellable operating leases are as follows:

	<u>Hire of motor vehicles</u> <u>2002</u> £	<u>2001</u> £
Leases expiring:		
Within one year	18,075	2,711
Between one and five years	50,994	68,919
	<u>69,069</u>	<u>71,630</u>

16 CONTINGENT LIABILITIES

The company have issued a number of performance guarantees to customers which may be called upon if goods sold do not meet set performance criteria. The total value of outstanding guarantees at year end was £270,340 (2001: £457,600).

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

17 PROVISIONS FOR LIABILITIES AND CHARGES

	<u>2002</u> £	<u>2001</u> £
Provision for onerous lease	14,233	14,233
Contract accruals	-	284,500
Deferred Tax	61,106	-
	<u>75,339</u>	<u>298,733</u>

The movement in the provisions is analysed as follows:

	<u>Onerous Lease</u> £	<u>Contract Accruals</u> £	<u>Deferred Tax</u> £
At 1 January 2002	14,233	284,500	-
Prior year adjustment	-	-	(173,677)
At 1 January 2002 as restated	14,233	284,500	(173,677)
Provisions made during the year	-	-	234,783
Amounts utilised during the year	-	(213,311)	-
Unused amounts reversed during the year	-	(71,189)	-
At 31 December 2002	<u>14,233</u>	<u>-</u>	<u>61,106</u>

The deferred tax provision comprises the following elements:

	<u>2002</u> £	As restated <u>2001</u> £
Accelerated capital allowances	64,832	59,712
Short term timing differences	(3,726)	(151,774)
Trading losses	-	(81,615)
	<u>61,106</u>	<u>(173,677)</u>

18 CALLED UP SHARE CAPITAL

	<u>2002</u> £	<u>2001</u> £
Authorised:		
Ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>
Issued, allotted and fully paid:		
Ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

19 RESERVES

	Profit and loss account
	£
At 1 January 2002	2,089,743
Prior year adjustment – FRS 19	173,677
At 1 January 2002 as restated	2,263,420
Retained profit for the year	540,232
At 31 December 2002	2,803,652

20 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2002	As restated 2001
	£	£
Profit / (loss) for the financial year	540,232	(332,780)
Opening shareholders' funds as previously reported	2,289,743	2,758,871
Prior year adjustment – FRS 19	173,677	37,329
Opening shareholder's funds as restated	2,463,420	2,796,200
Closing shareholders' funds	3,003,652	2,463,420

21 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002	2001
	£	£
Operating (loss)/profit	776,887	(461,487)
Depreciation	168,905	145,575
(Profit)/loss on disposal of fixed assets	1,830	(3,000)
Amortisation of deferred grants	(6,036)	(4,356)
Grants received	-	54,615
(Increase)/decrease in stocks	804,023	(779,688)
Decrease/(increase) in debtors	(57,483)	618,390
Increase/(decrease) in creditors	(850,989)	1,166,163
Movement in provisions	(284,500)	260,939
Net cash inflow/(outflow) from operating activities	552,637	997,151

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	<u>2002</u> £	<u>2001</u> £
Increase/(decrease) in cash in period	357,713	407,375
Repayments of loans and finance leases	4,910	250,332
Movement in net funds /debt arising from cashflows	362,623	657,707
New finance leases	(14,723)	-
Discontinued finance leases	1,067	-
Movement in net funds / debt	348,967	657,707
Net funds / (debt) at 1 January	37,858	(619,849)
Net funds at 31 December	386,825	37,858

23 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January <u>2002</u> £	<u>Cashflows</u> £	<u>Other</u> <u>Changes</u> £	At 31 December <u>2002</u> £
Cash	43,310	357,713	-	401,023
Debt due within 1 year	(4,385)	4,910	(2,846)	(2,321)
Debt due after 1 year	(1,067)	-	(10,810)	(11,877)
Net cash	37,858	362,623	(13,656)	386,825
Analysed in balance sheet				
Cash at bank and in hand	43,310			401,023
Finance lease obligations due within one year	(4,385)			(2,321)
Finance lease obligations due more than one year	(1,067)			(11,877)
Net cash	37,858			386,825

24 PENSION COMMITMENTS

The company operates a funded defined benefit scheme for employees.

The latest actuarial valuation of the scheme was carried out by independent actuaries as at 1 January 2002 using the projected unit method. The principal actuarial assumptions adopted in the valuation were that the long term annual rate of return on investments would be 6.5% and the average annual increases in pensionable salaries would be 4.5%. The actuarial value of the assets of the scheme was sufficient to cover 86% of the benefits that had accrued to members after allowing for expected future increases in pensionable remuneration. The actuarial value of the assets of the scheme as at the date of the actuarial valuation was £1,999,000.

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

In order to deal with the current funding deficiency which has arisen due mainly to revised valuation assumptions which include a lower long term annual rate of return on investments than that previously assumed, an increased employer contribution rate has been recommended for the five years commencing 1 January 2002. The employers contribution rate is currently 14.7%, which includes an additional 4.3% to clear the deficit over 5 years.

Total pension costs during the year in respect of this scheme were £ 242,555 (2001: £259,314).

In addition, there is a defined contribution scheme which is non-contributory by members. Pension costs to the company for this scheme amounted to £26,889 (2001: £15,399).

FRS 17 Transitional Rules Disclosures

During the period the Company participated in the Eriez Magnetics UK Limited 1987 Pension Scheme which is a defined benefit scheme. Contributions were made to the Scheme in accordance with the Schedule of Contributions. The most recent formal actuarial valuation of the Scheme was carried out at 1 January 2002 by an independent qualified actuary.

Financial assumptions	<u>200</u>	<u>2001</u>
Salary increases	3.0% pa	3.5% pa
Pension increases (on pensions now being accrued)	2.5% pa	2.5% pa
Discount rate	5.5% pa	6.0% pa
RPI	2.5% pa	2.5% pa
Expected return on assets	7.0% pa	7.5% pa

The assets in the scheme and the expected rates of return were:

	<u>2002</u> <u>£000'</u>	<u>2001</u> <u>£000'</u>
Total market value of assets	1,757	1,867
Present value of scheme liabilities	(2,245)	(1,926)
Deficit in the scheme	(488)	(59)
Related deferred tax asset	146	18
Net pension liability	<u>(342)</u>	<u>(41)</u>

Note: The main investment of the scheme is a with-profits insurance policy.

Analysis of the amount charged to operating profit

	<u>2002</u> <u>£000'</u>
Current service cost	170
Past service cost	-
Total operating charge	<u>170</u>

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

24 PENSION COMMITMENTS (CONTINUED)

Analysis of the amount credited to other finance income

	<u>2002</u> £000'
Expected return on pension scheme assets	139
Interest on pension scheme liabilities	(114)
Net return	<u>25</u>

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	<u>2002</u> £000'
Actual return less expected return on pension scheme assets	(228)
Experience gains and losses arising on the scheme's liabilities	(205)
Changes in assumptions underlying present value of liabilities	(85)
Actuarial loss recognised in STRGL	<u>(518)</u>

Movement in deficit during the year

	<u>2002</u> £000'
Deficit in scheme at beginning of the year	(59)
Movement in year:	
Current service cost	(170)
Contributions	234
Past service costs	-
Other finance income	25
Actuarial loss in STRGL	(518)
Deficit in scheme at end of the year	<u>(488)</u>

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

24 PENSION COMMITMENTS (CONTINUED)

History of experience gains and losses

	<u>2002</u>
Difference between the expected and actual return on scheme assets:	
• Amount (£'000s)	(228)
• Percentage of scheme assets	(13%)
Experience gains and losses on scheme liabilities:	
• Amount (£'000s)	(205)
• Percentage of the present value of the scheme liabilities	(9%)
Total amount recognised in STRGL:	
• Amount (£'000s)	(518)
• Percentage of the present value of the scheme liabilities	(23%)

Balance sheet presentation

	<u>2002</u>	<u>2001</u>
	£000's	£000's
Net assets excluding pension liability	3,004	2,463
Net pension liability	(342)	(41)
Net assets including pension liability	<u>2,662</u>	<u>2,422</u>
Profit and loss reserve excluding pension liability	2,804	2,263
Net pension liability	(342)	(41)
Profit and loss reserve	<u>2,462</u>	<u>2,222</u>

Note: The net pension liability is the deficit in the Scheme less the related deferred tax asset.

On 1 January 2003, the trustees of the Scheme transferred it to a "Unitised With Profits" fund. As a result of effecting this transfer, the scheme benefited from an immediate 32% increase in the value of the funds' assets.

25 RELATED PARTY TRANSACTIONS

Details of the transactions which have taken place between the company and its parent and other members of the group are given below:

	<u>2002</u>	<u>2001</u>
	£	£
Purchases of goods	88,133	445,304
Sales of goods	381,647	543,019
Royalty charges payable	<u>319,651</u>	<u>233,093</u>

ERIEZ MAGNETICS EUROPE LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2002 (CONTINUED)

26 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The company's immediate parent undertaking is Eriez Manufacturing Company which is incorporated in the United States of America. Ultimate control rests with Mr Richard Merwin.