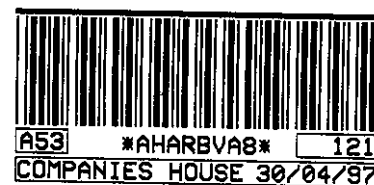


SERVOMEX plc
ANNUAL REPORT AND FINANCIAL STATEMENTS
1996

Servomex plc
Jarvis Brook
Crowborough
East Sussex
TN6 3DU

Company Number: 1938746



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Company Information

DIRECTORS

- *# TERRY CLEMENTS, BEng, CEng, MIMechE
Chairman (non-executive)
- # ROGER HARROP, BSc (Hons), CEng, FIMechE,
FCIM, FRSA
Group Chief Executive
- *# CLIVE GREGORY, FCA
(non-executive)
- LES JAMES, MSc
- # MARTIN JOHNSTON, MA, FCA
Group Finance Director
- RIAD KOCACHE, BSc(Hons), MSc, PhD, CEng,
CPhys, FInstP, FInstMC, FIEE
- BOB KYDD, BSc(Hons), PhD, CEng, MInstMC
- # PETER PARNELL, BSc(Hons)
- DAVE WILLETT, (USA), AAS, BS - resigned
31 December 1996
- * Member of Audit Committee
+ Member of Remuneration Committee
Member of Acquisition Committee

Company Executives

SERVOMEX GROUP LIMITED
ELAINE BARNDEN, Human Resources
RICHARD GREEN, Manufacturing
LES JAMES, Managing
MARTIN JOHNSTON, Finance
RIAD KOCACHE, Technology
BOB KYDD, Business Development/Marketing
MEL PLATTE, Americas
AUKE RENTENAAR, Europe/India/Africa
ROBERT WANG, Asia Pacific/Australasia

BÜHLER MONTEC GROUP LIMITED
JAMES HUNTER JOHNSTON, Production
KATE MUNTON, Marketing
MEHRAN PASDARI, Technical
ANDREW PERRY, Finance
CHRISTIAN SAMÉ, France
IAN SMITH, UK/Eire
HANS WODTKE, Germany/Eastern Europe
PETER WRIGHT, Rest of World

BICOTEST LIMITED
OSCAR ANDREATTA, Production
PAUL BURDETT, Quality & Facilities
FRANK COLLINS, Asia Pacific/South America/Africa
SUE GRANT, Commercial/Marketing
ANDREW MOSS, Technical
PETER PARNELL, Managing
GEORGE SLADE, Materials
COLIN SCOTT, Finance
DAVID STANSFIELD, Rest of Europe/India
MARK TURVEY, UK/North America

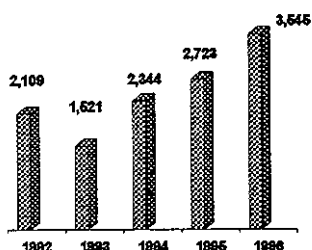
Group Operating Units

Secretary	Martin Johnston, MA, FCA	SERVOMEX GROUP LIMITED	Jarvis Brook, Crowborough East Sussex, TN6 3DU England Tel: +44 1892 652181 Fax: +44 1892 662253 Global email: info@servomex.com Web Site: http://www.servomex.com	BICOTEST LIMITED	Delamare Road Cheshunt Herts EN8 9TG, England Tel: +44 1992 629011 Fax: +44 1992 636170
Registered Office	Jarvis Brook Crowborough East Sussex TN6 3DU			BÜHLER MONTEC GROUP LIMITED	Pacific Way, Salford Manchester, M5 2DL England Tel: +44 161 872 1487 Fax: +44 161 848 7324
Registered Number	1938746	Servomex International Limited	Address as above		
Stockbrokers	NatWest Wood Mackenzie & Co Ltd 135 Bishopsgate London EC2M 3XT	Servomex SARL	8 Rue Proudhon 93212 La Plaine Saint Denis Paris, France Tel: +33 1 48 20 83 22 Fax: +33 1 48 20 63 58	Bühler Montec GmbH	Rottenburger Straße, D-72411 Bodelshausen Germany Tel: +49 74 71 70 70 Fax: +49 74 71 70 71 88
Solicitors	Edge & Ellison 18 Southampton Place London WC1A 2AJ	Servomex BV	Stephensonstraat 20 2723 RN Zoetermeer, Holland Tel: +31 79 3417141 Fax: +31 79 3420819	Bühler Montec SA	47, chemin du Vieux Chêne ZIRST 4102, 38941 MEYLAN, France Tel: +33 476 61 62 90 Fax: +33 476 61 62 99
Financial Advisers	J Henry Schroder & Co Ltd 120 Cheapside London EC2V 6DS	Servomex GmbH	Münsterstraße 5 59065 Hamm, Germany Tel: +49 23 81 68 82 13 Fax: +49 23 81 68 81 75		
Principal Bankers	Barclays Bank plc 73 Calverley Road Tunbridge Wells Kent TN1 2UZ	Servomex Co Inc	90 Kerry Place Norwood MA 02062, USA Tel: +1 617 769 7710 Fax: +1 617 769 2834		
Registrars	Lloyds Bank plc Registrar's Department The Causeway Worthing West Sussex BN99 6DA	Servomex Asia Pacific Limited	5F-4 No.328 Chang Chun Road Taipei, Taiwan, ROC Tel: +886 2 718 0031 Fax: +886 2 712 0653		
Auditors	Price Waterhouse Chartered Accountants Southwark Towers 32 London Bridge Street London SE1 9SY	CNTIC-Servomex	No.2 Sheng Gu Zhuang Chaoyang Area Beijing, China, Postcode 100029 Tel: +86 1 426 9911, 2101 Fax: +86 1 426 8694		

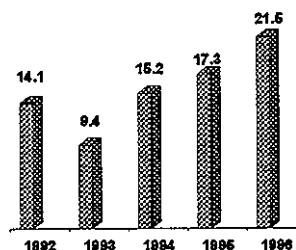
FINANCIAL HIGHLIGHTS

Profit before tax - headline	(£'000)	2,723	3,545	+30%
Earnings per share		17.3p	21.5p	+24%
Sales	(£'000)	26,162	32,020	+22%
Cash flow from operations	(£'000)	2,169	5,337	
Gearing		28%	4%	
Dividend per share		7.5p	8.5p	+13%
Interest cover		20x	19x	

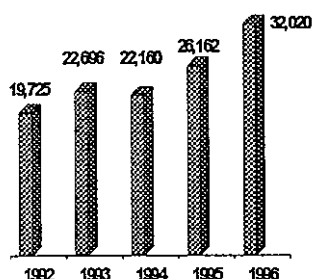
Profit before tax - headline
£000



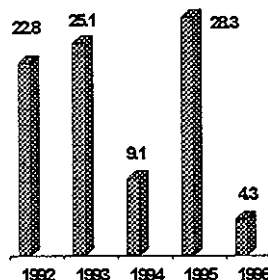
Earnings per share - headline
Pence



Sales
£000



Gearing
%



FIVE YEAR REVIEW

	1992 £'000	1993 £'000	1994 £'000	1995 £'000	1996 £'000
Sales	19,725	22,696	22,160	26,162	32,020
Operating profit	2,239	1,681	2,478	2,864	3,743
Restructuring costs included in operating profit	-	(568)	(206)	(94)	-
Profit before taxation - headline	2,109	1,521	2,344	2,723	3,545
Profit before taxation - FRS 3	2,109	1,521	2,344	2,371	3,545
Taxation	(734)	(608)	(827)	(982)	(1,353)
Profit after taxation	1,375	913	1,517	1,389	2,192
Profit for the financial year	1,384	926	1,518	1,389	2,192
Dividends	(584)	(637)	(703)	(755)	(871)
Earnings per share - headline	14.1p	9.4p	15.2p	17.3p	21.5p
Earnings per share - FRS 3	14.1p	9.4p	15.2p	13.8p	21.5p
Dividend per share	5.9p	6.4p	7.0p	7.5p	8.5p
Net assets per share	69.1p	71.8p	80.3p	86.0p	97.0p

STATISTICAL INFORMATION

Business ratios:

	1995	1996
Material to sales	27.4%	27.4%
Average receivables days outstanding	71	68
Year end inventory days held	57	51
Sales per employee	£81.0k	£81.0k
R&D to sales	5.6%	5.2%

Exchange rates:

		1995	1996
US Dollar	- translation average	1.57	1.61
	- hedge contract rate	1.53	1.56
German Mark	- translation average	-	2.38
French Franc	- translation average	7.89	7.85
Dutch Guilder	- translation average	2.50	2.72
Taiwan Dollar	- translation average	40.89	43.68

CHAIRMAN'S STATEMENT

Results

I am pleased to report another record year for Servomex and a further step forward in our long term strategy for the business.

Sales rose 22% to £32,020,000 and profit before taxation was 30% up at £3,545,000. Earnings per share grew 24% to 21.5p. Strong cash inflow has further strengthened the balance sheet and reduced gearing to the level before the Bicotest acquisition (4%).

The Board proposes a full year dividend of 8.5p per share which is an increase of 13% on last year whilst increasing dividend cover from 2.3 to 2.5 times.

Servomex Group Limited

Our core gas analysis business had another good year with operating profits up 24%, a further reduction in inventory levels and a doubling of cash flow.

In the all important process market we have continued to make progress with the new Xendos 1800/1900 oxygen analyser gaining rapid acceptance and the Xendos 2500 infra red analyser series continuing to increase its market penetration.

Sales of transducers to the medical market continued to develop strongly with orders up 28% on last year despite some destocking and disruption at a major US customer in the second half following new ownership.

As predicted last year and outlined in our interim statement, the US market for continuous emission monitoring products virtually dried up and overall we have seen our order intake from that market sector drop by 37% year on year.

We expect Servomex Group Limited to continue its organic growth and, as it now approaches its target performance levels, we shall consider appropriate bolt-on acquisitions for this business.

Bicotest Limited

Bicotest achieved an excellent performance in its first full year exceeding its targets and yielding 27 % pre-tax return on our initial investment.

The business has been made profitable after a history of making losses and has generated £767,000 of net cash inflow despite £449,000 of capital expenditure.

The Servomex product development disciplines are now firmly in place and an ambitious three year product development programme signed off.

The provisional acquisition fair value adjustments have been reviewed and the results of the review are reflected in the financial statements.

CHAIRMAN'S STATEMENT

I am pleased to record the appointment of Peter Parnell to the position of Managing Director, Bicotest Limited from the beginning of 1997.

The improvement of the Bicotest business will continue in 1997 with organic growth towards our established targets.

Acquisition

On 11 January 1997 we took a further step in our strategic process of building an industrial instrumentation group with the acquisition of Montec Holdings Limited from Northumbrian Water Group plc. Montec's shares were acquired for consideration of £3,800,000, financed by cash and debt.

This business, which has been renamed Bühler Montec Group Limited, is a leader in the design and manufacture of water sampling equipment, analytical measuring stations and flow measuring instruments. It is based in Salford, England, and has subsidiaries in Germany, France and Austria. The group had sales in the year to 31 March 1996 of £7,803,000.

We are confident that this business has the capability, under our guidance, to achieve our benchmark performance targets.

People

With the growth of the Group both organically and through acquisition we are redoubling our efforts to ensure that the best possible levels of communication exist throughout the organisation, together with career development programmes and succession planning.

I would like to convey the Board's appreciation of the unstinting efforts of all the Group's employees worldwide in making possible the progress we have achieved in 1996.

I am pleased to announce that the Board has again authorised the payment of the maximum 5% of pre-tax profits into our approved Profit Sharing Scheme providing shares to all qualifying employees worldwide.

Board changes

Dave Willett has been running Servomex's US operation for over ten years, during which time he has managed its continual growth and prosperity. Dave has now retired and I would like to record the Board's appreciation of the extremely valuable contribution he has made and to wish him every success in the future.

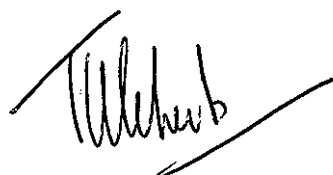
CHAIRMAN'S STATEMENT

Prospects

Despite a slow start to 1997, the outlook for all three of our business units is satisfactory. However, like other UK based exporters, the current strength of the pound poses Servomex a challenge.

Servomex Group Limited continues to grow organically with its key process and medical markets expected to prosper. Both Bicotest and Bühler Montec Group have opportunities to strengthen their presence in growing markets.

We continue to identify and evaluate further acquisition targets.

A handwritten signature in black ink, appearing to read 'Terry Clements', with a long horizontal stroke extending to the right.

TERRY CLEMENTS
Chairman

17 March 1997

REVIEW OF OPERATIONS

1996 was a good year for the Group. Overall operating margins again improved to 11.7% together with organic and acquisitive sales growth. Our continuing focus on working capital reduction led to an excellent cash flow with year end gearing at 4%. The borrowings incurred for the Bicotest acquisition have been substantially repaid in a little over 12 months.

The closing order book of £4,443,000 returned to more normal levels from the peak at the previous year end of £6,387,000.

Since the year end we have purchased Montec Holdings Limited and its subsidiaries and are now applying our proven Servomex business improvement and development skills to turn this business around in order to achieve the world class performance levels for which we strive in each of our businesses. The group is being renamed "Bühler Montec".

Once again prices throughout the Group were increased above local inflation.

The high overall tax rate (38.2%) results from a number of exceptional factors including the withholding tax charge on a \$4 million dividend paid up by our US company. As we expand the Group we are implementing a more tax efficient legal structure.

SERVOMEX GROUP LIMITED
(SGL)
Leaders in Gas Analysis

Managing Director	Les James
Sales £26.1m	
Return on Sales 14.1%	
Operating Cash Flow £4.1m	

SGL, our core gas analysis business, continued to make good progress in the year.

Sales rose by 10% and the company's financial performance is now approaching corporate target levels.

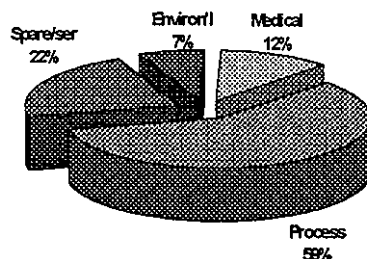
Prices were again increased above cost increases and, despite the cost impact of ensuring all our products conform to the requirements for European CE marking, our materials to sales ratio improved.

Sales of our market leading transducers to medical instrument manufacturers continued to grow, albeit at a less dynamic rate now that the product has achieved a dominant market share. Sales to the process market were stronger as investment increased and our new Xendos 1800/1900 family made important gains.

As predicted, orders for the environmental sector in the US have declined significantly although we did continue to make progress in Europe with our outstanding Xentra 4900 continuous emissions monitoring analyser.

REVIEW OF OPERATIONS

SGL
Sectoral Orders

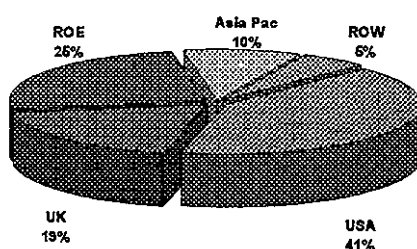


SGL
Sectoral Orders Growth

• Medical	- Up 28%
• Process Industries	- Up 23%
• Environmental	- Down 37%

Once again we experienced growth in all three of our geographic regions with Asia Pacific continuing its outstanding progress.

SGL
Regional Sales



SGL
Regional Sales Growth

• Asia Pacific	- Up 54 %
• Europe/India/Africa	- Up 10 %
• Americas	- Up 6 %

Americas

Process business in the US remained strong as customers invested both in existing plants and in new processes. The legislation driven US environmental business weakened considerably and significant overcapacity has driven many of our competitors to reduce margins. We have positioned ourselves, however, as a quality supplier to discerning, or second time, buyers where margins can be maintained or enhanced.

Medical transducer sales continued to grow and our industry leading Pm1111D product has been specified by an increasing number of anaesthesia product OEMs.

Progress was maintained in the development of markets in South America where sales grew sharply.

We have appointed an experienced General Manager, Mel Platte, to run our US based operation following the retirement of Dave Willett.

REVIEW OF OPERATIONS

Europe/India/Africa

Sales have remained buoyant in most of the region as customers in the process sector invested in updating current plants and in building new plants. Our share of the German market increased as our new company became established, whilst our companies in France and Holland both exceeded their targets.

We maintained good progress in the continuous emissions monitoring market in Europe, where our strategy is now to work with systems partners for systems with high information technology content. Our state of the art Xentra 4900 continuous emission monitor received specific comment on its outstanding performance from a major German approvals body.

Asia Pacific

A number of large process projects in the region, coupled with a strong performance in Japan, Taiwan, Indonesia and China, contributed to a very good year with over 50% growth in sales. Further progress has been made by our medical transducers in the Japanese market, where the Pm1111D product has been adopted by another leading supplier of anaesthesia instruments.

We continue to invest in people, training and support for this important growth region.

Product development

Our highly focused product and technology development programme delivered several successes during the year. The most impressive was the launch of the Xendos 1800/1900 range of analysers which were developed in under one year and have met or beaten targets for sales, quality and manufacturability.

Sales of our recently introduced Xentra series almost doubled with particular success in the industrial gases market and sales of the Xendos 2500 infrared analyser also grew strongly.

Sales of products developed within the last five years, including transducers, accounted for over 30% of sales in the year.

Operations

Since becoming fully restructured we are using our Sigma total quality management process to ensure we maintain world beating standards.

Sigma continuous improvement projects have reduced costs, increased customer satisfaction and improved responsiveness. This was reflected by SGL winning the Meridian Television Business Excellence Award, whose finalists were audited extensively by the British Quality Foundation.

REVIEW OF OPERATIONS

Acquisitions

Now that the performance of SGL is approaching world class standards we are active in evaluating potential acquisitions which fit the company's strategic direction.

BICOTEST LIMITED
Leaders in Cable Fault Location

Managing Director	Peter Parnell
-------------------	---------------

Sales £5.9m
Return on sales 7.4%
Operating cash flow £1.2m

Results

We have seen an excellent first full year result under our ownership at Bicotest. The company has an outstanding team of managers and employees who have rapidly embraced the Servomex culture and focus.

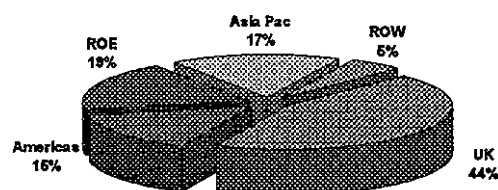
The business achieved a turnaround from losses to a return on sales of over 7%, a material to sales percentage improvement of a full 9 percentage points and a gross cash flow before capital expenditure of £1.2 million. The key working capital to sales ratio fell from over 50% before acquisition to a highly creditable 16% at year end.

Sales & marketing

Good progress was made in the appointment and support of distributors in the Far East and the Americas and we saw sales in these regions up 86% and 45% respectively. In Europe, this process was slower and a fresh start had to be made in a number of countries. Nevertheless in the second half we saw good orders starting to flow most particularly from Italy, Spain and Germany.

In the UK we received a higher than anticipated call off from British Telecom in the year and have bid for their new 3 year contract. It has been made clear however that no orders are expected to be placed by BT for cable fault location equipment for 12 to 18 months and we have planned accordingly.

Regional Sales



Bicotest Regional Sales Growth

- | | |
|------------------|-----------|
| • Asia Pacific | - Up 86 % |
| • Americas | - Up 45 % |
| • Rest of Europe | - Up 5 % |

REVIEW OF OPERATIONS

Products

The new higher margin T625 and T631 telecom TDR products have shown good growth in the year with over £1,250,000 of orders booked. The new Vixxon™ power industry intermittent fault locator was launched in May and first commercial deliveries started in December.

We have an interesting strategic alliance with a European company in the final stages of negotiation.

Manufacturing

The "Maxxim" manufacturing development programme aimed at achieving world class levels of performance was introduced in May and has moved forward quickly. It will be completed in early 1997.

Peter Parnell, who has successfully run SGL's European business for the last 4 years, took over as Managing Director of Bicotest from the beginning of 1997.

Prospects for Bicotest are good with continuing business efficiency improvements, overseas market growth and a strong product development programme.

**BÜHLER MONTEC GROUP
LIMITED (BMG)**
Leaders in Water Monitoring

Chief Executive	Roger Harrop
Acquired 11 January 1997	

Our extensive pre-acquisition investigations identified three important assets of BMG - its personnel, its world leading products and the forecast market growth. These, together with its excellent strategic fit, convinced us of its potential when, like Bicotest, our financial disciplines and business improvement skills are applied. We have seen nothing in the period since acquisition to change that view.

BMG is the European market leader in the supply of portable and fixed site waste water samplers, analytical measuring stations and flow measuring instruments and has subsidiary companies in Germany, France and Austria.

The external market survey we commissioned as part of our pre-acquisition investigations revealed that the global market for these products is forecast to continue to grow into the foreseeable future, led by Europe. Furthermore the customer base is moving from the traditional water utilities and regulatory authorities to industrial users as a result of "polluter pays" legislation. A majority of these industrial instrumentation users are already Servomex customers.

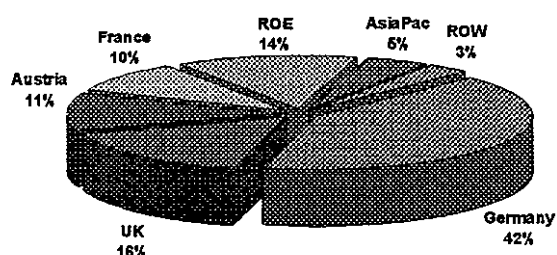
REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

We have continued the process of restructuring, which was started by the previous owners, and the costs of which are provided for in the completion accounts. We expect the business to break even in the current year and we remain confident in the ability of BMG to prosper within the Servomex family.

Geographically BMG has been highly dependent on the European market and has not exploited the market opportunities available elsewhere. We have now appointed one of our experienced Servomex sales managers to the job of developing BMG sales in the rest of the world.

BMG
Geographic Sales 1996



Like Bicotest on acquisition, BMG holds very high inventory levels and we have established an inventory reduction team with clear targets for success.

PEOPLE

Servomex is its people and with the ambitious organic and acquisitive growth plans of the Group we are placing ever greater emphasis on career development and succession planning to ensure that we have the highest calibre of people available at all levels to achieve these plans.

ROGER HARROP
Group Chief Executive
17 March 1997

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 1996.

Principal activity

The principal activity of the Group is the design, manufacture and sale of industrial instrumentation and systems for distribution worldwide.

Results for the year

The Group achieved a profit before taxation of £3,545,000 (1995: £2,371,000). The retained profit for the financial year amounted to £1,321,000 (1995: £634,000). An interim dividend of £276,000 or 2.7p per share was paid in respect of the 10,255,707 ordinary shares in issue on 1 November 1996 (1995: £232,000).

The directors are recommending the payment of a final dividend of £595,000 or 5.8p per share, (1995: 5.2p) in respect of the 10,264,107 ordinary shares in issue at the year end. This will bring the total dividend for the year to 8.5p (1995: 7.5p). The final dividend will be payable on 16 May 1997 to shareholders on the register at the close of business on 1 April 1997.

The Chairman's statement and Group Chief Executive's review of operations together provide an overview of the results for 1996 and information concerning the Group's prospects for 1997.

Corporate governance

During the year ended 31 December 1996 the Company complied in all respects with the provisions of the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance ("the Code") except that the Audit Committee consists of the two non-executive directors, under the chairmanship of Clive Gregory FCA. The Board does not propose to increase the number of non-executive directors to fulfil the requirement for three under paragraph 4.3 of the Code.

The auditors have reported to the Board that, in their opinion, the directors' statements on internal financial controls and on going concern below have provided the disclosures required by the Listing Rules 12.43(j) and 12.43(v) and are consistent with the information which came to the auditors' attention as a result of their audit work on the financial statements; and, based on enquiry of certain directors and officers of the Company and examination of relevant documents, that the directors' other statement above appropriately reflects the Group's compliance with the other paragraphs of the Code specified for their review by Listing Rule 12.43(j). The auditors carried out their review having regard to guidance issued by the Auditing Practices Board. The auditors were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of either the Group's system of internal financial controls or corporate governance procedures, nor on the ability of the Group to continue in operational existence.

Going concern

The directors have a reasonable expectation that the Company and its subsidiary undertakings have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS' REPORT

Internal financial controls

The directors are responsible for the Group's system of internal financial controls. Any such system can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The key procedures that the directors have established and which are designed to provide effective internal financial controls can be summarised as follows:

- a clearly defined decentralised structure which delegates authority, responsibility and accountability to management of the Group's operating companies.
- a well established system for planning and reporting financial performance. Plans and reports are reviewed at the most senior levels in the Group and deviations from plan fully investigated and acted upon.
- quarterly review meetings between the Group Chief Executive and the management team of each operating unit at which results and forecasts are considered and actions agreed.
- the operation of a risk-averse currency hedging policy whereby the Group's short-term exposure to exchange movements is managed.
- the review of operating units' internal financial controls through internal audit procedures formulated with the assistance of the Group's external auditors.

On behalf of the Board, the Audit Committee has reviewed the effectiveness of the system of internal financial controls for the period covered by the financial statements.

Research and development

The Group's products are regarded by the directors as advanced technology and as such require constant updating and renewal to remain competitive.

It is the policy of the Group to devote significant funds each year towards the exploitation of new technology within the industrial instrumentation field.

Directors

The directors of the Company are listed on page 2. Dave Willett resigned on 31 December 1996. The other directors all served throughout the year under review.

Terry Clements, aged 60, became a director on 2 April 1993. Mr Clements has a service contract which expires on 30 June 1999. He is also Chairman of Biotrace plc.

Clive Gregory, aged 53, became a director on 22 February 1989. He retires by rotation at the next Annual General Meeting and is eligible for re-election. Mr Gregory has a service agreement which expires on 30 April 1997. He is also a director of Goldsmiths Group plc.

DIRECTORS' REPORT

Remuneration Committee

Remuneration of the executive directors of Servomex plc is determined by the Company's Remuneration Committee, which consists of the non-executive directors, Terry Clements (chairman) and Clive Gregory. Remuneration of the non-executive directors is determined by the Board. The constitution and operation of the Committee complied throughout the period under review with Section A of the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange and derived from the Code of Best Practice issued by the study group on directors' remuneration (the Greenbury Committee).

Remuneration policy

The policy is to attract, retain and motivate high calibre senior executives through pay arrangements which are competitive but in the best interests of shareholders. As well as individual performance, reference is made to pay levels in quoted companies of similar size. Packages, while being fair and reasonable for the responsibilities involved, are required to be sufficiently dependent on enhanced performance to motivate individuals to meet the Group's objectives. In framing the remuneration policy the Remuneration Committee has given full consideration to Section B of the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange.

Incentive schemes

The executive directors and other senior executives participate in performance-linked annual bonus schemes. These are based on improvement in shareholder value measured by growth in earnings per share combined, where appropriate, with the performance of the operating unit for which the director or executive is responsible.

Share options

The Remuneration Committee consider that share options are an efficient and effective way of motivating senior executives to pursue the best interests of shareholders. Details of share options held by directors are given in note 4 to the financial statements.

The Group's share option scheme permits the exercise of options only upon the achievement of certain performance targets. The scheme has no remaining capacity for the grant of options.

Service contracts

The Group Chief Executive has a service contract commensurate with his role, which can be terminated by the Company or by himself by giving 2 years' notice. Each of the other executive directors has a service contract which can be terminated by the Company or by themselves by giving one year's notice. Details of the service agreements with Clive Gregory and Terry Clements are given under the heading "Directors" above.

Pensions

The executive directors, with the exception of Dave Willett, are ordinary members of the main UK scheme, details of which are given in note 24 to the financial statements. Dave Willett has a local pension arrangement in the USA which provides similar benefits to those from the UK scheme. The Company does not make pension provision for the non-executive directors.

DIRECTORS' REPORT

Audit Committee

The Audit Committee comprises the two non-executive directors, Clive Gregory (chairman) and Terry Clements. It meets at least twice a year to review the Group's accounting policies and financial and other reporting procedures, with the external auditors in attendance twice a year.

Acquisition Committee

The Acquisition Committee comprises Terry Clements (chairman), Clive Gregory, Roger Harrop, Martin Johnston and Peter Parnell. It meets at least quarterly to review acquisition policy and to consider specific acquisition proposals.

Directors' interests

As at 31 December 1996 the directors and their families had the following beneficial interests in the ordinary share capital of Servomex plc:

	31 December 1996	31 December 1995
Terry Clements	4,300	2,000
Clive Gregory	-	-
Roger Harrop	5,449	-
Les James	2,200	-
Martin Johnston	214	-
Riad Kocache	269,587	304,245
Bob Kydd	208,103	224,430
Peter Parnell	278,998	278,800

There have been no changes in the above shareholdings between 31 December 1996 and 3 March 1997.

The trustees of the Servomex plc Profit Sharing Share Scheme each have a non-beneficial interest in 38,943 shares. The trustees are Terry Clements, Clive Gregory, Roger Harrop and Martin Johnston.

None of the directors had a material interest in any significant contract undertaken by the Company or its subsidiaries during the year.

DIRECTORS' REPORT

Substantial shareholders

As at 28 February 1997, the directors have been advised of the following persons holding or being beneficially interested in more than 3% of the share capital of the Company:

	Ordinary Shares	%
Framlington Investment Management Ltd	923,549	8.98
Hermes Investment Management Ltd	878,500	8.55
Equitable Life Assurance Society	647,800	6.30
Gartmore Investment Management Ltd	623,334	6.06
Standard Life Assurance Company	565,715	5.50
Aberforth Partners Ltd	544,000	5.29
Credit Suisse Asset Management Ltd	477,500	4.64
Fleming Investment Management Ltd	361,000	3.51
Perpetual UK Smaller Companies Investment Trust PLC	358,000	3.48
Britannic Assurance PLC	320,000	3.11
Stewart Ivory & Co Ltd	310,000	3.02

Employment of disabled persons

The Group's policy and practice is to maintain a working environment which gives due regard to the needs of disabled persons. Full and fair consideration is given to applications for employment from the disabled who have appropriate skills, experience or qualifications.

Employees who have become disabled are encouraged, as far as practicable, to continue with their existing work, or are provided with such training as will enable them to take up alternative work within the Group. The training, career development and promotion of a disabled person is, as far as possible, identical to that of a person who does not suffer from a disability.

Employee involvement

The success of the Group depends substantially upon the quality, experience and motivation of its employees. All employees are involved in the development of a winning team culture and local decision making. By means of regular interactive briefing and discussion meetings they are kept informed of the Group's objectives and strategies. The Group operates a profit sharing share scheme whereby an amount of up to five percent of the Group's profit before taxation may be set aside for the purchase of the Company's shares on behalf of employees worldwide.

Financial instruments

The Group's strategy is to sell into worldwide markets and it is therefore exposed to exchange rate changes which affect the pound sterling value of its revenues. Where practical this risk is eliminated by selling in sterling. The remaining risk is managed by matching foreign currency costs against revenues in the same currency and by hedging a proportion of the remainder by means of forward foreign exchange contracts. Details of the Group's hedge contracts outstanding at 31 December 1996 are given in note 20 to the financial statements.

DIRECTORS' REPORT

Supplier payment and debt collection policy

The Group's policy is to pay suppliers strictly in accordance with contractually negotiated terms and to take appropriate action to ensure that payment is received from customers on a similar basis.

Charitable contributions

Charitable contributions for the year amounted to £1,232 (1995: £1,333). No contributions were made to political parties.

Close company

The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Auditors

The auditors, Price Waterhouse, have expressed their willingness to continue in office and resolutions to re-appoint them and authorising the directors to fix their remuneration will be proposed at the Annual General Meeting.


Special business

The following resolutions will be proposed as special resolutions at the Annual General Meeting:

Resolutions 5 and 6

Continuing the power of the directors to allot shares generally and shares otherwise than pro-rata to existing shareholders. This provides flexibility for any future minor acquisitions or working capital requirements.

By order of the Board



MARTIN JOHNSTON

Secretary

17 March 1997

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 the Group and of the profit or loss of the Company and the Group for that period. In preparing those financial statements, the directors are required to:

- o select suitable accounting policies and then apply them consistently;
- o make judgements and estimates that are reasonable and prudent;
- o state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- o prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and its subsidiary undertakings 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' REPORT TO THE SHAREHOLDERS OF SERVOMEX PLC

We have audited the financial statements on pages 22 to 41, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 26 and 27.

Respective responsibilities of directors and auditors

As described above 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.

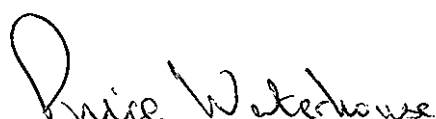
Basis of opinion

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 affairs of the Company and of the Group as at 31 December 1996 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PRICE WATERHOUSE

Chartered Accountants
and Registered Auditors
London

17 March 1997

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1996

	Notes	1996 £'000	1995 £'000
Sales	2		
Continuing operations		32,020	25,636
Discontinued operations		<u>-</u>	<u>526</u>
		32,020	26,162
 Change in inventories		 (969)	 (395)
		31,051	25,767
 Materials and consumables		 (7,899)	 (6,776)
Staff costs	4	(10,386)	(8,407)
Depreciation of tangible fixed assets	11	(980)	(733)
Other operating charges		<u>(8,043)</u>	<u>(6,987)</u>
Operating profit	3		
Continuing operations		3,743	2,864
Discontinued operations		<u>-</u>	<u>-</u>
		3,743	2,864
 Loss on disposal of discontinued operations being goodwill previously written off to reserves		 -	 (352)
Interest receivable	5	5	18
Interest payable	6	<u>(203)</u>	<u>(159)</u>
Profit on ordinary activities before taxation		3,545	2,371
Taxation on profit on ordinary activities	7	<u>(1,353)</u>	<u>(982)</u>
Profit on ordinary activities after taxation	8	2,192	1,389
Dividends paid and proposed	9	<u>(871)</u>	<u>(755)</u>
Profit transferred to reserves	19	<u>1,321</u>	<u>634</u>
Earnings per share - FRS 3	10	<u>21.5p</u>	<u>13.8p</u>
Earnings per share - headline	10	<u>21.5p</u>	<u>17.3p</u>

No material difference exists between the results calculated on a historical cost basis and the results shown above.

BALANCE SHEETS
as at 31 December 1996

	Notes	GROUP		COMPANY	
		1996 £'000	1995 £'000	1996 £'000	1995 £'000
Fixed assets					
Tangible assets	11	5,062	4,421	2,086	3,708
Investments	12	<u>-</u>	<u>-</u>	<u>8,620</u>	<u>8,620</u>
		<u>5,062</u>	<u>4,421</u>	<u>10,706</u>	<u>12,328</u>
Current assets					
Inventories	13	2,090	3,127	-	1,142
Accounts receivable	14	8,398	9,157	373	5,119
Cash at bank and in hand		<u>1,241</u>	<u>685</u>	<u>578</u>	<u>166</u>
		11,729	12,969	951	6,427
Accounts payable within one year	15	<u>(5,172)</u>	<u>(6,769)</u>	<u>(1,996)</u>	<u>(6,730)</u>
Net current assets / (liabilities)		<u>6,557</u>	<u>6,200</u>	<u>(1,045)</u>	<u>(303)</u>
Total assets less current liabilities		11,619	10,621	9,661	12,025
Accounts payable after one year	15	<u>(1,660)</u>	<u>(1,820)</u>	<u>(1,660)</u>	<u>(6,027)</u>
Provisions for liabilities and charges	16	<u>(71)</u>	<u>(153)</u>	<u>-</u>	<u>(105)</u>
Net assets		<u>9,888</u>	<u>8,648</u>	<u>8,001</u>	<u>5,893</u>
Capital and reserves					
Called up share capital	17	513	504	513	504
Share premium account	17	1,910	1,510	1,910	1,510
Other reserves	18	1,355	1,355	2,256	2,256
Profit and loss account	19	<u>6,110</u>	<u>5,279</u>	<u>3,322</u>	<u>1,623</u>
Equity shareholders' funds		<u>9,888</u>	<u>8,648</u>	<u>8,001</u>	<u>5,893</u>

The financial statements were approved by the Board of directors on 17 March 1997 and were signed on its behalf by:

ROGER HARROP

MARTIN JOHNSTON

Directors

GROUP CASH FLOW STATEMENT

For the year ended 31 December 1996

	1996	1996	1995	1995
	£'000	£'000	£'000	£'000
Net cash inflow from operating activities (note 25)		5,337		2,169
Returns on investments and servicing of finance				
Interest received	6		18	
Interest paid	(156)		(141)	
Interest element of finance lease rental payments	<u>(9)</u>		<u>(11)</u>	
		(159)		(134)
Taxation		(996)		(996)
Capital expenditure				
Purchase of tangible fixed assets	(1,683)		(1,092)	
Sale of tangible fixed assets	<u>75</u>		<u>41</u>	
		(1,608)		(1,051)
Acquisitions and disposals				
Purchase of subsidiary undertaking (note 12)	(88)		(1,535)	
Sale of subsidiary undertaking	<u>-</u>		<u>476</u>	
		(88)		(1,059)
Equity dividends paid		(800)		(724)
Financing				
Issue of ordinary share capital	409		56	
New short term borrowing	(950)		950	
Debt due beyond a year:				
New unsecured loan repayable over 5 years	300		1,700	
Repayment of amount borrowed	(400)		(1,470)	
Capital element of finance lease rental payments	<u>(66)</u>		<u>(69)</u>	
		(707)		1,167
Increase/(decrease) in cash in the year (note 26)		<u>979</u>		<u>(628)</u>

OTHER PRIMARY STATEMENTS

For the year ended 31 December 1996

Statement of total recognised gains and losses	Notes	Group		Company	
		1996	1995	1996	1995
		£'000	£'000	£'000	£'000
Profit for the financial year		2,192	1,389	2,570	60
Exchange differences taken directly to reserves	20	(558)	128	-	-
Total gains recognised for the year		1,634	1,517	2,570	60

Reconciliation of movements in equity shareholders' funds	Notes	Group		Company	
		1996	1995	1996	1995
		£'000	£'000	£'000	£'000
Profit for the financial year		2,192	1,389	2,570	60
Dividends		(871)	(755)	(871)	(755)
Exchange differences taken directly to reserves	20	(558)	128	-	-
New share capital subscribed	17	409	56	409	56
Goodwill reinstated on disposal		-	352	-	-
Goodwill written off on acquisition	19	68	(553)	-	-
Adjustment to minority interest	19	-	8	-	-
Net addition / (reduction) to equity shareholders' funds		1,240	625	2,108	(639)
Opening equity shareholders' funds		8,648	8,023	5,893	6,532
Closing equity shareholders' funds		9,888	8,648	8,001	5,893

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1996

1. Accounting policies

Basis of accounting

The Group prepares its annual financial statements under the historical cost convention, with the exception of certain freehold land and buildings, which are included at a valuation, and in accordance with applicable accounting standards.

Basis of consolidation

The results of all the Group's subsidiary undertakings are included in the consolidated profit and loss account from the date of acquisition and up to the date of disposal.

Sales

Sales represents the value of goods and services invoiced to customers during the year excluding all sales taxes.

Segmental reporting

The analysis of sales by origin is derived by allocating revenue to the area in which the sale was made. The analysis of sales by destination is derived by allocating revenue to the area to which the goods and services are delivered.

Translation of foreign currencies

Transactions in foreign currencies are translated into sterling at the approximate rates of exchange ruling at the time they take place.

Exchange gains and losses are credited or charged to the profit and loss account. Assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date.

The profits and losses of the subsidiary undertakings are translated into sterling at the average rates prevailing during the year. Where foreign currency assets and liabilities are covered by forward contracts they are translated at the appropriate forward rate.

Exchange differences arising from the retranslation of the opening net assets of subsidiary undertakings and of their profits or losses for the year to closing rates are recorded as movements on reserves.

Depreciation

Depreciation is calculated to write off the cost or valuation of tangible fixed assets in equal annual instalments over their estimated useful lives as follows:

Freehold property	50 years
Leasehold property	5 to 50 years
Plant and machinery	4 to 16 years
Motor vehicles	3 to 5 years

NOTES TO THE FINANCIAL STATEMENTS

Goodwill

Goodwill, being the excess of purchase consideration, discounted where appropriate, over the fair value of the net tangible assets acquired is written off directly to reserves.

Leases

Where tangible fixed assets are financed by leasing agreements that give rights approximately equivalent to ownership (finance leases) the assets are treated as if they had been purchased outright. The corresponding lease commitments are treated as obligations to the lessor. Leasing payments are treated as consisting of capital and interest elements with the interest charged against revenue. Assets held under finance leases are depreciated over the estimated useful life of the asset or the lease period, whichever is the shorter.

All other leases are operating leases, the annual rentals of which are charged to the profit and loss account on a straight line basis over the term of the lease.

Fixed asset investments

Fixed asset investments are stated at cost, but are written down to realisable value if, in the opinion of the directors, there has been a permanent diminution.

Inventories

Inventories are recorded at the lower of cost (including an appropriate proportion of overheads) and net realisable value.

Cost is calculated on a first in first out basis and represents the expenditure incurred in the normal course of business in bringing inventories to their present location and condition.

Deferred taxation

Deferred taxation is provided only to the extent that it is considered probable that an asset or liability will crystallise in the foreseeable future.

Research and development

All research and development expenditure is written off in the period in which it is incurred.

Pension costs

Regular pension costs are charged to the profit and loss account in a manner which provides a substantially level percentage of current and expected future pensionable payroll.

Any variations from regular cost are charged or credited to the profit and loss account over the average expected remaining service life of employees.

NOTES TO THE FINANCIAL STATEMENTS

2. Segmental reporting

In the opinion of the directors the Group operates in one class of business.

The geographical analysis of sales is as follows:

	By destination		By origin	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
United Kingdom	7,474	5,595	21,780	16,111
Rest of Europe	7,626	6,700	3,366	3,187
Americas	12,349	11,033	11,453	10,848
Asia Pacific	3,218	1,824	2,501	1,693
Rest of the world	<u>1,353</u>	<u>1,010</u>	<u>-</u>	<u>-</u>
	32,020	26,162	39,100	31,839
Inter territorial sales	<u>-</u>	<u>-</u>	<u>(7,080)</u>	<u>(5,677)</u>
	<u>32,020</u>	<u>26,162</u>	<u>32,020</u>	<u>26,162</u>

The Group's operating profit is generated by subsidiaries in the following geographical locations:

	1996	1995
	£'000	£'000
United Kingdom	1,708	1,055
Rest of Europe	378	486
USA	1,356	1,188
Taiwan	<u>301</u>	<u>135</u>
	<u>3,743</u>	<u>2,864</u>

In the opinion of the directors disclosure of operating profit data by geographical destination would be prejudicial to the interests of the Group.

NOTES TO THE FINANCIAL STATEMENTS

The Group's net assets are located as follows and are originally accounted for in the currencies shown:

			1996 £'000	1995 £'000
United Kingdom	£		7,398	5,086
Rest of Europe		France	FFR 631	603
		Netherlands	DFL 497	493
		Germany	DM (126)	-
			1,002	1,096
USA	US\$		2,770	4,718
Taiwan	NT\$		377	198
			11,547	11,098
Interest bearing net liabilities	£		(1,659)	(2,450)
			9,888	8,648

3. Operating profit

		1996 £'000	1995 £'000
Is arrived at after charging/(crediting):			
Depreciation of owned assets		920	672
Depreciation of assets held under finance leases		60	61
Auditors' remuneration - audit fees: the Company		24	24
: remainder of the Group		65	52
- other fees		21	95
Operating lease rentals in respect of plant and machinery		229	297
Other operating lease rentals		392	309
Exchange gain		(106)	(52)
Research and development expenditure		1,677	1,472
Restructuring costs		-	94

NOTES TO THE FINANCIAL STATEMENTS

4. Directors and employees

The average weekly number of persons employed by the Group during the year was:

	1996 Number	1995 Number
United Kingdom	323	254
Rest of Europe	18	18
USA	40	40
Taiwan	<u>14</u>	<u>11</u>
Total	<u>395</u>	<u>323</u>

Staff costs

	1996 £'000	1995 £'000
Salaries	8,767	7,107
Profit sharing share scheme contribution	178	143
Social security costs	1,070	919
Other pension costs	<u>371</u>	<u>238</u>
	<u>10,386</u>	<u>8,407</u>

The Company's directors received the following remuneration for the year:

	Fees £	Basic salary £	Bonuses £	Benefits in kind £	1996 Total £	1995 Total £
Terry Clements	30,000	-	-	-	30,000	28,000
Clive Gregory	15,000	-	-	-	15,000	14,300
Roger Harrop	-	101,042	30,555	7,026	138,623	113,609
Les James	-	69,652	13,923	5,902	89,477	71,752
Martin Johnston	-	63,863	19,283	6,055	89,201	72,493
Riad Kocache	-	57,925	5,766	7,707	71,398	66,376
Bob Kydd	-	54,775	5,453	7,618	67,846	65,483
Peter Parnell	-	56,708	5,662	8,576	70,946	65,829
Dave Willett	<u>-</u>	<u>102,702</u>	<u>7,802</u>	<u>5,808</u>	<u>116,312</u>	<u>99,054</u>
Totals	<u>45,000</u>	<u>506,667</u>	<u>88,444</u>	<u>48,692</u>	<u>688,803</u>	<u>596,896</u>

NOTES TO THE FINANCIAL STATEMENTS

Employer pension contributions are not calculated on the basis of each individual employee's or director's pensionable earnings, but in accordance with actuarial recommendations as described in note 24. At the average contribution rate of 7.9%, directors' pension contributions for the year would be £35,170 (1995 £32,246). Pension contributions for the Chairman and highest paid director respectively would be £nil (1995: £nil) and £7,610 (1995: £6,629).

Share options

Options in respect of a total of 478,200 ordinary shares have been granted for nominal consideration and are outstanding under the Company's Executive Share Option Scheme to certain employees of the Group.

Included within this total are options issued to directors of the Company of:

	Option price	Earliest exercise date	Expiry date	31 December 1995 Number	Exercised during year	Market price at exercise	31 December 1996 Number
Dave Willett	125p	10/4/1992	10/4/1999	40,600	(40,600)	405p	-
Roger Harrop	177p	1/4/1995	1/4/2002	75,000	(75,000)	414p	-
	177p	1/4/1997	1/4/2002	75,000	-	-	75,000
Les James	220p	6/10/1998	6/10/2003	30,000	-	-	30,000
Martin	226p	6/5/2000	6/5/2005	30,000	-	-	30,000

No directors' options lapsed in the year. The market price of the shares at 31 December 1996 was 377p and the range during 1996 was 319p to 426p.

5. Interest receivable

Interest receivable represents income in respect of bank deposits.

6. Interest payable

Interest on borrowings repayable within 5 years:

- bank overdrafts and other loans
- finance lease

1996 £'000	1995 £'000
193	145
<u>10</u>	<u>14</u>
<u>203</u>	<u>159</u>

NOTES TO THE FINANCIAL STATEMENTS

7. Taxation on profit on ordinary activities

	1996 £'000	1995 £'000
Based on the results for the year:		
UK corporation tax	459	279
Overseas taxation	<u>976</u>	<u>684</u>
	1,435	963
Deferred taxation charge/ (credit)	(82)	71
Over-provision in previous years	<u>-</u>	<u>(52)</u>
	<u>1,353</u>	<u>982</u>

The effective overall rate of taxation on profit on ordinary activities was 38.2% (1995: 36.1%). The increase in rate is due to a withholding tax charge of £124,000 on receipt of a dividend of US\$4million from Servomex Co Inc and because no tax credit has been taken for losses of £126,000 incurred in the start-up phase of Servomex GmbH.

8. Profit on ordinary activities after taxation

As permitted by Section 230 of the Companies Act 1985 the profit and loss account of Servomex plc is not presented as part of these financial statements. The profit after taxation for the year dealt with in the accounts of the Company is £2,570,000 (1995: £60,000). The Company's profit and loss account was approved by the Board on 17 March 1997.

9. Dividends paid and proposed

	1996 £'000	1995 £'000
In respect of 10,264,107 ordinary shares of 5p (1995: 10,077,364) :		
Interim dividend paid at 2.7p per share (1995: 2.3p)	276	232
Proposed final dividend at 5.8p per share (1995: 5.2p)	<u>595</u>	<u>523</u>
	<u>871</u>	<u>755</u>

10. Earnings per share

Earnings per share have been calculated on profit after taxation of £2,192,000 (1995: £1,389,000) divided by the weighted average of 10,198,799 (1995: 10,056,665) ordinary shares in issue. Earnings per share would not be materially different if the shares under option were taken into the calculation. Headline earnings have been calculated excluding the loss on disposal of discontinued operations.

NOTES TO THE FINANCIAL STATEMENTS

11. Tangible fixed assets

Group	Freehold property	Short leasehold property	Plant and machinery	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
At 1 January 1996	2,217	799	6,938	9,954
Additions	117	347	1,208	1,672
Disposals	(5)	(35)	(1,213)	(1,253)
Exchange adjustments	—	(23)	(92)	(115)
At 31 December 1996	<u>2,329</u>	<u>1,088</u>	<u>6,841</u>	<u>10,258</u>
Depreciation				
At 1 January 1996	166	255	5,112	5,533
Charge for the year	77	71	832	980
Disposals	(1)	(7)	(1,213)	(1,221)
Exchange adjustments	—	— (9)	(87)	(96)
At 31 December 1996	<u>242</u>	<u>310</u>	<u>4,644</u>	<u>5,196</u>
Net book amount				
At 31 December 1996	2,087	778	2,197	5,062
At 31 December 1995	2,051	544	1,826	4,421
Company				
Cost or valuation				
At 1 January 1996	2,217	520	4,401	7,138
Additions	43	—	27	70
Disposals	(5)	(520)	(4,317)	(4,842)
At 31 December 1996	<u>2,255</u>	<u>—</u>	<u>111</u>	<u>2,366</u>
Depreciation				
At 1 January 1996	166	127	3,137	3,430
Charge for the year	73	—	24	97
Disposals	(1)	(127)	(3,119)	(3,247)
At 31 December 1996	<u>238</u>	<u>—</u>	<u>42</u>	<u>280</u>
Net book amount				
At 31 December 1996	2,017	—	69	2,086
At 31 December 1995	2,051	393	1,264	3,708

NOTES TO THE FINANCIAL STATEMENTS

The Company's freehold land and buildings were formally revalued at 31 December 1988 at £2,805,000. This revaluation was reflected in the financial statements except where it related to development land, giving rise to a revaluation surplus of £1,355,000. The historical cost net book value at 31 December 1996 of the freehold land and buildings was £146,000 (1995: £227,000). The directors have received further valuation advice on 28 February 1997; based on this advice the directors are satisfied that no adjustment is required to the revalued amounts. Included in plant and machinery are assets held under finance leases with a cost of £323,000 (1995: £323,000) and a net book value of £66,000 (1995: £126,000).

12. Investments

Investments represent the Company's shares in subsidiary undertakings. There have been no additions or disposals during the year ended 31 December 1996.

The Company's subsidiary undertakings at 31 December 1996 were :

Wholly owned:	Incorporated and operating in:	Nature of business:
Servomex Group Ltd *	England	Manufacture, sales & service
Servomex International Ltd	England	Engineering, sales & service
Servomex S.A.R.L.	France	Sales & service
Servomex B.V.	Netherlands	Sales & service
Servomex GmbH	Germany	Sales & service
Servomex Company, Inc	United States of America	Engineering, sales & service
Servomex Asia Pacific Ltd	Taiwan	Sales & service
Servomex Overseas Ltd*	England	Holding company
TIL 83 Ltd*	England	Dormant
Ampletest Ltd	England	Dormant
Bicotest Ltd*	England	Manufacture, sales & service

On 11 January 1997 the Company acquired Montec Holdings Ltd and its subsidiaries:

Montec Holdings Ltd *	England	Holding company
Montec International Ltd	England	Manufacture, sales & service
Epic Products Ltd	England	Dormant
Montec Holdings GmbH	Germany	Holding company
Edmund Bühler GmbH	Germany	Manufacture, sales & service
Umweltmeß und Analyse-technik Montec GmbH	Germany	Sales & service
Tech Trade & Instruments GmbH	Germany	Holding company
Tech Trade & Instruments GmbH	Austria	Sales & service
Montec SA	France	Sales & service

Companies marked* are owned by Servomex plc.

NOTES TO THE FINANCIAL STATEMENTS

Review of adjustments on the acquisition of Bicotest

As stated in the 1995 Annual Report, the fair value adjustments made in that year in respect of the acquisition of Bicotest were provisional. They have been reviewed and amended as follows:

	£000
Provisional fair value of the net assets acquired	1,407
Adjustment arising from review (note 19)	<u>68</u>
Fair value of the net assets acquired	<u>1,475</u>

The adjustment relates principally to the establishment of a provision for dilapidations on leasehold property (£100,000), and to the corporation tax relief available in respect of the provisional and final adjustments (£166,000).

Internal reorganisation

The trading activities of Servomex plc and the associated assets and liabilities were transferred to Servomex Group Ltd with effect from 1 January 1996. On the same date Servomex Group Ltd transferred certain assets and liabilities to Servomex International Ltd in relation to trading activities in Europe, India and Africa.

13. Inventories

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Raw materials and consumables	1,241	1,823	-	580
Work in progress	579	789	-	521
Finished goods	<u>270</u>	<u>515</u>	<u>-</u>	<u>41</u>
	<u>2,090</u>	<u>3,127</u>	<u>-</u>	<u>1,142</u>

In the opinion of the directors the replacement cost of the Group's inventories does not differ significantly from the amount at which they are stated in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

14. Accounts receivable

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Trade	6,852	7,627	-	2,248
Amounts owed by subsidiary undertakings	-	-	-	1,555
Other receivables	422	419	22	349
Prepayments	431	465	174	339
Prepaid pension contributions	516	438	-	438
ACT recoverable	177	190	177	190
Overseas tax recoverable	-	18	-	-
	<u>8,398</u>	<u>9,157</u>	<u>373</u>	<u>5,119</u>

With the exception of the prepaid pension contributions and ACT totalling £693,000, all of the Group's and the Company's accounts receivable are recoverable within one year.

15. Accounts payable

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Within one year:				
Medium term loan	400	400	400	400
Acceptance credits and bank overdrafts	-	1,310	-	1,026
Trade	1,360	2,191	-	1,306
Amounts owed to subsidiary undertakings	-	-	346	2,388
Other accounts payable	378	434	-	112
Taxation and social security	242	239	10	136
Accruals and deferred income	1,539	1,219	386	489
Corporation tax	382	197	42	94
ACT payable	217	189	217	189
Dividends payable	595	524	595	524
Obligations under finance leases	59	66	-	66
	<u>5,172</u>	<u>6,769</u>	<u>1,996</u>	<u>6,730</u>
After one year:				
Obligations under finance leases (due in 1-2 years)	-	60	-	60
Amounts owed to subsidiary undertakings	-	-	-	4,207
Deferred purchase consideration (due in 1-2 years)	200	-	200	-
Deferred purchase consideration (due in 2-5 years)	260	460	260	460
Payments under medium term loan:				
Due in 1-2 years	400	400	400	400
Due in 2-5 years	800	900	800	900
	<u>1,660</u>	<u>1,820</u>	<u>1,660</u>	<u>6,027</u>

The medium term loan totalling £1,600,000 (1995: £1,700,000) is repayable by instalments as noted above and is unsecured. Interest on the loan is charged at LIBOR plus 1.0625% p.a.

NOTES TO THE FINANCIAL STATEMENTS

16. Provisions for liabilities and charges

	Group		Company	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Deferred taxation				
At 1 January 1996	153	82	105	82
Profit and loss account	(82)	71	(148)	23
At 31 December 1996	<u>71</u>	<u>153</u>	<u>(43)</u>	<u>105</u>
Deferred taxation comprises:				
Accelerated capital allowances	(140)	(45)	(58)	(45)
Other timing differences	<u>211</u>	<u>198</u>	<u>15</u>	<u>150</u>
	<u>71</u>	<u>153</u>	<u>(43)</u>	<u>105</u>

The full potential amount of deferred taxation has been provided except that no provision has been made for corporation tax on any capital gains that might arise on the sale by the Group of its revalued land and buildings, as there is no present intention of disposal.

The deferred tax asset in the Company has been included under prepayments in note 14.

17. Called up share capital and share premium account

The Company's share capital as at 31 December 1996 was as follows:

	1996	1996	1995	1995
	Number	£'000	Number	£'000
Authorised ordinary shares of 5p each	13,000,000	650	13,000,000	650
Allotted and fully paid ordinary shares of 5p each				
Balance at 1 January 1996	10,077,364	504	10,036,964	502
Shares issued during the year	<u>186,743</u>	<u>9</u>	<u>40,400</u>	<u>2</u>
Balance at 31 December 1996	<u>10,264,107</u>	<u>513</u>	<u>10,077,364</u>	<u>504</u>
Share premium account				
Balance at 1 January 1996		1,510		1,456
Shares issued during the year		<u>400</u>		<u>54</u>
Balance at 31 December 1996		<u>1,910</u>		<u>1,510</u>

All of the Company's ordinary shares are equity shares, which grant equal rights to vote and to participate in the Company's capital and distributions.

NOTES TO THE FINANCIAL STATEMENTS

Under the terms of the Company's Executive Share Option Scheme, options outstanding at 31 December 1996, which were granted for nominal consideration and which are exercisable between 3 and 10 years after the date the options were granted, were:

Date options granted	Option price	Number of shares
10 April 1989	125p	31,600
3 April 1992	177p	83,400
30 April 1993	275p	162,200
7 October 1993	220p	30,000
24 April 1994	235p	33,600
5 May 1995	226p	45,000
5 May 1995	265p	25,200
6 November 1995	327p	25,200
9 May 1996	351p	42,000

18. Other reserves

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Revaluation reserve	1,355	1,355	-	-
Non-distributable reserve	-	-	2,256	2,256
	<u>1,355</u>	<u>1,355</u>	<u>2,256</u>	<u>2,256</u>

19. Profit and loss account

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Balance at 1 January 1996	5,279	4,710	1,623	2,318
Retained profit/(loss)	1,321	634	1,699	(695)
Goodwill written off on acquisition	68	(553)	-	-
Goodwill reinstated on disposal	-	352	-	-
Effect of exchange rate changes	(558)	128	-	-
Adjustment to minority interest	-	8	-	-
Balance at 31 December 1996	<u>6,110</u>	<u>5,279</u>	<u>3,322</u>	<u>1,623</u>

The cumulative amount of goodwill which has been written off against reserves at 31 December 1996 amounts to £2,815,000.

NOTES TO THE FINANCIAL STATEMENTS

20. Exchange gains / (losses)

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Retained earnings				
Revaluation of the opening net assets of overseas subsidiary undertakings to closing exchange rates	(622)	119	-	-
Revaluation of the results for the year of overseas subsidiary undertakings to closing exchange rates	<u>64</u> (558)	<u>9</u> 128	<u>-</u> -	<u>-</u> -

Hedges of future transactions

At 31 December 1996 the Company was committed to hedge contracts which require it to sell US\$7,160,000 (1995: US\$6,796,000) during 1997 at an average rate of \$1.54 (1995: US\$1.56) to £1. These contracts are expected to cover about 70% of the Group's net cash inflow in US\$ for the year.

21. Capital commitments

	Group		Company	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Capital expenditure contracted for but not provided	200	167	-	153

22. Other commitments

At 31 December 1996 the Group had the following annual commitments under non-cancellable operating leases:

	Land and buildings		Other	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Expiring within one year	23	99	36	39
Expiring between two and five years	108	-	97	162
Expiring after five years	<u>235</u> 366	<u>240</u> 339	<u>2</u> 135	<u>-</u> 201

23. Contingent liabilities

At 31 December 1996 the Group had contingent liabilities in respect of guarantees to third parties amounting to £295,000 (1995: £420,542).

NOTES TO THE FINANCIAL STATEMENTS

24. Pension costs

The Group operates occupational pension schemes which provide retirement and death benefits for the majority of employees and directors.

The main scheme, which is open to UK employees, is a defined benefit scheme, the assets of which are held in a separate fund administered by trustees. The contributions to this scheme are determined by a qualified actuary, based on regular valuations, the most recent of which was as at 1 July 1996. This valuation used the projected unit method and the following principal assumptions:

Rate of return on investments	8.5% p.a.
Rate of pensionable salary increases	6.0% p.a.

As at 1 July 1996 the market value of the scheme's assets was £7,297,796 and the actuarial value was sufficient to cover 126% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The participating companies continued to contribute to the scheme at the rate of 7.9% of pensionable earnings throughout the year.

Pension costs for accounting purposes have been calculated as follows:

- for the main U.K. scheme - in accordance with an actuarial calculation dated 3 February 1997 based on Statement of Standard Accounting Practice (SSAP) 24.
- for the main U.K. scheme - in accordance with an actuarial calculation dated 3 February 1997 based on Statement of Standard Accounting Practice (SSAP) 24.

25. Reconciliation of operating profit to net cash inflow from operating activities	1996 £'000	1995 £'000
Operating profit	3,743	2,864
Depreciation	980	733
Decrease in inventories	969	395
(Increase)/ decrease in receivables	224	(2,844)
Increase / (decrease) in payables	(585)	1,022
(Profit)/ loss on sale of fixed assets	6	(1)
Net cash inflow from operating activities	<u>5,337</u>	<u>2,169</u>

NOTES TO THE FINANCIAL STATEMENTS

26. Reconciliation of net cash flow to movement in net debt

	1996 £'000	1995 £'000
Increase/ (decrease) in cash in the period	979	(628)
Increase / (decrease) in debt and lease financing	<u>1,117</u>	<u>(1,112)</u>
Change in net debt resulting from cash flows	2,096	(1,740)
Translation difference	<u>(64)</u>	<u>18</u>
Movement in net debt in the period	2,032	(1,722)
Net debt at 1 January	<u>(2,450)</u>	<u>(728)</u>
Net debt at 31 December	<u>(418)</u>	<u>(2,450)</u>

27. Analysis of net debt

	1 January 1996 £'000	Cash flow £'000	Other non-cash £'000	Exchange movement £'000	31 December 1996 £'000
Cash at bank and in hand	685	620	-	(64)	1,241
Overdrafts	(359)	<u>359</u>	-	-	-
		<u>979</u>			
Debt due after one year	(1,300)	(300)	400	-	(1,200)
Debt due within one year	(1,350)	1,350	(400)	-	(400)
Finance leases	(126)	<u>67</u>	-	-	(59)
		<u>1,117</u>			
Total	<u>(2,450)</u>	<u>2,096</u>	<u>-</u>	<u>(64)</u>	<u>(418)</u>

28. Post balance sheet event

On 11 January 1997 Servomex plc completed the acquisition of Montec Holdings Limited from Northumbrian Water Group plc. Details of the companies forming the Montec group are laid out in note 12.

Consideration of £3,800,000 in cash was paid at completion; this is subject to adjustment following the agreement of a completion balance sheet. The consideration was met from Servomex's cash resources and bank facilities.

For the year ended 31 March 1996, the Montec group made a loss of £887,000 on sales of £7,803,000. In the nine and half months ended 11 January 1997 Montec made an estimated loss of £3,200,000 on sales of £5,064,000. The group's estimated net assets at 11 January 1997 were £1,800,000.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at Buxted Park Hotel, Buxted, East Sussex, on 2 May 1997 at 11.00am for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1,2,3 and 4 will be proposed as ordinary resolutions and resolutions 5 and 6 as special resolutions.

Ordinary business

1. To receive and adopt the financial statements and reports of the directors and auditors for the year ended 31 December 1996.
2. To declare a final dividend.
3. To re-elect as a director Clive Gregory, who is retiring and offering himself for re-election.
4. To re-appoint Price Waterhouse as auditors and to authorise the directors to fix their remuneration.

Special business

5. That the directors be and are hereby generally and unconditionally authorised to exercise all or any of the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Companies Act 1985 ('the Act')) of the Company up to an aggregate nominal amount of £153,962 (30% of the issued share capital of the Company) for a period expiring on the conclusion of the Annual General Meeting of the Company held in 1998 (unless previously renewed, varied or revoked by the Company in general meeting) save that the Company may prior to such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities pursuant to any such offer or agreement as if the authority conferred hereby had not expired.
6. That subject to the passing of resolution 5 the directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company pursuant to the authority conferred by resolution 5 as if Section 89 (1) of the Act did not apply to such allotment provided that this power:
 - 6.1 shall expire on the conclusion of the Annual General Meeting of the Company held in 1998 save that the Company may prior to such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired, and

6.2 shall be limited to:

6.2.1 any allotments of equity securities in connection with a rights issue to holders of equity securities in proportion (as nearly as may be) to their then holdings subject only to the directors having a right to make such arrangements in connection with such rights issue as they deem necessary or expedient:

- i) to deal with equity securities representing fractional entitlements, and
- ii) to deal with equity securities which the directors consider it necessary or expedient to exclude from the offer on account of either legal problems under the laws of any territory or the requirements of any recognised regulatory body or any other stock exchange, and

6.2.2 any other allotments of equity securities for cash up to a maximum nominal amount of £25,660 (5% of the issued share capital of the Company).

By order of the Board
Martin Johnston
Secretary 27 March 1997

Registered office:
Jarvis Brook Crowborough
East Sussex TN6 3DU

NOTES

- (1) A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his or her behalf and such proxy or proxies need not be a member or members of the Company. A proxy form is included with this document which if required should be completed and returned in accordance with instructions set out therein.
- (2) There will be available for inspection at the registered office of the Company during normal business hours from the date of this notice until the date of the Annual General Meeting and for at least fifteen minutes prior to and during the meeting:
 - (a) The register of directors' interests kept by the Company in accordance with Section 325 of the Companies Act 1985 and
 - (b) Copies of the directors' contracts of service with the Company.

FORM OF PROXY**SERVOMEX PLC**

I/We _____
of _____

being (a) member(s) of the above-named company HEREBY APPOINT the Chairman of the Meeting or (see Note 5) _____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on Friday, 2 May 1997 and at every adjournment thereof, in relation to the business specified in the Notice of Annual General Meeting.

As witness my/our hand(s) this _____ day of _____ 1997

Signature _____

Please indicate with an 'X' in the appropriate space below how you wish your votes to be cast. On receipt of this Form of Proxy duly signed, but without specific directions, the proxy will abstain or vote at his discretion.

ORDINARY BUSINESS

	For	Against	
1			To receive and adopt the annual report and financial statements
2			To declare a final dividend
3			To re-elect Clive Gregory as a director
4			To re-appoint Price Waterhouse as auditors

SPECIAL BUSINESS

	For	Against	
5			To authorise the directors to allot shares pursuant to Section 80(2) of the Companies Act 1985
6			To disapply Section 89(1) of the Companies Act 1985

NOTES

1. This Form of Proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the offices of the Registrar not less than forty-eight hours before the time fixed for holding the meeting or adjourned meeting as the case may be.
2. Any alteration of the Form of Proxy must be initialled.
3. In the case of joint holders the signature of one holder will be sufficient.
4. If the appointer is a corporation, this Form of Proxy must be completed under its common seal or under the hand of some duly authorised officer or attorney.
5. If it is desired to appoint as proxy any person other than the Chairman of the Meeting his name and address should be inserted in the blank space, reference to the Chairman deleted and the alteration initialled. The proxy need not be a member of the Company.

To return your Form of Proxy please tear along the dotted line and fold the form as indicated on the reverse. No stamp is needed.