

1938746

**SERVOMEX plc**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 1994**

Servomex plc,  
Registered Office, Jarvis Brook,  
Crowborough, East Sussex TN6 3DU  
Tel: (01892) 652181 Fax: (01892) 662253  
Telex: 95113 SERMEX G

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## COMPANY INFORMATION

### Directors and Senior Executives

<b>Directors</b>	<b>*</b> Terry Clements, B Eng, C Eng, MIMechE	Chairman
	Roger Harrop, BSc (Hons), CEng, FIMechE, FCIM, FRSA	Chief Executive
	<b>*</b> Clive Gregory, FCA	
	Les James, MSc	Operations
	Martin Johnston, MA, FCA	Finance
	Riad Kocache, BSc (Hons), MSc, PhD, C Eng, C Phys, FInstP,	
	FInstMC, FIEE	Technology
	Bob Kydd, BSc (Hons), PhD, CEng, MInstMC	Engineering & Quality
	Peter Parnell, BSc (Hons)	Europe / India / Africa / Australasia
	Dave Willett, AAS, BS	Americas

\*Denotes Non-Executive

<b>Senior Executives</b>	Elaine Barnden, BSc, MIPD	Human Resources
	Alan Harbottle	Scottish Anglo
	Michel Lacaze	France
	Peter Martin, BA (Hons), MBA	Marketing
	Auke Rentenaar	Benelux
	Robert Wang, BSc, PEng	Asia Pacific

<b>Secretary</b>	Martin James Hardy Johnston, MA, FCA
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<b>Registered Office</b>	Jarvis Brook Crowborough East Sussex TN6 3DU
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<b>Registered Number</b>	1938746
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<b>Stockbrokers</b>	NatWest Wood Mackenzie & Co Limited 135 Bishopsgate London EC2M 3XT
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<b>Auditors</b>	Price Waterhouse Bridge Gate 55-57 High Street Redhill Surrey RH1 1RX
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<b>Solicitors</b>	Baker & McKenzie 100 New Bridge Street London EC4V 6JA
	Cripps, Harries, Hall Seymour House 11-13 Mount Ephraim Road

Tunbridge Wells  
Kent TN1 1EN

**Principal Bankers** Barclays Bank PLC  
73 Calverley Road  
Tunbridge Wells  
Kent TN1 2UZ

**Registrars** Lloyds Bank Plc  
Registrar's Department  
The Causeway  
Worthing  
West Sussex BN99 6DA

## GROUP OPERATING UNITS

**Servomex plc**  
UK Division  
Manufacturing  
Division  
Jarvis Brook, Crowborough  
East Sussex TN6 3DU England  
Tel: (01892) 652181  
Fax: (01892) 662253

**Servomex  
Company Inc.** 90 Kerry Place, Norwood  
MA 02062 USA  
Tel: (1) 617 769-7710  
Fax: (1) 617 769-2834

**Servomex S.A.R.L.** 8 Rue Proudhon, B.P. 50  
93212 La Plaine Saint Denis  
Paris, France  
Tel: (33) 1 48.20.83.22  
Fax: (33) 1 48.20.63.58

**Servomex B.V.** Postbus 406 - 2700 AK Zoetermeer  
Stephensonstraat 20 -2723  
RN Zoetermeer, Holland  
Tel: (31) 79 - 41 71 41  
Fax: (31) 79 - 42 08 19

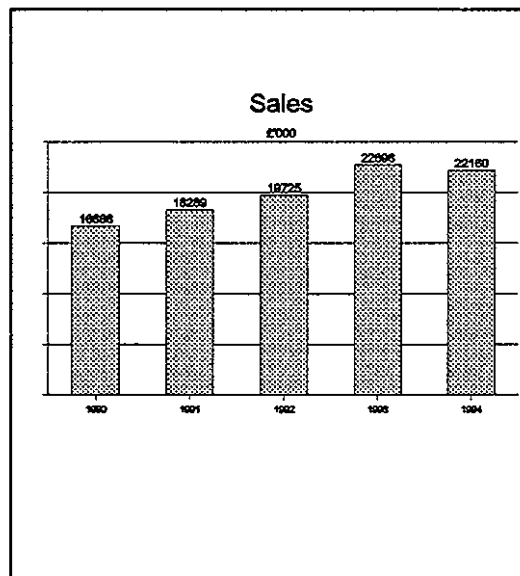
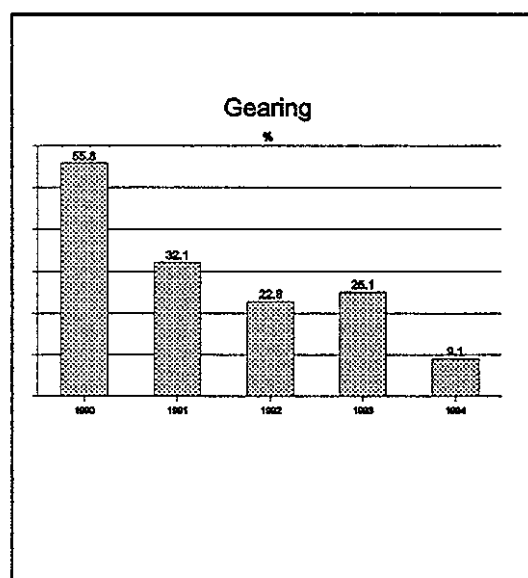
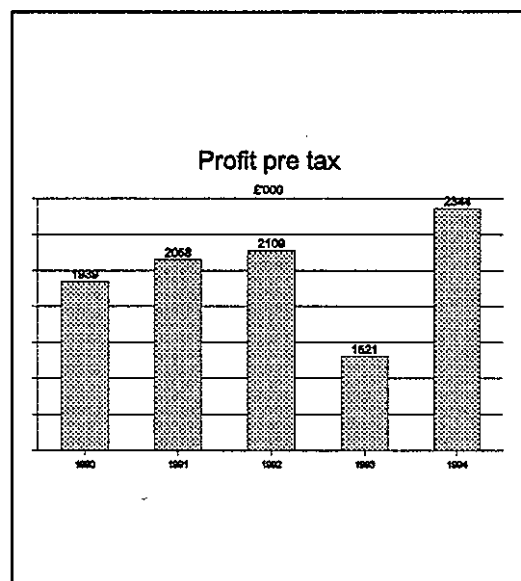
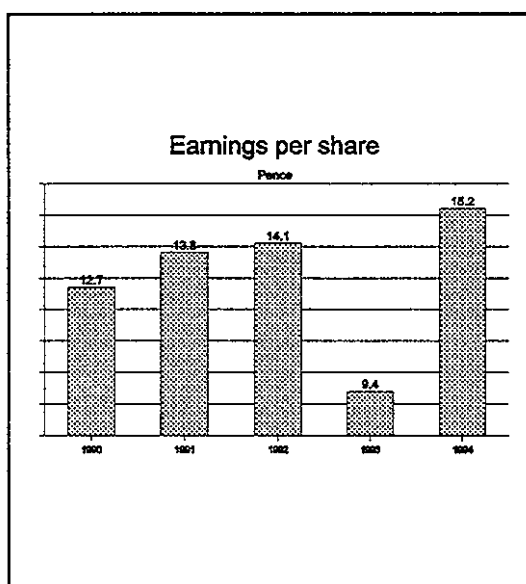
**Servomex Asia  
Pacific Ltd** 5F-4, No. 328  
Chang Chun Road  
Taipei, Taiwan, R.O.C.  
Tel: (886) 2-7180031  
Fax: (886) 2-7818224

**CNTIC-Servomex** No.2 Sheng Gu Zhuang  
Chaoyang Area  
Beijing, China  
PO Box 1432, Beijing  
Postcode 100029  
Tel (86)-1-426-9911,2101  
Fax (86)-1-426-8694

**Scottish Anglo Units** 4/5 Wainstones Court  
**Environmental** Stokesley Industrial Park  
**Protection Ltd** Stokesley  
Cleveland TS9 5JY  
Tel: (01642) 711400  
Fax: (01642) 713900

## FINANCIAL HIGHLIGHTS

£'000	1993	1994
Earnings per share	9.4p	15.2p
Profit pre tax	1,521	2,344
Restructuring costs included in profit pre-tax	(568)	(206)
Sales	22,696	22,160
Operating profit (before restructuring costs)	9.9%	12.1%
Dividend per share	6.4p	7.0p
Gearing	25%	9%
Interest cover	11x	19x



## FIVE YEAR REVIEW

	1990 £'000	1991 £'000	1992 £'000	1993 £'000	1994 £'000
Sales	16,686	18,289	19,725	22,696	22,160
Operating profit	2,190	2,372	2,239	1,681	2,478
Restructuring costs included in operating profit	-	-	-	(568)	(206)
Profit before taxation	1,939	2,058	2,109	1,521	2,344
Taxation	(700)	(718)	(734)	(608)	(827)
Profit after taxation	1,239	1,340	1,375	913	1,517
Minority interests	(2)	(1)	9	13	1
Profit after minority interests	1,237	1,339	1,384	926	1,518
Dividends	(525)	(554)	(584)	(637)	(703)
Increase in reserves	712	785	800	289	815
Earnings per share	12.7p	13.8p	14.1p	9.4p	15.2p
Dividend per share	5.4p	5.7p	5.9p	6.4p	7.0p
Net assets per share	50.2p	58.6p	69.1p	71.8p	80.3p

## STATISTICAL INFORMATION

### Business ratios:

	1993	1994
Material to sales	25.1%	25.1%*
Average receivables days outstanding	61	69
Year end inventory days held	76	69
Sales per employee	£64.8k	£71.5k
R&D to sales	6.0%	6.1%

### Exchange rates:

	1993	1994
US Dollar - Translation average	1.51	1.55
- Hedge contract rate	1.66	1.47
French Franc - Translation average	8.52	8.02
Dutch Guilder - Translation average	2.81	2.74
Taiwan Dollar - Translation average	40.03	40.18

\* As part of the Excel make versus buy evaluation some processes and components, which were formerly made in-house, are now bought in. The effect of these changes amounts to c. 2.1% increase in the material to sales ratio in 1994.

## **CHAIRMAN'S STATEMENT**

### **Results**

Servomex achieved record results in 1994 with earnings per share and pre tax profit growing by 61.7% and 54.1% respectively. This encouraging performance has enabled the Board to propose a dividend per share of 7.0p, another record and 9.4% up on last year. £815,000 will be retained in the business to finance growth.

These record results have been achieved despite a modest reduction in sales to £22.16m reflecting the continued recession in the process industries. In our three main geographical markets, the Americas grew marginally, European sales fell by 5% whilst Asia Pacific continued to grow, with Servomex product sales up by over 16%.

The continuing inventory reduction programme contributed to a further reduction of working capital of £112,000 and the Group's net debt fell by £1,039,000 to £728,000. Gearing fell from 25.0% to 9.1% and we expect to see operating cash flow remain positive in the current year.

We continued our policy of hedging our US\$ revenues on a rolling 12 months' basis. Our exposure to exchange differences on our US\$ denominated assets was partly hedged for most of the year by our US\$ medium-term borrowing. We opted to convert this loan to sterling in November.

The lower taxation percentage at 35.3% of pre-tax profit (1993 : 40%) reflects the return to profitability of all the Group's overseas operations and the considerably reduced restructuring spend in the U.K.

### **Restructuring**

I am pleased to report that the restructuring of our Company in the U.K. and the associated projects designed to improve our product development and time to market capability have been completed successfully. These major initiatives have already improved our competitiveness. Whilst the full benefits will take some time to emerge, we are confident that the planned introduction of new products over the coming months, together with our world class manufacturing capability, are excellent first steps. The next phase will be one of continuous improvement, at the heart of which will be our "Sigma" total quality programme. This programme will not give rise to any significant one-off costs.

## **CHAIRMAN'S STATEMENT**

### **Prospects**

Whilst there is evidence that the world economy is recovering, there is little indication of any significant improvement in our traditional process industry market. In the last four years we have repositioned ourselves to be significantly less dependent on this sector. We expect to see growth in sales in the current year resulting from new product introductions, buoyant transducer sales to the medical market and further progress in the American and Asia Pacific regions. I am confident that the expected increase in volume, together with our improved efficiency, will result in growth in earnings in the current year.

The restructured management team is a firm foundation on which to build and we are now focusing the strategic direction of the Group on industrial instrumentation in growing markets. Whilst our first priority is organic growth, we shall explore other opportunities, providing we can see the possibility to add value.

### **Board changes**

In September 1994 Bob Gordon left the Company. I thank him for the major contribution he has made to the Group and wish him well in his new position.

I am pleased to welcome Martin Johnston to the Board as Financial Director. Martin has wide experience in international financial management and is already making an important contribution to the management of the Group.

### **Staff**

Once again the Board wishes to record its thanks and appreciation to all our staff. Their contribution to this successful year has been outstanding. We never cease to be delighted at their ability to rise to the challenge.



**TERRY CLEMENTS**

**Chairman**

**27 March 1995**

## REVIEW OF OPERATIONS

Trading levels in our traditional process market sector continued their unpredictable pattern of the recent past, with our main U.S. and U.K. markets being particularly quiet. However, we did see some recovery in Scandinavia and Germany and an improving trend in the last quarter in France and Holland.

We continued our growth in the Asia Pacific region with sales of Servomex product up 16.5% and made substantial progress in the growing Indian market, Eastern Europe and South America.

Outside the process market sector we maintained growth programmes in our other two strategic market sectors - transducers for medical original equipment manufacturers (OEMs), and environmental analysers and systems for continuous emission monitoring. Sales in these markets were up 18% and 15% respectively.

The business re-engineering process, which commenced over two years ago, is now complete and we are confident that we have, in Servomex, a business that is rapidly becoming world class in all aspects of its operation.

During this two year period we have divisionalised our organisational structure to introduce clearer lines of responsibility and accountability; implemented stronger financial controls and rigorous monitoring; completely restructured our manufacturing operation to bring greater flexibility; considerably improved speed of response and delivery, and substantially reduced levels of inventory and overhead in a high quality facility. We have introduced marketing, product and technology procedures to ensure a flow of highly differentiated market-targeted products and have completely restructured our technical functions to address that need and to ensure that customer-focused personnel of the highest calibre are in the right positions throughout the organisation. The Company now operates through highly motivated teams in a flat organisational structure.

Restructuring costs incurred in the year amounted to £206k.

Some of the direct financial gains from this programme are evident in the results:-

- o record earnings despite a small reduction in sales
- o sales per employee up 10.3%
- o operating margin up 2.2% before restructuring costs
- o inventories down a further 14.5%
- o borrowings at a record low with gearing at 9.1%

The progress we have made has been recognised outside the Group: during the year we were included in the Department of Trade and Industry/CBI study of over 100 of the best UK based companies, the results of which have been published by the DTI in a report entitled "Competitiveness - How the Best UK Companies are Winning".

Research and development spend in the year was maintained at our traditional level of approximately 6% of sales and important new products were launched, incorporating unique technology. These give improved benefits to customers and further opportunities for sales growth.



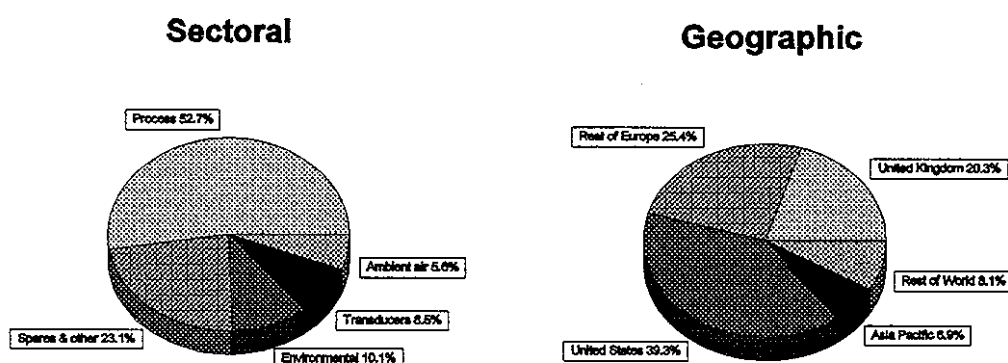
## REVIEW OF OPERATIONS

We have made considerable progress in firming up our long term strategy for the Group including the further refinement of our focus on 3 strategic market sectors: Process, Environmental and Transducers for the OEM medical market.

Detailed market mapping and segmentation work is in hand in each of these sectors as part of our strategy to identify further areas of opportunity to increase sales and earnings.

Geographically, we remain committed to realising a balanced portfolio across the 3 regions, Americas, Europe and Asia Pacific.

## TRADING



### Americas

1994 presented another challenging year for Servomex in the Americas. In the United States the potential for business from traditional process customers remained soft, as many of these organisations continued with downsizing programmes and, in general, operated with austerity budgets. To compensate for this weak market, we placed particular emphasis on increasing sales in the areas of transducers for use in medical instrumentation; on obtaining greater market penetration in Canada, Mexico and South America; on analysers and total systems for environmental applications; and finally, on technical services such as commissioning and start up and preventative maintenance.

Our focus on these opportunities provided incremental volume that was adequate to cover the shortfall in process business and yielded a small year on year improvement in sales in the region.

### Europe

Trading conditions in most of Europe started to improve through 1994 with France, Holland and Germany in particular seeing signs of recovery in the second half. This not only resulted from an increase in our traditional petrochemical, refining and power markets, but also from our successful focus on niche environmental markets - a trend we anticipate continuing through 1995 and beyond.

Our new *Xentra* 4100 gas purity monitor found particular favour in France with a number of

## **REVIEW OF OPERATIONS**

orders being placed for delivery in 1995, whilst we achieved specification for our industry standard pm1111D oxygen transducer from a prestigious medical OEM in Holland. It is also pleasing to report the significant progress we are making with our *Xendos* process photometric range of products in Germany against severe local competition.

### **Asia Pacific**

Due to continuing depressed economic conditions in the West, many competitors looked towards the Asia Pacific region for business expansion in 1994. Despite this increased competition we achieved growth of Servomex product sales in the region of 16.5% together with improved margins. This resulted from the reinforcement of the support capabilities of our Taipei regional office and from capitalising on our traditional strengths in the chemical and petrochemical industries in the region.

In Japan, despite continuing economic recession, we grew the business by 80% as our efforts in market diversification and the introduction of new products began to bear fruit. In China, we achieved over 45% business growth, although we did suffer setbacks during the second half of the year as a result of the government-sponsored austerity campaign.

### **Rest of the world**

Our business plans for India started to show results in 1994, due substantially to our highly professional and committed local agent and the attention we are jointly giving this market place.

Business levels in Australasia improved in the year whilst South Africa continued to represent an important area of activity.

## **CORPORATE**

### **Marketing**

Much has been done in the year to sharpen our market focus and to ensure that our products meet our customers' needs. A number of market research projects have been completed, particularly in the area of new product development. However, restricted sales volumes in the year and the need for further market research caused the postponement of our corporate promotional campaign into 1995.

In the first half, a re-designed range of process photometric analysers was successfully launched under the *Xendos* brand at theACHEMA exhibition in Frankfurt.

In the last quarter of the year we launched the first model in our new *Xentra* family of high specification analysers. This represented the first manifestation of our "models for markets" philosophy, whereby we cover a large number of niche markets utilising standard modules.

### **Product management/development**

An extensive restructuring of our technical departments was completed during the first half of the year bringing all of our product development processes up to the highest standards. Its chief objectives were to improve radically the time to market for new products and to ensure that new products are meeting customer requirements as closely as possible.

This involved the reorientation of each of the technical functions. We now have a high calibre

## REVIEW OF OPERATIONS

technology department focused on core modules which make the most advanced technologies available in a fully developed and proven state. Our engineering and quality department concentrates on ensuring that we meet customer needs first time and also that we reflect and anticipate their changing needs with adaptations of existing products and new application opportunities.

The transition to the new way of working has been a demanding task and it is a credit to the commitment of all employees involved that total product management is now functioning so effectively.

The first *Xentra* model, the 4100, was launched in the last quarter at the ISA exhibition in California. This model is targeted at the gas purity market and is the first of an extensive family of products built on the state of the art *Xentra* platform. The *Xentra* 4100 incorporates new long life and high specification zirconia transducers whilst further models in the *Xentra* range, to be launched in 1995, will incorporate new patented technology Servomex transducers representing the best available anywhere. Development of this product was supported by a government SPUR grant.

### Manufacturing

Manufacturing division completed the "Excel" programme in the third quarter of the year and the new facility was formally opened by our local M.P., Sir Geoffrey Johnson-Smith. The programme, which was only started at the beginning of 1993, followed a make versus buy exercise designed to ensure that we focus on our core competences. Five manufacturing cells were established and the manufacturing facilities have been refurbished to the highest standards.

In order to achieve the maximum benefit from the changes, which introduced a flattened organisational structure, we invested in training workshops for all personnel. These have been invaluable in establishing a culture where managers and teams alike are more accountable and make decisions much more readily. Key performance measures were introduced which are clearly displayed in each cell, helping the cell teams to relate their activity to the objectives and success of the division as a whole. We continue to provide high levels of specific job training to develop a more multi-skilled workforce whilst "Kaizen", or continuous improvement, programmes are now a permanent feature of the organisation.

The Excel programme has entailed a total restructuring of physical layout, organisational structure, culture, business processes and performance measurement. It is now close to delivering all the key benefits we targeted, including improved lead times and delivery performance, increased productivity and reduced inventory holding.

Servomex has been assessed and adopted as a prestigious "Best Practices" site for the Department of Trade and Industry "Inside UK Enterprise" Scheme.

### Capital expenditure

Capital expenditure at £1,054,000 was close to the 1993 level with the major spend being on the upgrading of the laboratory, research and office accommodation in Crowborough as well as the final capital costs of the Excel programme and the provision of an essential applications laboratory in Boston.

## **REVIEW OF OPERATIONS**

### **Scottish Anglo**

Whilst this Company is now profitable, with reduced break even levels, it does not fit comfortably with our longer term strategic objectives. We are therefore considering disposing of this business. If we were to sell the Company for net asset value the new UITF consensus pronouncement, Abstract 3, would require a charge to profit of about £350,000 in respect of goodwill previously written off to reserves.

### **People**

1994 proved to be another unpredictable year as far as business volumes were concerned and with the final element in our restructuring process being implemented in the Group technical areas, our employees have had the most difficult of times to contend with. They have again demonstrated their commitment and loyalty to the Company. Our employees are our single most important asset and I welcome the opportunity to give them my thanks for their considerable contribution during 1994.

With the restructuring complete, our focus now is upon improved human relations, combined with greater investment in training, to ensure the development of high performing teams throughout the organisation.

We were pleased to welcome during the year both Martin Johnston, as Financial Director, and Elaine Barnden, as Human Resources Manager, thus completing our Group Executive team.

### **Environment**

Servomex is committed to good international environmental standards and continuously strives to conduct its affairs in a responsible fashion to protect people and enhance the environment.

We are committed to being an environmentally responsible member of the local, national and worldwide communities in which we operate.

Additionally, the Company's products are increasingly being used in environmental monitoring applications and our product development effort is directed, in large part, towards the detection and measurement of ever lower dilutions of pollutant gases.



**ROGER HARROP**

Chief Executive

27 March 1995

## THE CODE OF BEST PRACTICE

		Compliance
<b>1.</b>	<b>The Board of directors</b>	
1.1	The Board should meet regularly, retain full and effective control over the Company and monitor the executive management.	✓
1.2	There should be a clearly accepted division of responsibility at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.	✓
1.3	The Board should include non-executive directors of sufficient calibre and number for their views to carry significant weight in the Board's decisions.	✓
1.4	The Board should have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Company is firmly in its hands.	✓
1.5	There should be an agreed procedure for directors in the furtherance of their duties to take independent professional advice, if necessary, at the Company's expense.	✓
1.6	All directors should have access to the advice and services of the company secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. Any question of the removal of the company secretary should be a matter for the Board as a whole.	✓

## THE CODE OF BEST PRACTICE

2.	<b>Non-executive directors</b>	
2.1	Non-executive directors should bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.	✓
2.2	The majority should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement, apart from their fees and shareholding. Their fees should reflect the time which they commit to the Company.	✓
2.3	Non-executive directors should be appointed for specified terms and re-appointment should not be automatic.	✓
2.4	Non-executive directors should be selected through a formal process and both the process and their appointment should be a matter for the Board as a whole.	✓
3	<b>Executive directors</b>	
3.1	Directors' service contracts should not exceed three years without shareholders' approval.	✓
3.2	There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest paid UK director, including pension contributions and stock options. Separate figures should be given for salary and performance-related elements and the basis on which performance is measured should be explained.	✓
3.3	Executive directors' pay should be subject to the recommendations of a remuneration committee made up wholly or mainly of non-executive directors.	✓

## THE CODE OF BEST PRACTICE

<b>4.</b>	<b>Reporting and controls</b>	
4.1	It is the Board's duty to present a balanced and understandable assessment of the Company's position.	✓
4.2	The Board should ensure that an objective and professional relationship is maintained with the auditors.	✓
4.3	The Board should establish an audit committee of at least 3 non-executive directors with written terms of reference which deal clearly with its authority and duties.	X (see footnote 1)
4.4	The directors should explain their responsibility for preparing the accounts next to a statement by the auditors about their reporting responsibilities.	✓
4.5	The directors should report on the effectiveness of the Company's system of internal control.	X (see footnote 2)
4.6	The directors should report that the business is a going concern, with the supporting assumptions or qualifications as necessary.	✓ (see page 16)

### Footnotes

*1. The audit committee consists of the two non-executive directors under the chairmanship of C. C. Gregory, FCA. The Board does not propose to increase the number of non-executive directors to fulfill this requirement at present.*

*2. Guidance for directors of listed companies registered in the UK in respect of internal control and financial reporting was issued in December 1994. The guidance is effective for all accounting periods beginning on or after 1 January 1995. The directors will therefore review the effectiveness of the Company's system of internal control within the annual report for the year ended 31 December 1995.*

The Company complies with all of the provisions of the Cadbury Committee's Code of Best Practice, other than the item referred to in Footnote 1 above and the requirements relating to internal control for which guidance was only published in December 1994 (see Footnote 2). The auditors have reported to the Board that, in their opinion with respect to the directors' statement on going concern on page 16, the directors have provided the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance for directors) and such a statement is not inconsistent with the information of which they are aware from their audit work on the financial statements; and the directors' statement above appropriately reflects the Company's compliance with the other paragraphs of the Code specified for their review. They were not required to perform the additional work necessary to, and did not, express any opinion on the effectiveness of either the corporate governance procedures nor on the ability of the Group to continue in operational existence.

## **DIRECTORS' REPORT**

The directors present their report and the financial statements for the year ended 31 December 1994.

### **Principal activity**

The principal activity of the Group is the design, manufacture and sale of gas analysis and gas monitoring equipment, instrumentation and systems, for distribution worldwide.

### **Results for the year**

The Group achieved a profit before taxation of £2,344,000 (1993: £1,521,000). The retained profit for the financial year amounted to £815,000 (1993: £289,000) which was transferred to reserves. An interim dividend of £211,000 or 2.1p per share was paid in respect of the 10,036,964 ordinary shares in issue on 4 November 1994 ( 1993: £187,000).

The directors are recommending the payment of a final dividend of £492,000 or 4.9p per share, (1993: 4.5p) in respect of the 10,036,964 ordinary shares in issue at the year end. This will bring the total dividend for the year to 7.0p (1993: 6.4p). The final dividend will be payable on 19 May 1995 to shareholders on the register at the close of business on 24 April 1995.

The Chairman's statement and Chief Executive's review of operations together provide an overview of the results for 1994 and information concerning the Group's prospects for 1995.

### **Going concern**

Based on the Group's profit plan for 1995, 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.

### **Format of profit & loss account**

The directors have decided to change the format of the profit & loss account to format 2 as shown in Schedule 4 to the Companies Act 1985. This format more closely reflects the presentation of management information used by the directors to manage the operations of the Group.

### **Research and development**

The Group's products are regarded by the directors as advanced technology and as such require constant update 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 gas analysis and gas monitoring fields.



## DIRECTORS' REPORT

### Directors

The directors of Servomex plc are listed below:

T A Clements*#	Chairman
C C Gregory*#	Non-executive director
R Harrop#	Chief Executive
L F James	Operations Director
M J H Johnston	Financial Director and Company Secretary (Appointed 3 October 1994)
R M A Kocache	Director of Technology
R F Kydd	Director of Engineering & Quality
P G Parnell	Director and General Manager, UK Division
D A Willett (USA)	Director and President, Servomex Company Inc.
R M Gordon	(Resigned 30 September 1994)

\* audit committee

# remuneration committee

T A Clements, aged 58, is the former chairman of Landis and Gyr Communications (UK) Ltd. He became a director on 2 April 1993.

C C Gregory, aged 51, is a non-executive director of Goldsmiths Plc. He 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 29 April 1995.

The Chief Executive has a service contract 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.

The executive directors are eligible to participate in bonus incentive schemes based upon growth in the Group's earnings. Directors' emoluments under these schemes amounted to £9,460 in 1994.

As at 31 December 1994 the directors and their families had the following interests in the ordinary share capital of Servomex plc:

	31 December 1994		31 December 1993	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
R M A Kocache	281,745	22,500	257,795	46,450
R F Kydd	239,230	-	243,730	-
P G Parnell	278,800	-	278,800	-
D A Willett	27,240	-	27,240	-

There have been no changes in the above shareholdings between 31 December 1994 and 6

## DIRECTORS' REPORT

March 1995.

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

### Substantial shareholders

Apart from the directors' interests shown above, as at 6 March 1995, 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	947,498	9.44
Postel Investment Management Ltd	878,500	8.75
Equitable Life Assurance Society	647,800	6.45
Standard Life Assurance Company	589,739	5.88
Gartmore Investment Management Ltd	559,740	5.58
Dunedin Fund Managers	350,000	3.49
Baillie Gifford & Company	342,000	3.41
Aberforth Partners Ltd	333,700	3.32
Britannic Assurance PLC	320,000	3.19
The Fleming Mercantile Investment Trust PLC	307,000	3.06

### Share options

Options in respect of a total of 552,400 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:

	Option Price	Earliest Exercise Date	Expiry Date	1994 Number	1993 Number
D A Willett	125p	10/4/1992	10/4/1999	40,600	40,600
R Harrop	177p	1/4/1995	1/4/2002	75,000	75,000
	177p	1/4/1997	1/4/2002	75,000	75,000
L F James	220p	6/10/1998	6/10/2003	30,000	30,000

No directors' options were exercised or lapsed in the year. The market price of the shares at 31 December 1994 was 266p and the range during 1994 was 245p to 270p.

### Significant changes in tangible fixed assets

Movements in tangible fixed assets during the year are set out in note 11 to the financial statements.

## **DIRECTORS' REPORT**

### **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.

### **Charitable contributions**

Charitable contributions for the year amounted to £1,308 (1993: £680). No contributions were made to political parties.

### **Directors' and officers' insurance**

The Company has taken out, as permitted under section 310 (3) of the Companies Act 1985, insurance for its officers against liabilities in relation to their duties for the Group.

### **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 6 and 7**

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



**M J H JOHNSTON**

Secretary

27 March 1995

## **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 1994 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,*

### **PRICE WATERHOUSE**

Chartered Accountants  
and Registered Auditors  
Redhill  
27 March 1995

**GROUP PROFIT AND LOSS ACCOUNT**

For the year ended 31 December 1994

		1994	1993
	Notes	£'000	£'000
<b>Sales</b>	2	22,160	22,696
Change in inventories		(356)	(818)
		<u>21,804</u>	<u>21,878</u>
Materials and consumables		(5,403)	( 5,135)
Staff costs	4	(7,458)	(7,666)
Depreciation of tangible fixed assets		(659)	(564)
Other operating charges		(5,806)	(6,832)
<b>Operating profit</b>	2&3	2,478	1,681
Interest receivable	5	7	14
Interest payable	6	(141)	(174)
<b>Profit on ordinary activities before taxation</b>		2,344	1,521
<b>Taxation on profit on ordinary activities</b>	7	(827)	(608)
<b>Profit on ordinary activities after taxation</b>		1,517	913
Minority interests		<u>1</u>	<u>13</u>
<b>Profit for the financial year</b>		1, 518	926
<b>Dividends paid and proposed</b>	9	(703)	(637)
<b>Profit transferred to reserves</b>	19	<u>815</u>	<u>289</u>
<b>Earnings per share</b>	10	<u>15.2p</u>	<u>9.4p</u>

The results for the year relate wholly to continuing operations.

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

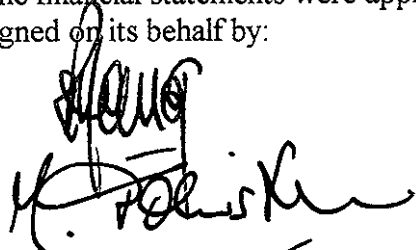
The directors have decided to change the format of the profit & loss account to format 2 as shown in Schedule 4 to the Companies Act 1985. This format more closely reflects the presentation of management information used by the directors to manage the operations of the Group.

# BALANCE SHEETS

as at 31 December 1994

		GROUP		COMPANY	
		1994	1993	1994	1993
	Notes	£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Tangible assets	11	3,826	3,466	3,481	3,148
Investments	12	<u>15</u>	<u>15</u>	<u>7,135</u>	<u>7,135</u>
		<u>3,841</u>	<u>3,481</u>	<u>10,616</u>	<u>10,283</u>
<b>Current assets</b>					
Inventories	13	2,312	2,702	1,339	1,541
Accounts receivable	14	6,443	5,755	3,926	4,501
Cash		<u>936</u>	<u>1,087</u>	<u>458</u>	<u>600</u>
		9,691	9,544	5,723	6,642
<b>Accounts payable within one year</b>	15	<u>(4,074)</u>	<u>(3,815)</u>	<u>(4,173)</u>	<u>(3,947)</u>
<b>Net current assets</b>		<u>5,617</u>	<u>5,729</u>	<u>1,550</u>	<u>2,695</u>
<b>Total assets less current liabilities</b>		9,458	9,210	12,166	12,978
<b>Accounts payable after one year</b>	15	<u>(1,345)</u>	<u>(2,062)</u>	<u>(5,552)</u>	<u>(6,487)</u>
<b>Provisions for liabilities and charges</b>	16	<u>(82)</u>	<u>(82)</u>	<u>(82)</u>	<u>(82)</u>
<b>Net assets</b>		<u>8,031</u>	<u>7,066</u>	<u>6,532</u>	<u>6,409</u>
<b>Capital and reserves</b>					
Called up share capital	17	502	492	502	492
Share premium account	17	1,456	1,313	1,456	1,313
Other reserves	18	1,355	1,355	2,256	2,256
Profit and loss account	19	<u>4,710</u>	<u>3,891</u>	<u>2,318</u>	<u>2,348</u>
<b>Shareholders' funds</b>		8,023	7,051	6,532	6,409
Minority interests		<u>8</u>	<u>15</u>	<u>-</u>	<u>-</u>
		<u>8,031</u>	<u>7,066</u>	<u>6,532</u>	<u>6,409</u>

The financial statements were approved by the Board of directors on 27 March 1995 and were signed on its behalf by:



Directors

**GROUP CASH FLOW STATEMENT**

For the year ended 31 December 1994

	1994	1993
	£'000	£'000
<b>Net cash inflow from operating activities (note 25)</b>	3,205	2,253
<b>Returns on investments and servicing of finance</b>		
Interest received	12	71
Interest paid	(159)	(232)
Dividends paid	(661)	(580)
<b>Net cash outflow from returns on investments and servicing of finance</b>	(808)	(741)
<b>Taxation</b>		
UK corporation tax paid	(222)	(472)
Overseas tax paid	(394)	(343)
<b>Tax paid</b>	(616)	(815)
<b>Investing activities</b>		
Purchase of tangible fixed assets	(1,054)	(994)
Sale of tangible fixed assets	26	95
<b>Net cash outflow from investing activities</b>	(1,028)	(899)
<b>Net cash (outflow)/inflow before financing</b>	753	(202)
<b>Financing (note 28)</b>		
Issue of share capital	153	12
Reduction in secured loans	(410)	(45)
Capital element of finance lease rental payments	(70)	(48)
<b>Net cash outflow from financing</b>	(327)	(81)
<b>Increase/(decrease) in cash and cash equivalents (note 26)</b>	426	(283)



# OTHER PRIMARY STATEMENTS

For the year ended 31 December 1994

	Group		Company	
Statement of total recognised gains and losses	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Profit for the financial year	1,518	926	673	438
Exchange differences taken directly to reserves	<u>(3)</u>	<u>(6)</u>	<u>-</u>	<u>-</u>
Total gains recognised for the year	<u>1,515</u>	<u>920</u>	<u>673</u>	<u>438</u>

	Group		Company	
Reconciliation of movements in shareholders' funds	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Profit for the financial year	1,518	926	673	438
Dividends	(703)	(637)	(703)	(637)
Other recognised gains and losses relating to the year (net)	(3)	(6)	-	-
New share capital subscribed	153	12	153	12
Goodwill arising	-	(8)	-	-
Adjustment to minority interest	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net addition / (reduction) to shareholders' funds	972	287	123	(187)
Opening shareholders' funds	<u>7,051</u>	<u>6,764</u>	<u>6,409</u>	<u>6,596</u>
Closing shareholders' funds	<u>8,023</u>	<u>7,051</u>	<u>6,532</u>	<u>6,409</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 1994

### **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.

#### **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 and exchange differences arising on foreign currency loans which relate to the Group's overseas investments 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	4 to 5 years

## **NOTES TO THE FINANCIAL STATEMENTS**

### **Goodwill**

Goodwill is calculated by reference to the surplus of the costs of acquiring the Company's subsidiary undertakings over the fair values of the net assets acquired. Goodwill arising on consolidation and purchased goodwill are written off immediately against reserves.

### **Finance 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 have 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 lower.

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.

### **Research grants**

Research grants receivable from the UK government under approved research projects are credited to the profit and loss account in the period that the grants are confirmed.

### **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	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
United Kingdom	4,507	5,120	14,061	14,453
Rest of Europe	5,622	5,575	2,367	2,491
Americas	9,471	9,373	9,363	9,419
Asia Pacific	1,531	1,366	1,395	1,018
Rest of the world	<u>1,029</u>	<u>1,262</u>	<u>-</u>	<u>-</u>
	22,160	22,696	27,186	27,381
Inter territorial sales	<u>-</u>	<u>-</u>	(5,026)	(4,685)
	<u>22,160</u>	<u>22,696</u>	<u>22,160</u>	<u>22,696</u>

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

	1994	1993
	£'000	£'000
United Kingdom	989	951
Rest of Europe	163	(86)
USA	1,269	910
Taiwan	<u>57</u>	<u>(94)</u>
	<u>2,478</u>	<u>1,681</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/(liabilities) are located as follows:

	1994	1993
	£'000	£'000
United Kingdom	4,205	5,158
Rest of Europe	797	568
USA	3,609	3,036
Asia Pacific	<u>148</u>	<u>73</u>
	8,759	8,835
Interest bearing net liabilities	<u>(728)</u>	<u>(1,769)</u>
	<u>8,031</u>	<u>7,066</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 3. Operating profit

Is arrived at after charging/(crediting):	1994 £'000	1993 £'000
Depreciation of owned assets	598	504
Depreciation of assets held under finance leases	61	60
Auditors' remuneration - audit fees	71	66
- other emoluments	42	10
Operating lease rentals in respect of plant and machinery	275	307
Other operating lease rentals	299	314
Finance lease charges	18	23
Exchange loss/(gain)	(55)	16
Research grants	(60)	(70)
Research & development expenditure	1,341	1,353
Restructuring costs	206	568

### 4. Directors and employees

The average weekly number of persons employed by the Group during the year was:	1994 Number	1993 Number
United Kingdom	243	281
Rest of Europe	18	20
USA	39	37
Taiwan	<u>10</u>	<u>12</u>
Total	<u>310</u>	<u>350</u>

#### Staff costs:

	1994 £'000	1993 £'000
Salaries	6,439	6,645
Social security costs	835	854
Other pension costs	<u>184</u>	<u>167</u>
	<u>7,458</u>	<u>7,666</u>

## NOTES TO THE FINANCIAL STATEMENTS

Directors received the following remuneration:	1994	1993
	£	£
Directors' fees	32,000	31,667
Directors' emoluments	479,537	444,353
Directors' pension contributions	17,344	13,401
Compensation for loss of office	-	53,000
	<u>528,881</u>	<u>542,421</u>

	Pension contributions		Other emoluments	
	1994	1993	1994	1993
Emoluments of chairman	-	-	20,000	15,000
Emoluments of highest paid director	5,305	2,434	102,284	89,334

Number of directors whose emoluments (excluding pension contributions) are within the following ranges	1994 Number	1993 Number
£0 - £5,000	-	1
£10,001 - £15,000	1	2
£15,001 - £20,000	2	-
£40,001 - £45,000	1	-
£45,001 - £50,000	-	1
£50,001 - £55,000	-	4
£55,001 - £60,000	4	-
£70,001 - £75,000	-	1
£75,001 - £80,000	-	1
£85,001 - £90,000	-	1
£90,001 - £95,000	1	-
£100,001 - £105,000	1	-

Of the total directors' remuneration, £9,460 was derived from a performance related bonus scheme.

### 5. Interest receivable

Interest receivable represents income in respect of short term deposits.

## NOTES TO THE FINANCIAL STATEMENTS

### 6. Interest payable

	1994 £'000	1993 £'000
Interest on bank overdrafts and other loans repayable within 5 years	141	95
Interest on borrowings repayable after 5 years	- <u>141</u>	<u>79</u> <u>174</u>

### 7. Taxation on profit on ordinary activities

	1994 £'000	1993 £'000
Based on the results for the year:		
UK corporation tax at 33% (1993: 33%)	266	201
Overseas taxation	<u>598</u>	<u>333</u>
	864	534
Deferred taxation charge	-	74
Over-provision in previous years	<u>(37)</u>	<u>-</u>
	<u>827</u>	<u>608</u>

The lower effective rate of taxation in 1994 reflects the utilisation of losses in overseas companies and the reduced restructuring spend in the UK.

### 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 £673,000 (1993: £438,000). The Company's profit and loss account was approved by the Board on 27 March 1995.

### 9. Dividends paid and proposed

	1994 £'000	1993 £'000
In respect of 10,036,964 ordinary shares of 5p (1993: 9,844,124)		
Interim dividend paid at 2.1p per share (1993: 1.9p)	211	187
Proposed final dividend at 4.9p per share (1993: 4.5p)	<u>492</u>	<u>450</u>
	<u>703</u>	<u>637</u>

### 10. Earnings per share

Earnings per share have been calculated on profit after taxation and minority interests of £1,518,000 (1993: £926,000) divided by the weighted average of 10,003,511 (1993: 9,840,409) ordinary shares in issue. Earnings per share would not be materially different if the shares under option were taken into the calculation.



# NOTES TO THE FINANCIAL STATEMENTS

## 11. Tangible fixed assets

Group	Freehold property £'000	Short leasehold property £'000	Plant and machinery £'000	Total £'000
<b>Cost or valuation</b>				
At 1 January 1994	1,821	335	4,458	6,614
Additions	234	317	503	1,054
Disposals	-	(19)	(79)	(98)
Transfers	-	(2)	2	-
Exchange adjustments	-	2	(14)	(12)
At 31 December 1994	2,055	633	4,870	7,558
<b>Depreciation</b>				
At 1 January 1994	59	95	2,994	3,148
Charge for the year	45	53	561	659
Disposals	-	(14)	(54)	(68)
Transfers	-	-	-	-
Exchange adjustments	-	1	(8)	(7)
At 31 December 1994	104	135	3,493	3,732
<b>Net book amount</b>				
At 31 December 1994	1,951	498	1,377	3,826
At 31 December 1993	1,762	240	1,464	3,466
<b>Company</b>				
<b>Cost or valuation</b>				
At 1 January 1994	1,821	213	3,700	5,734
Additions	234	254	387	875
Disposals	-	-	(70)	(70)
At 31 December 1994	2,055	467	4,017	6,539
<b>Depreciation</b>				
At 1 January 1994	59	56	2,471	2,586
Charge for the year	45	34	454	533
Disposals	-	-	(61)	(61)
At 31 December 1994	104	90	2,864	3,058
<b>Net book amount</b>				
At 31 December 1994	1,951	377	1,153	3,481
At 31 December 1993	1,762	157	1,229	3,148

Certain freehold land and buildings were independently valued at 31 December 1988 at £1,585,000. The historical cost net book value of the revalued assets at 31 December 1994 was £230,000 (1993: £232,000). The directors have been advised that the market value of land that has been included in the balance sheet at cost of £14,000 is considerably in excess of the net book amount. Included in plant and machinery are assets held under finance leases with a cost of £323,000 (1993: £332,000) and a net book value of £187,000 (1993: £248,000).

## NOTES TO THE FINANCIAL STATEMENTS

<b>12. Investments</b>	<b>Group Other participating interests £'000</b>	<b>Company Shares in subsidiary undertakings £'000</b>
At 31 December 1994	15	7,135

The Company's subsidiary and related undertakings are listed below:

<b>Wholly owned:</b>	<b>Incorporated and operating in:</b>	<b>Nature of business:</b>
Servomex S.A.R.L.	France	Sales & service
Servomex B.V.	Netherlands	Sales & service
Servomex Company, Inc	United States of America	Manufacture, sales & service
Servomex Asia Pacific Ltd	Taiwan	Sales & service
Servomex Overseas Ltd*	England	Holding company
TIL83 Ltd*	England	Dormant
Servomex (UK) Ltd*	England	Dormant

Partly owned:

Scottish Anglo Environmental Protection Limited (88.5%)*	England	Manufacture, sales & service
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Companies marked\* are owned by Servomex plc.

The Group has a 20% participating interest in the ordinary share capital of CODE International Limited (CODE)(incorporated in England) which is treated as a trade investment in these financial statements. In the directors' opinion the Group's investment in CODE does not put it in a position to exert significant influence over the company and it is therefore not accounted for as an associated company.

During the year the Company acquired for no consideration part of the minority interest in Scottish Anglo Environmental Protection Limited. There were no other movements in investments during the year.

## NOTES TO THE FINANCIAL STATEMENTS

13. Inventories	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Raw materials and consumables	1,238	896	733	728
Work in progress	642	943	567	659
Finished goods	<u>432</u>	<u>863</u>	<u>39</u>	<u>154</u>
	<u>2,312</u>	<u>2,702</u>	<u>1,339</u>	<u>1,541</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.

14. Accounts receivable	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Trade	5,192	4,574	1,670	1,414
Amounts owed by subsidiary undertakings	-	-	1,267	2,181
Other receivables	162	259	65	147
Prepayments	511	493	396	396
Prepaid pension contributions	353	250	353	250
ACT recoverable	175	113	175	113
Overseas tax recoverable	<u>50</u>	<u>66</u>	<u>-</u>	<u>-</u>
	<u>6,443</u>	<u>5,755</u>	<u>3,926</u>	<u>4,501</u>

With the exception of the prepaid pension contributions and ACT totalling £476,000, all of the Group's and the Company's accounts receivable are recoverable within one year.

# NOTES TO THE FINANCIAL STATEMENTS

15. Accounts payable	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
<b>Within one year:</b>				
Medium term loan	250	138	250	138
Bank loans and overdrafts	-	577	-	577
Trade	1,424	973	980	458
Amounts owed to subsidiary undertakings	-	-	1,596	1,563
Other accounts payable	586	126	190	32
Taxation and social security	188	170	127	115
Accruals and deferred income	528	997	176	255
Corporation tax	362	140	125	133
ACT payable	175	167	175	167
Dividends payable	492	450	492	450
Obligations under finance leases	<u>69</u>	<u>77</u>	<u>62</u>	<u>59</u>
	<u>4,074</u>	<u>3,815</u>	<u>4,173</u>	<u>3,947</u>
<b>After one year:</b>				
Obligations under finance leases:				
Due in 1-5 years	125	187	125	187
Amounts owed to subsidiary undertakings	-	-	4,207	4,425
Payments under medium term loan:				
Due in 1-2 years	375	250	375	250
Due in 2-5 years	845	1,375	845	1,375
Due after 5 years	<u>-</u>	<u>250</u>	<u>-</u>	<u>250</u>
	<u>1,345</u>	<u>2,062</u>	<u>5,552</u>	<u>6,487</u>
The medium term loan totalling £1,470,000 (1993: £2,014,000) is repayable by instalments as noted above and is secured by a fixed and floating charge over the assets of the Group. Interest on the loan is charged at LIBOR plus 1.375% p.a.				

## NOTES TO THE FINANCIAL STATEMENTS

16. Provisions for liabilities and charges	Group		Company	
Provisions for liabilities and charges comprise deferred taxation:	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Deferred taxation: At 1 January 1994	82	8	82	8
Profit and loss account	-	74	-	74
At 31 December 1994	<u>82</u>	<u>82</u>	<u>82</u>	<u>82</u>
Deferred taxation comprises:				
Accelerated capital allowances	57	87	57	87
Other timing differences	<u>25</u>	<u>(5)</u>	<u>25</u>	<u>(5)</u>
	<u>82</u>	<u>82</u>	<u>82</u>	<u>82</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.

No provision is made for deferred tax which may arise if the accumulated profits of overseas subsidiaries were remitted to the United Kingdom. This accords with the current intention of retaining profits in the overseas entities and the availability of double taxation relief.

## 17. Called up share capital and share premium account

The Company's share capital as at 31 December 1994 was as follows:

	1994 Number	1994 £'000	1993 Number	1993 £'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 1994	9,844,124	492	9,835,724	492
Shares issued during the year	<u>192,840</u>	<u>10</u>	<u>8,400</u>	<u>-</u>
Balance at 31 December 1994	<u>10,036,964</u>	<u>502</u>	<u>9,844,124</u>	<u>492</u>
Share premium account				
Balance at 1 January 1994		1,313		1,301
Shares issued during the year		<u>143</u>		<u>12</u>
Balance at 31 December 1994		<u>1,456</u>		<u>1,313</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.

Under the terms of the Company's Executive Share Option Scheme, options outstanding at 31 December 1994, which were granted for nominal consideration and which are exercisable between 3 and 10 years after the date the options were granted, were:

## NOTES TO THE FINANCIAL STATEMENTS

Date options granted	Option price	Number of shares
10 April 1989	£1.25	99,400
20 March 1991	£1.46	30,000
3 April 1992	£1.77	158,400
30 April 1993	£2.75	186,000
7 October 1993	£2.20	30,000
24 April 1994	£2.35	48,600

18. Other reserves	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Revaluation reserve	1,355	1,355	-	-
Non-distributable reserve	<u>-</u>	<u>-</u>	<u>2,256</u>	<u>2,256</u>
	<u>1,355</u>	<u>1,355</u>	<u>2,256</u>	<u>2,256</u>

19. Profit and loss account	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Balance at 1 January 1994	3,891	3,616	2,348	2,547
Retained profit/(loss)	815	289	(30)	(199)
Goodwill arising	-	(8)	-	-
Effect of exchange rate changes	(3)	(6)	-	-
Adjustment to minority interest	<u>7</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 31 December 1994	<u>4,710</u>	<u>3,891</u>	<u>2,318</u>	<u>2,348</u>

The cumulative amount of goodwill which has been written off against reserves at the end of the current year amounts to £2,682,000.

# NOTES TO THE FINANCIAL STATEMENTS

20. Exchange gains / (losses)	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
<b>Profit &amp; loss account</b>				
Gain/ (loss) on US\$ medium-term loan	-	-	133	(91)
Other exchange differences	<u>55</u>	<u>(16)</u>	<u>63</u>	<u>2</u>
	<u>55</u>	<u>(16)</u>	<u>196</u>	<u>(89)</u>
<b>Retained earnings</b>				
Gain/ (loss) on US\$ medium-term loan	133	(91)	-	-
Gain realised on part repayment of inter-company loan stock	-	21	-	-
Revaluation of the opening net assets of overseas subsidiary undertakings to closing exchange rates	(117)	53	-	-
Revaluation of the results for the year of overseas subsidiary undertakings to closing exchange rates	(17)	11	-	-
Other exchange differences	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(3)</u>	<u>(6)</u>	<u>-</u>	<u>-</u>

21. Capital commitments	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Capital expenditure authorised and not contracted for	<u>6</u>	<u>409</u>	<u>3</u>	<u>409</u>
Capital expenditure contracted for but not provided	<u>187</u>	<u>393</u>	<u>168</u>	<u>393</u>

## NOTES TO THE FINANCIAL STATEMENTS

### 22. Commitments under operating leases

At 31 December 1994 the Group had the following annual commitments under non-cancellable operating leases:

	Land & buildings		Other	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Expiring within one year	50	42	16	30
Expiring between one and five years	88	104	226	198
Expiring after five years	<u>155</u>	<u>130</u>	<u>-</u>	<u>-</u>
	<u>293</u>	<u>276</u>	<u>242</u>	<u>228</u>

### 23. Contingent liabilities

At 31 December 1994 the Group had contingent liabilities in respect of guarantees to third parties amounting to £308,046 (1993: £86,560).

### 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 May 1993. 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	6.5% p.a.
Rate of dividend growth for equities	4.5% p.a.

As at 1 May 1993 the market value of the scheme's assets was £5,333,776 and the actuarial value was sufficient to cover 131% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The Company 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 30 January 1995 based on Statement of Standard Accounting Practice (SSAP) 24.

\* for other schemes - according to best local practice. The effect of adjusting these to an SSAP 24 basis would be immaterial.



## NOTES TO THE FINANCIAL STATEMENTS

<b>25. Reconciliation of operating profit to net cash inflow from operating activities</b>	<b>1994 £'000</b>	<b>1993 £'000</b>
Operating profit	2,478	1,681
Depreciation	659	564
Decrease in inventories	356	818
(Increase) in receivables	(705)	(1,152)
Increase/(decrease) in payables	412	395
(Profit)/ loss on sale of fixed assets	<u>5</u>	<u>(53)</u>
<b>Net cash inflow from continuing operating activities</b>	<b><u>3,205</u></b>	<b><u>2,253</u></b>

<b>26. Analysis of changes in cash and cash equivalents during the year</b>	<b>1994 £'000</b>	<b>1993 £'000</b>
Balance at 1 January 1994	510	785
Net cash inflow/(outflow) before adjustments for the effect of exchange rate changes	426	(283)
Effect of exchange rate changes	<u>-</u>	<u>8</u>
<b>Balance at 31 December 1994</b>	<b><u>936</u></b>	<b><u>510</u></b>

<b>27. Analysis of the balances of cash and cash equivalents as shown in the balance sheet</b>	<b>1994 £'000</b>	<b>1993 £'000</b>
Cash at bank and in hand	936	1,087
Bank overdrafts	<u>-</u>	<u>(577)</u>
	<b><u>936</u></b>	<b><u>510</u></b>

<b>28. Analysis of changes in financing during the year</b>	<b>Share capital (Inc. share premium)</b>		<b>Medium term loan and finance lease obligations</b>	
	<b>1994 £'000</b>	<b>1993 £'000</b>	<b>1994 £'000</b>	<b>1993 £'000</b>
Balance at 1 January 1994	1,805	1,793	2,277	2,279
Net cash outflows from financing activities before adjusting for exchange rate changes	-	-	(480)	(93)
Share capital issued	153	12	-	-
Effect of exchange rate changes	<u>-</u>	<u>-</u>	<u>(133)</u>	<u>91</u>
<b>Balance at 31 December 1994</b>	<b><u>1,958</u></b>	<b><u>1,805</u></b>	<b><u>1,664</u></b>	<b><u>2,277</u></b>

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at Buxted Park Hotel on 5 May 1995 at 11.00am for the purposes of considering and, if thought fit, passing the following resolutions of which resolutions 1,2,3,4 and 5 will be proposed as ordinary resolutions and resolution 6 and 7 as special resolutions.

### Ordinary business

1. To receive and adopt the Accounts and Reports of the directors and auditors for the year ended 31 December 1994.
2. To declare a final dividend.
3. To elect Mr. M.J.H. Johnston as a director in accordance with the Articles of Association.
4. To re-elect as a director Mr. C.C. Gregory who is retiring and offering himself for re-election
5. To re-appoint Price Waterhouse as auditors and to authorise the directors to fix their remuneration.

### Special business

6. 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 £150,554 (30% of issued share capital of the Company) for a period expiring on the conclusion of the Annual General Meeting of the Company held in 1996 (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.
7. That subject to the passing of resolution 6 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:
  - A. shall expire on the conclusion of the Annual General Meeting of the Company held in 1996 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
  - B. shall be limited to:
    - a. 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
- b. any other allotments of equity securities for cash up to a maximum nominal amount of £25,092 (5% of the issued share capital of the Company).

By order of the Board

M J H Johnston      Secretary 6 April 1995

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, 5 May 1995 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 \_\_\_\_\_ 1995

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 Report and Accounts
2			To declare a final dividend
3			To elect Mr. M.J.H. Johnston as a director
4			To re-elect Mr. C.C. Gregory
5			To re-appoint Price Waterhouse as Auditors

**SPECIAL BUSINESS**

	For	Against	
6			To authorise the directors to allot shares pursuant to Section 80(2) of the Companies Act 1985
7			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 notorially 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.