

SERVOMEX plc
ANNUAL REPORT AND FINANCIAL STATEMENTS
1998

**Servomex plc
Jarvis Brook
Crowborough
East Sussex
TN6 3DU**



Company Number: 1938746

- Servomex strategy is to build a significant group of industrial instrumentation companies through organic growth and the selection and development of acquisitions with the potential for world class performance in growing markets.
- Servomex adds value primarily through an unyielding commitment to the Servomex Culture of focused marketing, fast track product development, lean manufacturing and strong financial control.

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COMPANY INFORMATION

SERVOMEX PLC

DIRECTORS

*+ DAVID BEEVER, MBA, BSc(Eng), CEng, MICE
Senior Independent Director (non-executive)

*+ TERRY CLEMENTS, BEng, CEng, MIMechE
Chairman (non-executive)

ROGER HARROP, BSc (Hons), CEng,
FIMechE, FCIM, FRSA
Group Chief Executive

MARTIN JOHNSTON, MA, FCA
Group Finance Director

- * Member of Audit Committee
- + Member of Remuneration Committee

OPERATING UNIT EXECUTIVES

SERVOMEX GROUP LIMITED

ANDREW ARMITAGE, Marketing
SPENCER CHENG, Asia Pacific/Australasia
KEVIN JOWETT, Operations/Human Resources
MEL PLATTE, Americas
AUKE RENTENAAR, Europe/India/Africa
VAL STEVENS, Finance
KEN THOMAS, Engineering
ROBERT WANG, Managing

SERVOMEX TRANSDUCERS LIMITED

KEVIN GEARY, USA
RIAD KOCACHE, Deputy Managing/R&D
BOB KYDD, Managing
CHARLES SEGAR, Business Development
DENNIS SKOTT, Manufacturing
VAL STEVENS, Finance
JÖRGEN DE VOS, Europe

BÜHLER MONTEC GROUP LIMITED

MARCEL BERENDSEN, Germany/Eastern Europe
RICHARD GREEN, Managing
BOB GROOMBRIDGE, Operations
ANDREW PERRY, Finance
CHRISTIAN SAMÉ, France
PETER WRIGHT, UK/Rest of World

BICOTEST LIMITED

FRANK COLLINS, Asia Pacific/South America/Africa
SUE GRANT, Commercial/Marketing
MIKE KIRK, Technical
PETER PARNELL, Managing
COLIN SCOTT, Finance
GEORGE SLADE, Production
MARK TURVEY, UK/Business Development
MARK TUTTY, North America/Rest of Europe

GROUP OPERATING UNITS

Secretary Stephen Powney, ACIS

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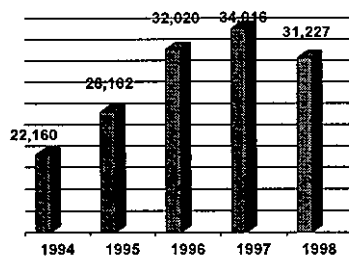
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FINANCIAL HIGHLIGHTS

		1997	1998
Sales	(£'000)	34,016	31,227
Profit/(loss) before tax - FRS 3	(£'000)	2,948	(1,784)
Profit before tax - headline	(£'000)	2,948	216
Gearing		63%	89%
Dividend per share		9.5p	2.85p

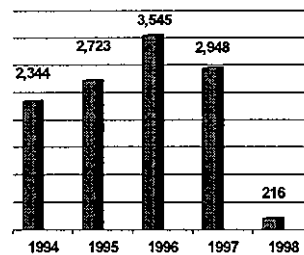
Sales

£'000



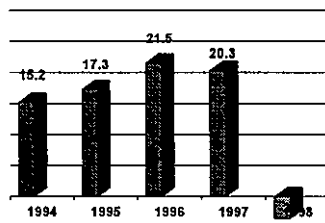
Profit before tax - headline

£'000



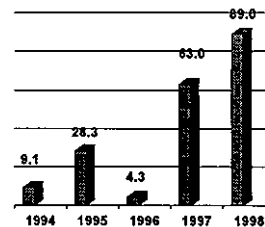
Earnings per share - headline

Pence



Gearing

%



STATISTICAL INFORMATION

Business ratios:

	1997	1998
Material to sales	26.5%	27.0%
Working capital to sales	22.9%	23.7%
Added value per employee	£54k	£53k
R&D to sales	5.7%	5.7%

Exchange rates:

		1997	1998
French Franc	- translation average	9.59	9.77
German Mark	- translation average	2.85	2.92
	- hedge contract rate	-	2.89
Dutch Guilder	- translation average	3.21	3.29
Taiwan Dollar	- translation average	47.46	55.45
US Dollar	- translation average	1.64	1.66
	- hedge contract rate	1.54	1.62

CHAIRMAN'S STATEMENT

Results

1998 proved to be disappointing for Servomex. After a very encouraging first quarter, incoming order levels fell away during the second quarter and failed to recover during the remainder of the year. The expected improvement at Bühler Montec Group (BMG) also failed to materialise and we incurred a significant further loss in this business. Overall, the year ended with sales of £31.2m (1997: £34.0m) and a profit before tax and exceptional items of £810,000 (1997: £2.95m). Earnings per share before exceptional costs were 5.6p (1997: 21.8p).

Exceptional costs of £2.6m before tax have been charged to the profit and loss account. £594,000 relates to the cost of the restructuring actions detailed below. The remaining £2.0m relates to an accounting adjustment required by the implementation of a new reporting standard. This adjustment does not have any impact on shareholders' funds.

The Board proposes to pay no final dividend, leaving the full year dividend at the interim level of 2.85p (1997: 9.5p).

Group profitability was seriously affected by the low oil price, the Asian crisis and the effect of the strong pound on our export business. Orders from the water industry unexpectedly failed to materialise, which affected BMG. The Board considers most of these factors will continue to influence the business environment in the foreseeable future. After a major review of our strategic options, we have decided to focus on growing our consistently successful core gas analysis business and completing the turnaround of BMG. This strategy will require investment in, and exploitation of, our world class technology together with entry into new market sectors.

Actions taken

We have taken decisive remedial measures to reduce break-even points and to re-orientate the Group.

- As a first step in refocusing the Group we have spun out of our core gas analysis business a new entity, Servomex Transducers Limited (STL). STL will concentrate on the development and exploitation of our outstanding transducer technology to third parties - building on the success we have had in the medical patient monitoring market.

Servomex Group Limited (SGL) will focus on its proven skills in packaging analyser products to address specific customer needs, now utilising the most appropriate technology from all sources.

- At SGL we have accelerated the move towards further outsourcing with the closure of our systems assembly and test facility at our Crowborough site.
- At BMG we have further reduced headcount and have now ceased all engineering and manufacture in Germany. The break-even point is now below the 1998 sales level. We have just been awarded a long awaited European legislation driven contract by a UK water company worth in excess of £300,000.

CHAIRMAN'S STATEMENT

People

Servomex is its people and I thank all our employees once again for their invaluable contribution throughout this most difficult of years.

Prospects

The new year has continued the unpredictable pattern of 1998 and we expect it to be another difficult year. However with the break-even point reduced by about £1.5 million and generally more favourable hedged exchange rates we have the ability to produce a satisfactory result at sales levels unchanged from 1998.

The Group possesses, and continues to develop, unique proprietary technology; each business has in place a comprehensive development programme of differentiated new products and we have highly motivated and dedicated teams of managers and employees worldwide.

Servomex has demonstrated in the past its ability to produce above average returns and we are confident it will do so again.

As announced on 8 April 1999, Servomex is currently in discussions which may or may not lead to an offer being made for the entire issued ordinary share capital of Servomex. A further announcement will be made in due course.

TERRY CLEMENTS

Chairman

9 April 1999

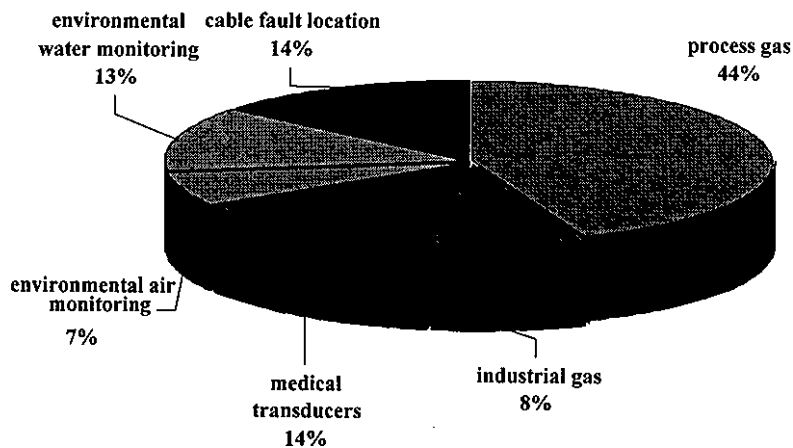
REVIEW OF OPERATIONS

1998 was a particularly difficult year in which to read or understand our markets. With nearly 80% of our sales outside the UK we are subject to global economies and hindsight shows our forecasting throughout the year to have been too optimistic.

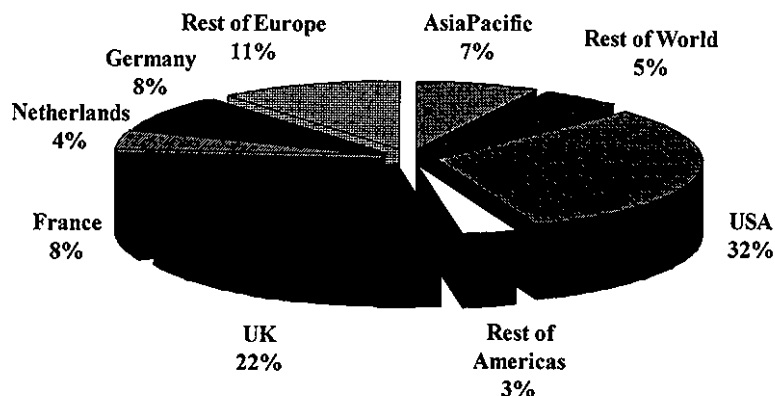
After a strong first quarter we saw a sudden and substantial fall off in order intake towards the end of the second quarter. Thereafter we did not see the normal recessionary pointers of declining enquiries and generally reduced levels of activity. Throughout the year enquiries and quotations remained strong and customers generally exhibited optimism. In reality major and minor purchasing decisions were regularly scaled back, postponed or cancelled.

This situation was reflected in the majority of our market sectors and regions world-wide. Our analysis does not show any major loss of market share but rather that this was a situation affecting us and our instrumentation competitors equally.

Sales by market sector



Sales by region



REVIEW OF OPERATIONS

Servomex Group Limited - Leaders in Gas Analysis

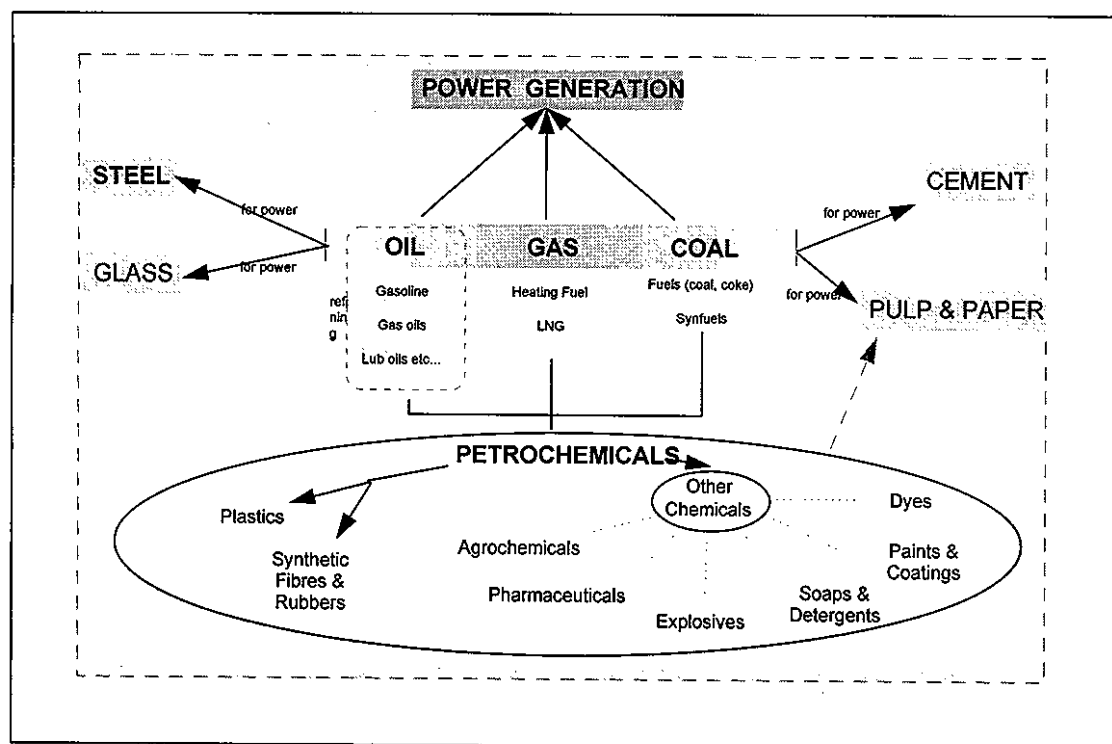
Robert Wang, Managing Director

	1998	1997
Sales	£22.9m	£24.2m
ROS	12.1%*	16.1%*
Cash flow from operations	£2.5m	£5.1m
* before restructuring costs		

Servomex Group Limited (SGL) saw volumes decline due to a widespread reluctance to commit financial investment from the second quarter of the year.

The reduction in volumes affected all SGL's markets with the key process market down 13% through a combination of the strong pound, reduced demand and hence the weak oil price and the Asia Pacific situation leading to postponed and cancelled projects.

Process market structure



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The maturity of the refining and petrochemical industries in Europe and the US has prompted many of the leading companies to consolidate. As a result many projects have been postponed and some cancelled while the new companies restructure themselves. In the long term however we expect that there will be a new era of construction with "super plants" being built with a high level of instrumentation including gas analysis from the outset.

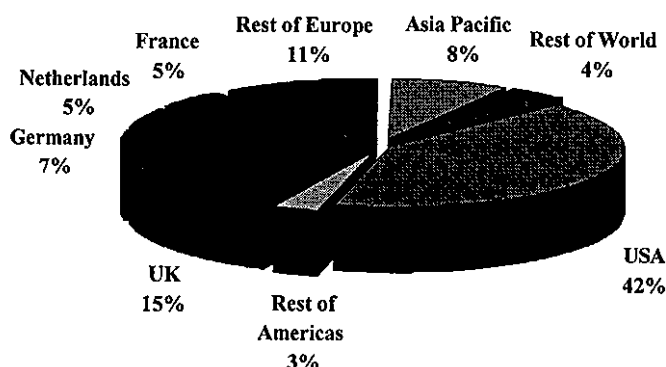
REVIEW OF OPERATIONS

In the industrial gas market similar effects were felt with a reappraisal of investment proposals and our volumes were down 21%.

Sales of transducers into the medical equipment market were flat, principally as a result of merger and acquisition activity and the temporary loss of routes to market in the US by a medical equipment major.

Sales were down by 24% in the Asia Pacific region, and by 1.3% in Europe/India/Africa. Sales to the Americas remained flat.

Sales by region



Action was taken to contain costs to reflect the lower activity levels, to identify and follow up every business opportunity and institute a comprehensive strategic review.

Restructuring costs of £244,000 were incurred in the last quarter of the year resulting primarily from the strategic review and the consequent decision to outsource all non US sample conditioning systems assembly and testing.

Despite the difficult trading conditions SGL continued its policy of investing in new products and new market opportunities. Servomex Germany, formed three years ago, continued its excellent growth with order volumes up 75% and a blue chip order book. In SGL's largest market, the USA, new management and business focus saw orders improve by \$2.3m in the year.

The *Xendos 2700* combustion analyser, which incorporates Servomex's patented *Tfx* sensor technology, launched in the second quarter was an outstanding success with over £1m of orders by the year end and an accelerating growth. The introduction of standardised sample conditioning systems based upon our *Xendos 1800/1900* oxygen analyser proved successful especially in the USA for inerting and vapour recovery applications.

SGL was highlighted in the Government's competitiveness white paper published in December 1998.

SGL's source of competitive advantage is the identification of market needs and the packaging of precisely configured analyser and system solutions to meet those needs. SGL has become

REVIEW OF OPERATIONS

increasingly adept at this process in recent years and is now accelerating time to market for new models.

Les James has left the company and I am pleased to announce that Robert Wang has been appointed as SGL's Managing Director. Robert managed our SAPL operation from 1992 to 1997 and has been Director & General Manager, Operations in Crowborough since January 1998.

Servomex Transducers Limited - *Leading Edge Technologies*

Bob Kydd, Managing Director

The most significant outcome from the strategic review at SGL has been the formation of Servomex Transducers Limited (STL).

Over the five year period since Servomex first entered the transducer market we have sold over 25,000 *Pm1111* paramagnetic transducers and have achieved market leadership in fast response oxygen measurement for anaesthesia applications. Servomex's non-depleting technology has displaced traditional electrochemical cells which, whilst cheap, deplete over time leading to patient monitoring machine downtime and high life-time cost.

This business has now reached critical mass with sales of around £5m (including inter company sales) and, with its source of competitive advantage clearly diverging from that of the SGL analyser and systems businesses, we have therefore formed it as a separate strategic business unit. It has a remit to accelerate investment in the development of technically advanced sensors and transducers and to continue the substitution of traditional electrochemical gas sensing technology not only in other sectors of the medical market but also at the top end of the potentially large industrial market.

STL will be launching its latest transducer, the *Paracube*®, towards the end of this year targeted initially at a new medical market sector. The *Paracube*® is the culmination of over 4 years of research and development work to develop a sensor that has significant additional advantages over traditional technology. STL is already engaged in discussions with key customers and potential customers to incorporate this transducer into new product ranges.

STL expect the *Paracube*® to make an incremental contribution of over £1m p.a. within three years.

Dr Bob Kydd has been appointed Managing Director of Servomex Transducers Limited with Dr Riad Kocache as Deputy Managing Director having specific responsibility for R&D and business development.

REVIEW OF OPERATIONS

Bühler Montec Group Limited - *Leaders in Water Monitoring*

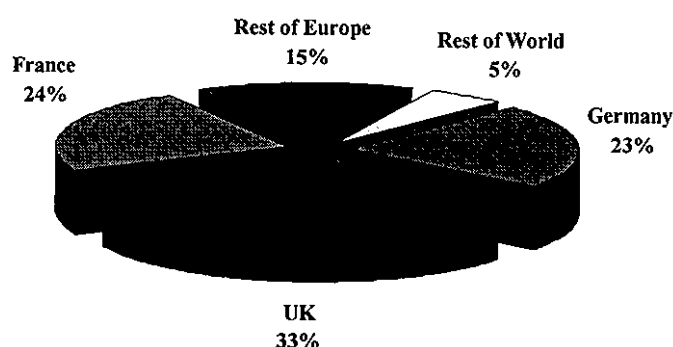
Richard Green, Managing Director

	1998	1997
Sales	£4.6m	£5.5m
Operating loss	(£1.4m)*	(£0.7m)
Cash flow from operations	(£1.9m)	(£2.4m)
* before restructuring costs		

Bühler Montec Group Limited (BMG) did not perform to expectations. In the first half we had not fully overcome a combination of management, technical and competitive problems in Germany, whilst in the second half the widely forecast increase in investment by UK water companies to comply with the Urban Waste Water Treatment Directive did not materialise. Indeed industry order levels declined ahead of the anticipated large future investment.

BMG sales declined 16% year on year and restructuring costs of £338,000 were incurred in the fourth quarter to further reduce break-even points. BMG have now ceased all engineering and manufacture in Germany.

Sales by region



BMG's French company again increased sales to record levels which were up 32% on 1997. Their success has been based upon a dedication to customer service and the strong promotion of BMG product quality and performance.

Sales to the major UK water companies were down over 40% on 1997 as they delayed significant purchases.

Poor sales performance in Germany, down 40% on the prior year, resulted in a major restructuring of this company into a sales and service operation. A new Managing Director was appointed in May and order intake in the second half increased by 11% on the first. BMG also resolved the remaining technical and quality issues with the z2000 *Bio station* monitoring system and xantos 4400 "Multifunktion" machines.

In the UK, investment in the Salford site has now provided the business with a world class

REVIEW OF OPERATIONS

factory in which to produce its range of *xian* and *xantos* water samplers and *xytec* flow products.

The entire product range has been re-engineered, rationalised and re-launched placing BMG in a strong position to capitalise on the major investments in water sampling equipment that are being planned throughout Europe. Customers are now approaching the limits of the legislative timetables for this investment and BMG have just been awarded a first contract as a result of this legislation initially worth in excess of £300,000 for the supply of *xantos 4000* samplers to Thames Water Utilities.

Legislation driven Urban Pollution Management studies also represent a significant opportunity for BMG for its *xytec* flow survey and intrinsically safe sampler equipment.

BMG is also majoring on its sludge sampling expertise where a number of unique BMG products are increasingly being specified by customers throughout Europe. In November the City of Hamburg placed an order for the first of up to seven *z2000 Bio stations*, worth a total of £320,000.

BMG entered the new year with an order book up on last year and its cost base reduced to a level where profit can be generated at 1998 levels of sales activity.

Bicotest Limited - Leaders in Cable Fault Location

Peter Parnell, Managing Director

	1998	1997
Sales	£3.7m	£4.2m
ROS*	10.3%	8.1%
Cash flow from operations	£0.48m	£0.52m
* before restructuring costs		

Bicotest's sales were impacted by the Far East crisis, the continuing privatisation of telecommunications companies and the strength of sterling. However, new product introductions and productivity improvements saw profits up 55% on 1997. Year end inventories were down to a remarkable 36 days.

The *Lexxi*TM hand held instrument launched in the first half performed particularly well and both it and the *Vixxon*TM intermittent fault locator have been selected as Millennium Products by the Government.

Whilst the new year has started slowly Bicotest are seeing opportunities improved on 1998 with a reduction in privatisation activity and some easing of sterling.

ROGER HARROP

Group Chief Executive

9 April 1999

FINANCIAL REVIEW

Commentary on the Group's results is provided in the Chairman's Statement and Review of Operations (see pages 6 to 13).

Treasury

The Group's treasury function operates to minimise borrowing costs and to optimise the utilisation of available funds. It also carries out hedging of the majority of the Group's net revenues in US dollars and Euros. Details of hedge contracts outstanding at 31 December 1998 are given in note 21 to the financial statements.

Our currency hedging philosophy is to establish reasonable certainty as to the value in sterling of the following twelve months' net revenues in currencies other than sterling in order that we can plan accordingly in each of our business units. No speculative positions are taken.

The Group's borrowing facilities in the UK are provided by Barclays Bank PLC and are all denominated in sterling. Details of these facilities and the amounts drawn down against them are given in note 16 to the financial statements.

Taxation

The Group's tax charge on profits before exceptional items has fallen to 28% (1997: 29%). No credit has been taken for the availability of losses in the UK and Germany to reduce tax payable on future profits in those countries. Because of the UK losses there is significant uncertainty that the Advance Corporation Tax (ACT) accounted for on dividend payments and not yet offset against the mainstream UK tax liability will be recovered in the coming year. The Board has therefore decided to write off £491,000 of ACT as an exceptional tax charge in 1998. This amount remains available for offset against future UK tax liabilities.

Dividends

The Board proposes to declare no final dividend for 1998. This proposal reflects the poor result for the year and the weak cash flow, which has been aggravated by the Group's inability to recover ACT. Dividend cover for the year before exceptional items amounts to 2.0 times.

Net debt and interest

Net debt has risen to £5.6 million by the year-end representing gearing of 89%. The interest charge of £522,000 is made up of £487,000 on sterling bank borrowings and £35,000 of other interest. At current rates interest on sterling borrowings would have been about £100,000 lower.

Year 2000

The Company's businesses around the world have been working on Year 2000 programmes since mid 1997. These programmes are intended to ensure that all products and critical operating systems will continue to operate through the Year 2000 transition without interruption.

Suppliers of goods and services are being approached to confirm their ability to trade without interruption into the next millennium. Each business has a team of senior executives that is accountable for the implementation of the Year 2000 programmes and regular progress reports are submitted to the Group Chief Executive. There have been and are expected to be minimal additional costs as the necessary upgrades to proprietary software have been effected in the normal course of business and accounted for accordingly.

FINANCIAL REVIEW

Although Servomex will continue to address its millennium issues through the individual management teams, there can be no assurance that the Group will not, directly or indirectly, be affected by an undetected Year 2000 problem.

Accounting policies

In accordance with Financial Reporting Standards (FRS) 10 and 11 a new accounting policy for goodwill and intangible assets is adopted in these financial statements. The policy is described in note 1 to the financial statements and the effect of its implementation is detailed in note 10.

In 1999 a new policy will be adopted to comply with FRS 12 (Provisions), and the requirements of FRS 13 (Financial Instruments) will be applied. The impact of these changes on the Group's reported results would not be material enough to warrant early implementation.

Impact of exchange rate movements

In 1997 we included on the face of the profit and loss account a restatement of the 1997 results at 1996 exchange rates. This showed the direct adverse effect on operating profit to have been £635,000. The effect in 1998 has been less material and the Board has therefore decided not to repeat this detailed disclosure. There has however been a further direct adverse impact of £346,000 in 1998. The majority of this (£282,000) arises from the Group's US\$ hedge contracts, which were at an average rate of \$1.62 in 1998 compared with \$1.54 in 1997.

The Euro

Servomex has five well-established trading subsidiaries operating in Eurozone countries. All five have adapted to the transitional dual currency regime without noticeable disruption. The hedging of net revenues for these companies is now carried out in Euros.

The Group's UK companies will have adopted totally Euro compliant systems by the end of 1999, at costs which have been minimal as upgrades in the normal course of business have incorporated Euro compliance.

MARTIN JOHNSTON
Group Finance Director
9 April 1999

DIRECTORS' REPORT

The directors present their report and the financial statements for the year ended 31 December 1998.

Principal activity

The principal activity of the Group is the design, manufacture and sale of industrial instrumentation.

Results for the year

The Group recorded a loss before taxation of £1,784,000 (1997: profit £2,948,000). The retained loss for the financial year amounted to £2,659,000 (1997: profit £1,115,000). An interim dividend of £294,000 (1997: £293,000) or 2.85p (1997: 2.85p) per share was paid in respect of the 10,315,866 ordinary shares in issue on 25 September 1998.

The directors do not recommend the payment of a final dividend (1997: 6.65p) in respect of the 10,322,266 ordinary shares in issue at the year end. The total dividend for the year is, therefore, 2.85p (1997: 9.5p).

The Chairman's Statement, Review of Operations and Financial Review together provide an overview of the results for 1998 and information concerning the Group's prospects for 1999.

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.

Directors and their interests

The directors who held office in the year were all serving on 31 December 1998 and are shown below. They had the following beneficial interests in the ordinary share capital of the Company:

	31 December 1998	31 December 1997
David Beever	50,000	-
Terry Clements	7,000	4,300
Roger Harrop	17,719	5,769
Martin Johnston	35,487	487

There have been no changes in the above shareholdings between 31 December 1998 and 31 March 1999.

The trustees of the Servomex plc Profit Sharing Share Scheme each have a non-beneficial interest in 84,046 shares. The trustees are Terry Clements, Roger Harrop, Martin Johnston and Stephen Powney.

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

Terry Clements, aged 62, became a director in April 1993. Mr Clements has a fixed term contract which expires on 30 June 1999. He is also chairman of Biotrace International plc.

David Beever, aged 57, joined the Board as a non-executive director in May 1997. Mr Beever

DIRECTORS' REPORT

has a fixed term contract which expires on 30 June 1999. He is also chairman of KPMG Corporate Finance.

The Company's Register of Directors' Interests (which is open to inspection) contains full details of the directors' shareholdings and options to subscribe.

Substantial shareholders

As at 31 March 1999, the directors are aware that the following persons each hold or have a beneficial interest in more than 3% of the share capital of the Company:

	Ordinary shares	%
Aberforth Partners Ltd	1,759,667	17.05
Edinburgh Fund Managers Ltd	1,080,392	10.47
Britannic Assurance PLC	845,000	8.19
Hermes Investment Management Ltd	831,500	8.06
Perpetual UK Smaller Companies Investment Trust PLC	613,000	5.94
Gartmore Investment Management Ltd	568,648	5.51
Friends Ivory & Sime plc	480,000	4.65
Framlington Investment Management Ltd	400,000	3.88

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 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.

Supplier payment and debt collection policy

The Group's policy and practice is to pay suppliers strictly in accordance with contractually negotiated terms and to take appropriate action to ensure that payment from customers is received on a similar basis. Trade creditors at the year-end amount to 48 days of average supplies for the year. This figure is 42 days when based upon supplies for the last 3 months of the year which is traditionally a heavy buying period for the Group.

DIRECTORS' REPORT

Charitable contributions

Charitable contributions for the year amounted to £1,763 (1997: £1,126). No contributions were made to political parties.

Auditors

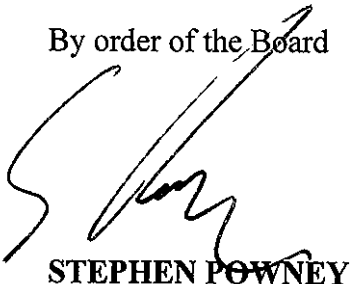
Following the merger of Price Waterhouse and Coopers & Lybrand on 1 July 1998, Price Waterhouse resigned as auditors in favour of the new firm, PricewaterhouseCoopers and the directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. PricewaterhouseCoopers have 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.

Annual General Meeting - Special business

Resolutions will be proposed at the Annual General Meeting to increase the authorised share capital of the Company, to authorise the directors to allot some of the Company's share capital and, on a limited basis, to disapply statutory pre-emption rights. The Company does not presently have any intention of making use of these authorisations except in relation to the exercise of share options. The directors feel that such flexibility is in the interests of the Company and that it allows the effective operation of its share option schemes. The authority is in line with the Company's normal practice and is in accordance with the guidelines drawn up by the Investment Protection Committee of the Association of British Insurers.

The directors recommend you to vote in favour of all the resolutions at the Annual General Meeting, as they propose to do in respect of their own beneficial shareholdings.

By order of the Board



STEPHEN POWNEY

Secretary

9 April 1999

REMUNERATION REPORT

The directors present their Remuneration Report for the year ended 31 December 1998.

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 David Beever. 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 B2 of the Code of Best Practice of the Combined Code annexed to the Listing Rules of the London Stock Exchange.

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 the Combined Code.

Incentive schemes

The executive directors participate in performance-linked annual bonus schemes based on improvement in shareholder value measured by growth in earnings per share.

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 below.

The Group's share option schemes permit the exercise of options only upon the achievement of certain performance targets. Options to acquire 211,800 Company shares at a total exercise value of £651,000 were granted during the year and those outstanding as at 31 December 1998 are listed in note 18 to the financial statements.

Service contracts

The Remuneration Committee has given careful consideration to the recommendations of the Combined Code on directors' service contracts. The executive directors have service contracts which can be terminated by the Company or by themselves by giving 2 years' or 12 months' notice respectively. The contract for the Group Chief Executive has a termination clause triggered upon change of ownership of the Company with compensation equivalent to 2 years' salary and benefits. The Committee consider that these contracts operate for the benefit of the Company and its shareholders by securing continuity of senior executive management during a period of difficult market conditions and uncertainty. The contracts for non executive directors are fixed term; details of these are given under the heading "Directors and their interests" which can be found on pages 16 and 17.

REMUNERATION REPORT

Director's remuneration

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

	Fees	Basic salary	Bonuses	Benefits in kind	1998 Total	1997 Total
	£	£	£	£	£	£
David Beever	15,000	-	-	-	15,000	10,000
Terry Clements	35,000	-	-	-	35,000	33,750
Roger Harrop *	-	125,000	-	9,209	134,209	131,673
Martin Johnston	-	78,500	-	8,422	86,922	84,875
other directors **	-	-	-	-	-	275,823
Totals	50,000	203,500	-	17,631	271,131	536,121

* highest paid director

** the other directors comprised Clive Gregory (£12,500), Les James (£77,746), Riad Kocache (£61,830), Bob Kydd (£58,491) and Peter Parnell (£65,256).

Directors' pensions

The following directors are members of the Group's main pension scheme (see note 25). The Group does not fund pension benefits for the non-executive directors. Assuming retirement on the normal terms of the scheme, the annual pension accrued in the scheme would be as follows:

	R Harrop £'000	M Johnston £'000
At beginning of year	13.5	19.7
Increase in year due to:		
Actuarial revaluation	0.7	1.0
Salary increases relative to revaluation	0.5	0.9
Completion of additional service	1.9	1.1
Transfer into scheme	6.8	-
At end of year	23.4	22.7

The transfer value of the increase in annual pension entitlement accrued in the year, before transfer in, is as follows:

33.1 24.8

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. It does not represent a sum payable to individual directors and it, therefore, cannot be added meaningfully to annual remuneration.

REMUNERATION REPORT

Share options

Options in respect of a total of 827,200 ordinary shares have been granted for nominal consideration and are outstanding under the Company's share option schemes to certain employees of the Group.

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

	Exercise price	Earliest exercise date	Expiry date	31 December 1997 Number	Granted during year	31 December 1998 Number
Roger Harrop	177p	1 4 1997	1 4 2002	75,000	-	75,000
	362.5p	8 4 2001	8 4 2008	-	8,275	8,275
	362.5p	8 4 2001	8 4 2005	-	66,725	66,725
Martin Johnston	226p	6 5 2000	6 5 2005	30,000	-	30,000
	362.5p	8 4 2001	8 4 2008	-	8,275	8,275
	362.5p	8 4 2001	8 4 2005	-	21,725	21,725

The performance criterion for the above options to be exercised is a proportional increase in earnings per share relative to FTSE-100 performance over the prior three/five year period.

No directors' options were exercised or lapsed in the year.

The market price of the shares at 31 December 1998 was 116.5p and the range during 1998 was between 97.5p and 372.5p.

By order of the Board

TERRY CLEMENTS

Chairman of the Remuneration Committee

9 April 1999

CORPORATE GOVERNANCE

The Board has given thorough consideration to the Combined Code derived by the Committee on Corporate Governance (the Code). We report as follows on the general application of the principles of the Code and on the specific application at Servomex of the detailed Code provisions:

1. Principles of Good Governance

- **Directors:** Servomex plc is a small public company with a Board appropriate to its size. There is clear division of responsibilities and a numerical balance of executive and non-executive directors. The Board meets quarterly and on other occasions to consider issues of strategic importance and to approve announcements. Relevant financial and other information is provided to Board members regularly and, in particular, during the week preceding a regular Board meeting. Appointments to the Board are recommended by the existing Board.
- **Directors' remuneration:** Full details of the policies and procedures for fixing directors' remuneration packages as well as the amounts paid are given in the Remuneration Report on pages 19 to 21.
- **Relations with shareholders:** The Chairman and executive directors hold regular briefings of institutional shareholders after the announcement of results. Private investors are informed through the Annual Report and Interim Report as well as the Company's website and AGM.
- **Accountability and audit:** The Company invests significant effort in the preparation of its Annual Report and Interim Report, which are designed to present a balanced and understandable assessment for all stakeholders of the Group's position and prospects. The 1997 Annual Report was shortlisted for the "Stock Exchange and Chartered Accountants Annual Awards for Published Accounts".

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 strategic business units.
- ◇ a well established and documented 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 strategic business unit at which results and forecasts

CORPORATE GOVERNANCE

are considered, strategies discussed and actions agreed.

- ◇ a formalised quarterly executive meeting cycle throughout all business units.
- ◇ the operation of a risk-averse currency hedging policy whereby the Group's short-term exposure to exchange movements is managed.

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.

The Board maintains close contact with the Group's auditors through the Audit Committee, which reviews the Group's financial reporting and internal financial controls.

2. Code of Best Practice

The directors are aware that the Code extends their obligations to review the effectiveness of the Group's system of internal controls to include the consideration of operational and compliance controls and risk management, in addition to financial controls. The directors will follow the impending guidance of the Institute of Chartered Accountants in England and Wales when that guidance is published.

Pursuant to Paragraph 12.43A of the Listing Rules of the London Stock Exchange, except to the extent of relaxation referred to in the London Stock Exchange announcement dated 10 December 1998, the Company has complied with all of the provisions of the Code of Best Practice apart from the following:

Code Provision

A.6.2 "All directors should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years. The names of directors submitted for election or re-election should be accompanied by sufficient biographical details to enable shareholders to take an informed decision on their election."

Under the Company's Articles executive directors are not required to stand for re-election. The Board accepts that this provision of the Articles no longer reflects best practice and is proposing new Articles addressing this and other improvements which will be submitted for shareholder approval during the coming year.

B.1.7 "There is a strong case for setting notice or contract periods at, or reducing them to, one year or less. Boards should set this as an objective; but they should recognise that it may not be possible to achieve it immediately."

The executive directors have service contracts which can be terminated at 2 years' notice as explained within the Remuneration Report.

D.3.1 "The Board should establish an audit committee of at least three directors,

CORPORATE GOVERNANCE

all non-executive, with written terms of reference which deal clearly with its authority and duties. The members of the committee, a majority of whom should be independent non-executive directors, should be named in the report and accounts."

The Audit Committee consists of the two non-executive directors; given the size of the Group there is no present intention to recruit a third non-executive.

3. 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, we continue to adopt the going concern basis in preparing the financial statements.

4. Statement of director's 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 Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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 which 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.

By order of the Board

TERRY CLEMENTS

Chairman

9 April 1999

AUDITORS' REPORT

We have audited the financial statements on pages 27 to 47 and the additional disclosures on pages 19 to 21 relating to the remuneration of directors specified for our review by the London Stock Exchange which have been prepared under the historical cost convention and the accounting policies set out on pages 31 & 32.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 24 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 22 to 24 reflects the Company's compliance with the provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

Basis of audit opinion

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

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

AUDITORS' REPORT

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1998 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PRICEWATERHOUSECOOPERS

Chartered Accountants
and Registered Auditors
No1 London Bridge
London SE1 9QL

9 April 1999

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1998

		1998	1998	1998	1997
	Notes	£'000 Pre- exceptional	£'000 Exceptional (note 10)	£'000 Total	£'000
Sales	2	31,227	-	31,227	34,016
Change in inventories		124	(44)	80	987
		31,351	(44)	31,307	35,003
Materials and consumables		(8,364)	-	(8,364)	(9,975)
Staff costs	4	(11,385)	(310)	(11,695)	(11,772)
Depreciation of tangible fixed assets	12	(1,174)	-	(1,174)	(1,262)
Impairment of purchased goodwill	13	-	(2,000)	(2,000)	-
		(1,174)	(2,000)	(3,174)	(1,262)
Other operating charges *		(9,103)	(240)	(9,343)	(8,630)
Operating profit/(loss)	3	1,325	(2,594)	(1,269)	3,364
Interest receivable	5	7	-	7	-
Interest payable	6	(522)	-	(522)	(416)
Profit/(loss) on ordinary activities before taxation		810	(2,594)	(1,784)	2,948
Taxation on profit/(loss) on ordinary activities	7	(230)	(351)	(581)	(855)
Profit/(loss) on ordinary activities after taxation and profit/(loss) for the financial year	8	580	(2,945)	(2,365)	2,093
Dividends paid and proposed on equity shares	9	(294)	-	(294)	(978)
Profit/(loss) transferred to reserves	20	286	(2,945)	(2,659)	1,115
Basic (loss)/earnings per share - FRS 3	11			(22.9p)	20.3p
Diluted (loss)/earnings per share - FRS 3	11			(22.8p)	20.1p
Basic (loss)/earnings per share - headline	11			(3.5p)	20.3p
Diluted (loss)/earnings per share - headline	11			(3.5p)	20.1p

* 1997 comparative includes £148,000 in respect of abortive acquisition cost.

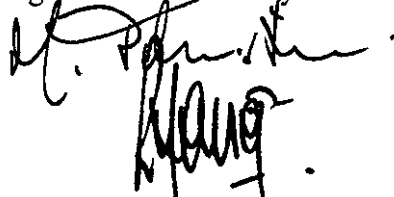
None of the Group's activities were acquired or discontinued during 1998.

The notes on pages 31 to 47 form an integral part of these financial statements.

BALANCE SHEETS
as at 31 December 1998

		Group		Company	
		1998	1997	1998	1997
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	12	5,015	5,646	1,941	2,047
Investments	13	-	-	20,870	20,870
		<u>5,015</u>	<u>5,646</u>	<u>22,811</u>	<u>22,917</u>
Current assets					
Inventories	14	3,220	3,258	-	-
Accounts receivable	15	8,726	9,800	203	427
Cash at bank and in hand		785	1,198	186	473
		<u>12,731</u>	<u>14,256</u>	<u>389</u>	<u>900</u>
Accounts payable within one year	16	<u>(10,176)</u>	<u>(10,509)</u>	<u>(5,774)</u>	<u>(6,378)</u>
Net current assets/(liabilities)		<u>2,555</u>	<u>3,747</u>	<u>(5,385)</u>	<u>(5,478)</u>
Total assets less current liabilities		7,570	9,393	17,426	17,439
Accounts payable after one year	16	<u>(1,198)</u>	<u>(2,010)</u>	<u>(7,489)</u>	<u>(6,298)</u>
Provisions for liabilities and charges	17	<u>-</u>	<u>(71)</u>	<u>-</u>	<u>-</u>
Net assets		<u>6,372</u>	<u>7,312</u>	<u>9,937</u>	<u>11,141</u>
Capital and reserves					
Called up share capital	18	516	515	516	515
Share premium account	18	2,068	2,019	2,068	2,019
Other reserves	19	1,355	1,355	2,256	2,256
Profit and loss account	20	2,433	3,423	5,097	6,351
Equity shareholders' funds		<u>6,372</u>	<u>7,312</u>	<u>9,937</u>	<u>11,141</u>

The financial statements were approved by the Board of directors on 9 April 1999 and were signed on its behalf by:



}
}
}
}
}
} Directors

The notes on pages 31 to 47 form an integral part of these financial statements.

GROUP CASH FLOW STATEMENT

For the year ended 31 December 1998

		1998	1998	1997	1997
	Notes	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	26		1,836		2,831
Returns on investments and servicing of finance					
Interest received		6		-	
Interest paid		(514)		(412)	
Interest element of finance lease rental payments		<u>(8)</u>		<u>(4)</u>	
			(516)		(416)
Taxation			(691)		(1,131)
Capital expenditure					
Purchase of tangible fixed assets	12	(813)		(1,312)	
Sale of tangible fixed assets	12	<u>312</u>		<u>115</u>	
			(501)		(1,197)
Acquisitions and disposals					
Purchase of subsidiary undertaking	13	(54)		(3,315)	
Deferred purchase consideration paid		<u>(200)</u>		<u>-</u>	
			(254)		(3,315)
Equity dividends paid			(979)		(889)
Financing					
Issue of ordinary share capital		50		111	
New short term borrowing		1,700		3,000	
Debt due beyond a year:					
New unsecured loan repayable over 5 years		-		3,500	
Repayment of amount borrowed		(1,000)		(2,350)	
Capital element of finance lease rental payments		<u>(20)</u>		<u>(59)</u>	
			730		4,202
(Decrease)/increase in cash in the year	27		<u>(375)</u>		<u>85</u>

The notes on pages 31 to 47 form an integral part of these financial statements.

OTHER PRIMARY STATEMENTS

For the year ended 31 December 1998

Statement of total recognised gains and losses	Notes	Group		Company	
		1998	1997	1998	1997
		£'000	£'000	£'000	£'000
(Loss)/profit for the financial year		(2,365)	2,093	(960)	4,007
Exchange differences taken directly to reserves	20	73	(365)	-	-
		<u>(2,292)</u>	<u>1,728</u>	<u>(960)</u>	<u>4,007</u>

Note of historical cost profits and losses

There is no material difference between the reported profits and losses of the Group and the Company for the year and those that would be reported under the historical cost convention.

Reconciliation of movements in equity shareholders' funds	Notes	Group		Company	
		1998	1997	1998	1997
		£'000	£'000	£'000	£'000
(Loss)/profit for the financial year		(2,365)	2,093	(960)	4,007
Dividends		(294)	(978)	(294)	(978)
Exchange differences taken directly to reserves	20	73	(365)	-	-
New share capital subscribed	18	50	111	50	111
Goodwill re-instated as impaired	10	2,000	-	-	-
Goodwill written off on acquisition	20	(404)	(3,437)	-	-
Net (reduction)/addition to equity shareholders' funds		<u>(940)</u>	<u>(2,576)</u>	<u>(1,204)</u>	<u>3,140</u>
Opening equity shareholders' funds		7,312	9,888	11,141	8,001
Closing equity shareholders' funds		<u>6,372</u>	<u>7,312</u>	<u>9,937</u>	<u>11,141</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 1998

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 the accounting policies set out below and 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 were 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 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.

Goodwill and intangible assets

Where the consideration paid for a business exceeds the fair value of the net assets, the difference is treated as goodwill and, since 1 January 1998, is carried on the balance sheet. Such goodwill arising on acquisition is amortised over the estimated economic life to a maximum of 20 years. Goodwill written off to reserves prior to 1 January 1998 has not been reinstated. On disposal of a business the profit or loss on disposal is determined after including the attributable amount of purchased goodwill previously written off to reserves. Annual impairment reviews are performed as a result of which the carrying value of the relevant asset may be written down to its recoverable value.

NOTES TO THE FINANCIAL STATEMENTS

Depreciation of tangible fixed assets

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

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	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
United Kingdom	6,547	6,711	24,719	23,442
Rest of Europe	9,923	10,853	6,281	6,645
Americas	10,853	11,205	10,239	10,420
Asia Pacific	2,305	3,622	1,933	2,990
Rest of the world	1,599	1,625	-	-
	<u>31,227</u>	<u>34,016</u>	<u>43,172</u>	<u>43,497</u>
Inter territorial sales	-	-	(11,945)	(9,481)
	<u>31,227</u>	<u>34,016</u>	<u>31,227</u>	<u>34,016</u>

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

	1998	1997
	£'000	£'000
United Kingdom	(143)	1,905
Rest of Europe	(394)	(442)
USA	1,099	1,308
Taiwan	169	593
	<u>731</u>	<u>3,364</u>
Goodwill impairment applied on consolidation	(2,000)	-
	<u>(1,269)</u>	<u>3,364</u>

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

NOTES TO THE FINANCIAL STATEMENTS

The Group's net assets at the year end are located as follows:

	1998	1997
	£'000	£'000
United Kingdom	7,185	9,335
Rest of Europe	1,833	(159)
USA	2,892	3,108
Taiwan	892	778
	<u>12,802</u>	<u>13,062</u>
Interest bearing net liabilities	<u>(6,430)</u>	<u>(5,750)</u>
	<u>6,372</u>	<u>7,312</u>

3. Operating profit/(loss)

	1998	1997
	£'000	£'000
Is arrived at after charging/(crediting)		
Depreciation of owned assets	1,161	1,196
Depreciation of assets held under finance leases	13	66
Auditor's remuneration - audit fees: - the Company	10	25
- remainder of the Group	120	99
- other fees	28	64
Operating lease rentals in respect of plant and machinery	256	312
Other operating lease rentals	525	517
Exchange gain	(105)	(261)
Research and development expenditure	1,775	1,928
Restructuring costs	594	224

Fees paid to the auditors and capitalised in respect of the acquisition of Bühler Montec amounted to £50,000.

4. Directors and employees

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

	1998 Number	1997 Number
United Kingdom	327	356
Rest of Europe	49	49
USA	37	39
Taiwan	13	16
Total	<u>426</u>	<u>460</u>

NOTES TO THE FINANCIAL STATEMENTS

Staff costs	1998 £'000	1997 £'000
Salaries	9,808	10,145
Social security costs	995	1,032
Other pension costs	582	595
	<u>11,385</u>	<u>11,772</u>
Exceptional	310	-
	<u>11,695</u>	<u>11,772</u>

5. Interest receivable

Interest receivable represents income in respect of bank deposits.

6. Interest payable

	1998 £'000	1997 £'000
Interest on borrowings repayable within 5 years:		
- bank loans and overdrafts	514	412
- finance lease	8	4
	<u>522</u>	<u>416</u>

7. Taxation on profit/(loss) on ordinary activities

	1998 Pre-exceptional £'000	1998 Exceptional £'000	1998 Total £'000	1997 £'000
Based on the results for the year:				
UK corporation tax at 31% (1997: 31.5%)	-	-	-	284
Overseas taxation	476	-	476	571
Prior year over accrual	<u>(175)</u>	<u>(140)</u>	<u>(315)</u>	<u>-</u>
	301	(140)	161	855
ACT written off	-	491	491	-
Deferred taxation written back	<u>(71)</u>	<u>-</u>	<u>(71)</u>	<u>-</u>
	<u>230</u>	<u>351</u>	<u>581</u>	<u>855</u>

The effective overall rate of taxation on profit on ordinary activities before exceptional items was 28.4% (1997: 29.0%). The entire ACT receivable balance has been written off as the existence of UK trading losses of £500,000 casts significant doubt on the Group's ability to utilise ACT in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

8. Profit/(loss) 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 loss after taxation for the year dealt with in the accounts of the Company is £920,000 (1997: profit £4,007,000). The Company's profit and loss account was approved by the Board on 9 April 1999.

9. Dividends paid and proposed

	1998 £'000	1997 £'000
Interim dividend paid at 2.85 pence per share (1997: 2.85p)	294	293
Proposed final dividend at nil pence per share (1997: 6.65p)	-	685
	<hr/> 294	<hr/> 978

10. Exceptional costs

The Board announced in November 1998 its decision to reduce the cost base of the Group to reflect the then current activity levels. One-off costs of £594,000 before tax were provided in the year, covering headcount reduction (£310,000), restructuring in connection with the closing of all engineering and manufacture in BMG Germany (£240,000) and related inventory write-offs (£44,000). £244,000 was spent in 1998 and £306,000 is to be spent in 1999.

Due to the poor performance of BMG in the period since its acquisition its carrying value in the books of Servomex UK Holdings Limited, an intermediate holding company, has been reviewed for impairment and written down by £2 million. The remaining carrying value of £1,118,000 is justified by a calculation of value in use in accordance with FRS 11 in which expected future cash flows are discounted at a rate of 20% per annum to fully reflect the circumstances of BMG.

The directors have considered the implications for the Group's financial statements and consider that the impairment of £2 million to the carrying value of the investment in BMG translates to an impairment of the goodwill that arose on the acquisition of BMG. Under the Group's previous accounting policy, prior to the implementation of FRS 10, this goodwill had been eliminated against reserves but is now considered to be impaired. Consequently £2 million of this goodwill has been resurrected and written off formally through the Group's profit and loss account in 1998. This has no economic impact on the Group.

NOTES TO THE FINANCIAL STATEMENTS

11. (Loss) / earnings per share

Basic (loss)/earnings per share and diluted (loss)/earnings per share have been calculated as follows:

	(Loss)/earnings		Shares		Per share	
	1998 £ '000	1997 £ '000	1998 No.	1997 No.	1998 pence	1997 pence
(Loss)/profit for the financial year	(2,365)	2,093				
Weighted average number of ordinary shares outstanding			10,310,941	10,293,290		
Basic (loss)/earnings per share	(2,365)	2,093	10,310,941	10,293,290	(22.9p)	20.3p
Effect of dilutive potential ordinary shares	-	-	39,428	138,849	0.1p	(0.2p)
Diluted (loss)/earnings per share	(2,365)	2,093	10,350,369	10,432,139	(22.8p)	20.1p
Adjustment to headline earnings						
Impairment of goodwill	2,000	-				
Weighted average number of ordinary shares outstanding			10,310,941	10,293,290	19.4p	-
Basic (loss)/earnings per share - headline	(365)	2,093	10,310,941	10,293,290	(3.5p)	20.3p
Effect of dilutive potential ordinary shares	-	-	39,428	138,849	0.0p	(0.2p)
Diluted (loss)/earnings per share - headline	(365)	2,093	10,350,369	10,432,139	(3.5p)	20.1p

Headline earnings, as defined by the Institute of Investment Management and Research, are calculated by adjusting the profit attributable to ordinary shareholders for the after-tax profits or losses on disposals and termination of businesses and on disposal of tangible fixed assets, permanent diminution in value of tangible fixed assets and goodwill amortisation.

Potential ordinary shares are calculated in accordance with FRS 14 and represent the effect on existing ordinary shareholders of the exercise of share options.

NOTES TO THE FINANCIAL STATEMENTS

12. Tangible fixed assets

	Group			Company		
	Land and buildings £'000	Plant equipment and vehicles £'000	Total £'000	Land and buildings £'000	Plant equipment and vehicles £'000	Total £'000
Cost or valuation						
At 1 January 1998	3,981	7,818	11,799	2,255	147	2,402
Additions	100	704	804	-	7	7
Disposals	(317)	(171)	(488)	-	(4)	(4)
Exchange adjustments	11	24	35	-	-	-
At 31 December 1998	<u>3,775</u>	<u>8,375</u>	<u>12,150</u>	<u>2,255</u>	<u>150</u>	<u>2,405</u>
Depreciation						
At 1 January 1998	755	5,398	6,153	314	41	355
Charge for the year	225	949	1,174	76	34	110
Disposals	(69)	(148)	(217)	-	(1)	(1)
Exchange adjustments	6	19	25	-	-	-
At 31 December 1998	<u>917</u>	<u>6,218</u>	<u>7,135</u>	<u>390</u>	<u>74</u>	<u>464</u>
Net book amount						
At 31 December 1998	<u>2,858</u>	<u>2,157</u>	<u>5,015</u>	<u>1,865</u>	<u>76</u>	<u>1,941</u>
At 31 December 1997	<u>3,226</u>	<u>2,420</u>	<u>5,646</u>	<u>1,941</u>	<u>106</u>	<u>2,047</u>

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Net book value of land and buildings				
Freehold	1,934	2,018	1,865	1,941
Long leasehold	-	250	-	-
Short leasehold	924	958	-	-
	<u>2,858</u>	<u>3,226</u>	<u>1,865</u>	<u>1,941</u>

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 potential development land, giving rise to a revaluation surplus of £1,355,000. The historical cost net book value at 31 December 1998 of the freehold land and buildings was £124,000 (1997: £135,000). The directors 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 £134,000 (1997: Nil)

NOTES TO THE FINANCIAL STATEMENTS

13. Investments

Investments represent the Company's shares in subsidiary undertakings. There have been no additions or disposals during the year ended 31 December 1998.

The following are the Company's principal trading subsidiary undertakings at 31 December 1998, which are incorporated in Great Britain and registered in England except where stated, all of which have been consolidated into the Group financial statements:

Wholly owned:	Incorporated and operating in:	Nature of business:
Bicotest Ltd		Manufacture, sales & service
Bühler Montec Group Ltd		Manufacture, sales & service
Servomex Group Ltd		Manufacture, sales & service
Servomex International Ltd		Engineering, sales & service
Bühler Montec SA	France	Sales & service
Servomex SA	France	Sales & service
Bühler Montec GmbH	Germany	Manufacture, sales & service
Servomex GmbH	Germany	Sales & service
Servomex BV	Netherlands	Sales & service
Servomex Asia Pacific Ltd	Taiwan	Sales & service
Servomex Company, Inc	United States of America	Engineering, sales & service

All the above companies are wholly owned by Servomex plc through intermediate holding companies.

Bühler Montec Group

On 11 January 1997 the Company completed the acquisition of the entire share capital of Montec Holdings Limited (subsequently renamed Bühler Montec Holdings Limited) from Northumbrian Water Group plc (NWG) for consideration in cash of £3,084,000. Both the carrying value of this investment and the goodwill arising have been reviewed for impairment under the provisions of FRS 11 (see note 10).

As stated in note 12 to the 1997 financial statements, the adjustments made to the balance sheets of the acquired businesses in those financial statements in order to present their net assets at fair values were provisional. The final review of fair values has been performed as at 31 December 1998 and the resulting adjustments are shown below:

NOTES TO THE FINANCIAL STATEMENTS

	Book value £'000	1997 Adjustments to fair value £'000	1998 Adjustments to fair value £'000	1998 Total £'000
Net assets acquired:				
Tangible fixed assets	922	(287)	-	635
Inventories	1,392	-	-	1,392
Receivables	1,133	(16)	-	1,117
Payables	(1,335)	(10)	-	(1,345)
Additional provision for warranty costs	-	(424)	(314)	(738)
Provision for relocation of production and associated costs	(1,178)	(302)	(53)	(1,533)
Cash at bank and in hand	150	-	-	150
	<u>1,084</u>	<u>(1,039)</u>	<u>(367)</u>	<u>(322)</u>
Goodwill (set off against reserves)				3,841
Consideration			3,084	
Acquisition costs			<u>435</u>	
Total consideration including acquisition costs				3,519
Net cash acquired				<u>(150)</u>
Net cash outflow of cash and cash equivalents in respect of the purchase of Montec Holdings Ltd				3,369
Less amount spent in 1997				(3,315)
Amount spent in 1998				<u>54</u>

The 1998 adjustments arise because of underprovisions in 1997 for costs relating to product warranties and relocation. The original relocation provision was established by Montec Holdings Limited under its previous ownership and related to an irrevocable re-organisation commenced by Montec management before the acquisition.

The provision for warranty costs relates to expenditure required since acquisition to correct deficiencies in product design which existed at the acquisition date.

A claim has been made under the sale and purchase agreement against NWG in respect of the warranty costs referred to above and consequent loss of profits. A generally endorsed writ has been issued to protect the Company's position in connection with this claim although the Company hopes to be able to resolve the claim without resort to formal litigation.

No allowance for compensation under this claim has been made in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

14. Inventories

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Raw materials and consumables	1,714	1,881	-	-
Work in progress	690	823	-	-
Finished goods	816	554	-	-
	<u>3,220</u>	<u>3,258</u>	<u>-</u>	<u>-</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.

15. Accounts receivable

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Trade	7,226	7,862	1	-
Other receivables	518	516	2	-
Prepayments and accrued income	546	444	62	50
Prepaid pension contributions	436	624	-	11
ACT recoverable	-	354	-	354
Corporation tax	-	-	138	12
	<u>8,726</u>	<u>9,800</u>	<u>203</u>	<u>427</u>

With the exception of the prepaid pension contributions all of the Group's and the Company's accounts receivable are recoverable within one year.

16. Accounts payable

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Within one year:				
Medium term loan	1,000	1,000	1,000	1,000
Acceptance credits and bank overdrafts	4,449	3,000	4,449	3,000
Deferred purchase consideration	-	200	-	-
Trade	2,545	2,938	60	-
Amounts owed to subsidiary undertakings	-	-	-	1,265
Other accounts payable	396	262	-	-
Taxation and social security	443	431	13	12
Accruals and deferred income	1,209	1,430	178	172
Corporation tax	17	319	-	-
ACT payable	74	244	74	244
Dividends payable	-	685	-	685
Finance lease obligations	43	-	-	-
	<u>10,176</u>	<u>10,509</u>	<u>5,774</u>	<u>6,378</u>
After one year:				
Amounts owed to subsidiary undertakings	-	-	6,739	4,548
Deferred purchase consideration (due in 1 - 2 years)	260	-	-	-
Deferred purchase consideration (due in 2 - 5 years)	-	260	-	-
Finance lease obligations				
Due in 1 - 2 years	48	-	-	-
Due in 2 - 5 years	140	-	-	-
Payments under medium term loan:				
Due in 1 - 2 years	750	1,000	750	1,000
Due in 2 - 5 years	-	750	-	750
	<u>1,198</u>	<u>2,010</u>	<u>7,489</u>	<u>6,298</u>

NOTES TO THE FINANCIAL STATEMENTS

Outstanding borrowing

The Group has a medium term loan with quarterly capital repayments of £250,000. At the beginning of 1998 the balance outstanding was £2.75m and at 31 December 1998 £1.75m. The loan will be fully repaid during the year 2000. The interest rate was fixed for the first nine months, quarterly in advance at LIBOR plus 1.0625%. In the final quarter of 1998 the interest rate was fixed monthly in advance at the same margin over LIBOR, reflecting the downward trend in base rates. The medium term loan amounted in the year to between 26% and 41% of total borrowings. In addition the Group utilises an acceptance credit and overdraft facility to fund its remaining borrowing requirements. The proportion of borrowing at 31 December 1998 represented by the medium term loan was 26%.

Borrowing facilities

The Group had the following borrowing facilities, for which the conditions precedent had been met, as at 31 December 1998:

	Total £'000	Drawn £'000	Undrawn £'000
Expiring in one year or less	6,000	5,449	551
Expiring in more than one year but not more than two years	750	750	-
Total	<u>6,750</u>	<u>6,199</u>	<u>551</u>

17. Provisions for liabilities and charges

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Deferred taxation:				
At 1 January 1998	71	71	(43)	(43)
Profit and loss account	(71)	-	-	-
At 31 December 1998	<u>-</u>	<u>71</u>	<u>(43)</u>	<u>(43)</u>
Deferred taxation comprises:				
Accelerated capital allowances	(373)	(161)	(28)	(54)
Other timing differences	373	232	(15)	11
	<u>-</u>	<u>71</u>	<u>(43)</u>	<u>(43)</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 15.

NOTES TO THE FINANCIAL STATEMENTS

18. Called up share capital and share premium account

The Company's share capital as at 31 December 1998 was as follows:

	1998 Number	1998 £'000	1997 Number	1997 £'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 1998	10,300,866	515	10,264,107	513
Shares issued during the year	21,400	1	36,759	2
Balance at 31 December 1998	<u>10,322,266</u>	<u>516</u>	<u>10,300,866</u>	<u>515</u>
Share premium account				
Balance at 1 January 1998		2,019		1,910
Shares issued during the year		<u>49</u>		<u>109</u>
Balance at 31 December 1998		<u>2,068</u>		<u>2,019</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.

The total consideration received in respect of the shares issued in the year was £50,000.

Under the terms of the Company's Executive Share Option Schemes, options outstanding at 31 December 1998, 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
18 April 1989	125p	25,200
3 April 1992	177p	83,400
30 April 1993	275p	69,400
7 October 1993	220p	30,000
24 April 1994	235p	33,600
5 May 1995	226p	30,000
5 May 1995	265p	25,200
6 November 1995	327p	25,200
9 May 1996	351p	42,000
10 December 1997	298.5p	251,400
7 April 1998	362.5p	150,000
30 September 1998	174p	<u>61,800</u>
		<u>827,200</u>

NOTES TO THE FINANCIAL STATEMENTS

19. Other reserves

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'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>

20. Profit and loss account

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Balance as at 1 January 1998	3,423	6,110	6,351	3,322
Retained (loss)/profit	(2,659)	1,115	(1,254)	3,029
Goodwill reinstated as impaired (note 10)	2,000	-	-	-
Goodwill written off on acquisition	(404)	(3,437)	-	-
Effect of exchange rate changes	73	(365)	-	-
Balance at 31 December 1998	<u>2,433</u>	<u>3,423</u>	<u>5,097</u>	<u>6,351</u>

The cumulative amount of goodwill which has been set against reserves at 31 December 1998 amounts to £4,661,000 (1997: £6,252,000).

21. Exchange gains/(losses)

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Retained earnings				
Revaluation of the opening net assets of overseas undertakings to closing exchange rates	170	(375)	-	-
Revaluation of the results for the year of overseas undertakings to closing exchange rates	(97)	10	-	-
	<u>73</u>	<u>(365)</u>	<u>-</u>	<u>-</u>

Hedges of future transactions

At 31 December 1998 the Company was committed to hedge contracts which required it to sell US\$5,806,440 (1997: US\$7,795,160) during 1999 at an average rate of US\$1.6129 (1997: US\$1.62) to £1 and € 3,243,022, equivalent to DM6,342,800 (1997: DM8,660,450) at an average rate of € 1.4413, equivalent to DM2.8190 (1997: DM2.8868) to £1.

NOTES TO THE FINANCIAL STATEMENTS

22. Capital commitments

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Capital expenditure:				
contracted for but not provided	75	204	35	-
authorised but not contracted for	35	-	-	-

23. Other commitments

At 31 December 1998 the Group had the following annual commitments under non-cancellable operating leases:

	Land and buildings		Other	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Expiring within one year	51	109	37	98
Expiring between two and five years	201	70	156	162
Expiring after five years	278	339	6	-
	<u>530</u>	<u>518</u>	<u>199</u>	<u>260</u>

24. Contingent liabilities

At 31 December 1998 the Group had contingent liabilities in respect of guarantees to third parties amounting to £408,000 (1997: £366,000).

NOTES TO THE FINANCIAL STATEMENTS

25. 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 an independent 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. Because of substantial changes in membership and the abolition of tax credits on pension fund dividend income the scheme's trustees commissioned an additional actuarial assessment as at 1 July 1997. At that date the market value of the scheme's assets was £10,110,745 and the funding level 121%.

In order to reduce the amount of overfunding and the prepayment carried in the Group's balance sheet (see note 15) employer contributions were suspended for the whole of the year.

Pension costs for accounting purposes have been calculated as follows:

- for the main UK scheme - in accordance with an actuarial calculation dated 22 January 1999 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.

26. Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	1998	1997
	£'000	£'000
Operating (loss)/profit	(1,269)	3,364
Depreciation of tangible fixed assets	1,174	1,262
Decrease in inventories	69	165
Decrease/(increase) in receivables	780	(355)
(Decrease)/increase in payables	(376)	44
Goodwill reinstated	2,000	-
Payments against fair value reorganisation provision	(67)	(1,341)
Payments against fair value warranty cost provision	(440)	(263)
(Profit) on sale of fixed assets	(35)	(45)
Net cash inflow from operating activities	1,836	2,831

NOTES TO THE FINANCIAL STATEMENTS

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

	1998	1997
	£'000	£'000
(Decrease)/increase in cash in the period	(375)	85
(Increase) in debt and lease financing	(680)	(4,091)
Change in net debt resulting from cash flows	(1,055)	(4,006)
Translation difference	(38)	(128)
Movement in net debt in the period	(1,093)	(4,134)
Net debt at 1 January	(4,552)	(418)
Net debt at 31 December	(5,645)	(4,552)

28. Analysis of net debt

	1 January 1998	Cash flow	Exchange movement	31 December 1998
	£'000	£'000	£'000	£'000
Cash at bank and in hand	1,198	(375)	(38)	785
Debt due within one year	(4,000)	(1,449)	-	(5,449)
Debt due after one year	(1,750)	1,000	-	(750)
Finance leases	-	(231)	-	(231)
Total	(4,552)	(1,055)	(38)	(5,645)

FIVE YEAR REVIEW

	1994 £'000	1995 £'000	1996 £'000	1997 £'000	1998 £'000
Sales	22,160	26,162	32,020	34,016	31,227
Operating profit/(loss)	2,478	2,864	3,743	3,364	(1,269)
Restructuring costs included in operating profit/(loss)	(206)	(94)	-	(224)	(594)
Profit before taxation - headline	2,344	2,723	3,545	2,948	216
Profit/(loss) before taxation - FRS 3	2,344	2,371	3,545	2,948	(1,784)
Taxation	(827)	(982)	(1,353)	(855)	(581)
Profit/(loss) for the financial year	1,518	1,389	2,192	2,093	(2,365)
Dividends	(703)	(755)	(871)	(978)	(294)
Earnings/(loss) per share - headline	15.2p	17.3p	21.5p	20.3p	(3.5p)
Earnings/(loss) per share - FRS 3	15.2p	13.8p	21.5p	20.3p	(22.9p)
Dividend per share	7.0p	7.5p	8.5p	9.5p	2.85p
Net assets per share	80.3p	86.0p	97.0p	71.0p	61.7p

Notice is hereby given that the Annual General Meeting of the Company will be held at Buxted Park Hotel, Buxted, East Sussex, on 27 May 1999 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 (special notice having been received of the intention to propose resolution 3 as an ordinary resolution), and resolution 6 as a special resolution.

Ordinary business

1. To receive and adopt the financial statements and reports of the directors and auditors for the year ended 31 December 1998.
2. To re-elect Terry Clements as a Director who retires from the Board by rotation in accordance with the Articles of Association and who, being eligible, offers himself for re-election.
3. To re-appoint PricewaterhouseCoopers as auditors until the conclusion of the next Annual General Meeting (who were previously appointed by the Board to fill the casual vacancy arising by reason of the resignation of Price Waterhouse), and to authorise the directors to fix their remuneration.

Special business

4. That the authorised share capital of the Company be increased from £650,000 to £750,000 by the creation of 2,000,000 new ordinary shares of 5 pence each in the capital of the Company.
5. That, subject to the passing of resolution 4, in substitution for all existing and unexercised authorities the directors be and are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all or any of the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) of the Company up to an aggregate nominal amount of £154,833 provided that this authority shall, unless previously revoked or varied by the Company in general meeting, expire 5 years from the date of this resolution 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 in substitution for all existing and unexercised authorities, 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 for cash 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 shall be limited to:
 - 6.1 any allotments of equity securities in connection with a rights issue to holders of ordinary shares on the register on a fixed record date or dates in proportion (as nearly as may be) to their then holdings subject only to the directors having a right to make such exclusions or other 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 regulatory body or stock exchange or otherwise howsoever, and

6.2 any other allotments of equity securities for cash up to a maximum nominal amount of £25,805,

provided that this power shall, unless previously revoked or varied by special resolution of the Company in general meeting, expire fifteen months from the date of this resolution or, if earlier, on the conclusion of the Annual General Meeting of the Company held in 2000 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.

By order of the Board
Stephen Powney
Secretary 30 April 1999

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.

I/We _____
of _____
being (a) member(s) of SERVOMEX plc 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 Thursday, 27 May 1999 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 _____ 1999

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 re-elect Terry Clements as a director
3			To re-appoint PricewaterhouseCoopers as auditors

SPECIAL BUSINESS

	For	Against	
4			To approve an increase of authorised share capital
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 remove this form, fold it as indicated on the reverse and place in the post. No stamp is needed.