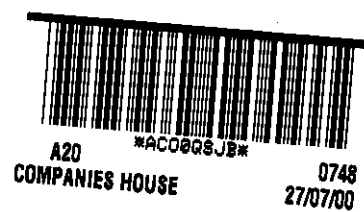


Servomex Limited (previously Servomex plc)

Directors' report and financial statements

31 December 1999

Registered number 1938746



Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

Principal activities

Up until 10 June 1999, the company served as the Group Head Office for all of the companies that were owned by Servomex plc, a London Stock Exchange quoted company. On 10 June 1999, Servomex plc was acquired by Fairey Group plc. Since 10 June 1999, the role of Group Head Office has been performed by Fairey Group plc. Servomex plc has since re-registered as a private limited company.

Results for the year

The loss after taxation for the year was £3,603,000 (1998: £1,254,000). The full results for the year are shown in the profit and loss account on page 6.

Dividends

The directors do not recommend the payment of a dividend (1998: £294,000).

Directors

The directors of the company who served during the year were as follows:

Paul Boughton	(appointed 14.6.99)
Hans Nilsson	(appointed 14.6.99)
John Poulter	(appointed 14.6.99)
Graham Zacharias	(appointed 14.6.99)
Martin Johnston	(resigned 30.7.99)
Roger Harrop	(resigned 18.6.99)
Terence Clements	(resigned 30.6.99)
David Beaver	(resigned 30 6.99)

Directors' interests

The interests of Mr Boughton, Mr Nilsson, Mr Poulter and Mr Zacharias who were also directors of the holding company are shown in the accounts of the holding company, Fairey Group plc.

The following rollover options, each which carries an entitlement to subscribe for one ordinary 5p share in Fairey Group plc were outstanding at the date of resignation:

	At 1.1.1999	Granted	Exercised	Lapsed	At Resignation	Exercise Price (p)	Date from which Exercisable	Expiry Date
Martin Johnson	-	3,645			3,645	822.93p	1.8.1999	31.1.2000
	-	9,569			9,569	822.93p	1.8.1999	31.1.2000
	-	13,215			13,215	513.05p	1.8.1999	31.1.2000

Directors' report *(continued)*

Year 2000

No material adverse consequences arose with operations, customers or the supply chain as a result of the calendar date change.

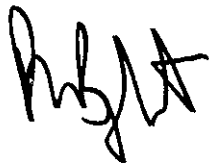
While it is not inconceivable that residual risks and uncertainties may crystallise in the future, this is not expected to give rise to significant problems.

The revenue costs of addressing Year 2000 issues in 1999 were immaterial.

Auditors

The change of auditors was made due to the acquisition of Servomex Limited by Fairey Group plc. KPMG Audit Plc were appointed as auditors to the company on 24 December 1999.

By order of the Board



P.V. Boughton
Director

20th July 2000

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then 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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG Audit Plc

Salisbury Square
London
EC4Y 8BB

Report of the auditors to the members of Servomex Limited (previously Servomex plc)

We have audited the financial statements on pages 6 to 15.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by 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 regarding directors' remuneration and transactions with the company is not disclosed.

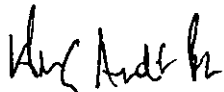
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

20 July 2000

Profit and loss account

for the year ended 31 December 1999

	<i>Notes</i>	1999 £000	1998 £000
Administration expenses*		(3,301)	(1,038)
Other operating income		496	1,020
Operating loss	2	(2,805)	(18)
Loss on disposal of fixed assets	3	(1,116)	-
Net interest payable	4	(223)	(586)
Loss on ordinary activities before taxation		(4,144)	(604)
Taxation	5	541	(356)
Loss on ordinary activities after taxation		(3,603)	(960)
Dividends	6	-	(294)
Loss on ordinary activities for the financial year		(3,603)	(1,254)

The company has no recognised gains and losses other than those reported above, and therefore no separate statement of total recognised gains and losses has been presented.

* Administration expenses include £ 988 000.00 due to the impairment of fixed asset investments.

Balance sheet

As at 31 December 1999

	Notes	1999 £000	1998 £000
Fixed assets			
Tangible assets	10	1,105	1,941
Investments	11	19,882	20,870
		<hr/>	<hr/>
		20,987	22,811
Current assets			
Debtors	12	3,735	203
Cash at bank and in hand		638	186
		<hr/>	<hr/>
		4,373	389
Creditors: amounts falling due within one year	13	(5,618)	(5,774)
		<hr/>	<hr/>
Net current liabilities		(1,245)	(5,385)
		<hr/>	<hr/>
Total assets less current liabilities		19,742	17,426
Creditors: amounts falling due after one year	14	(13,388)	(7,489)
		<hr/>	<hr/>
Net assets		6,354	9,937
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	17	517	516
Share premium account	18	2,087	2,068
Other reserves	18	2,256	2,256
Profit and loss account	19	1,494	5,097
		<hr/>	<hr/>
Equity shareholders' funds	20	6,354	9,937
		<hr/>	<hr/>

These financial statements were approved by the board of directors on behalf by:

20 July 2000 and were signed on its



J.G. Zacharias
 Director

Notes to the financial statements

1. Accounting policies

Basis of accounting

The company 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.

Consolidation

Consolidated accounts have not been prepared for the company as it is a wholly owned subsidiary of Fairey Group plc, a parent undertaking registered in England, which has prepared consolidated accounts.

Translation of foreign currencies

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

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

Tangible fixed assets

With the exception of freehold land, tangible fixed assets are depreciated at rates calculated to write off the original cost or subsequent valuation, less the estimated residual value, in equal instalments over the expected useful life of the assets concerned.

Depreciation is provided at the following rates on a straight line basis:

Freehold buildings	-	2%
Plant and equipment	-	5 – 33 1/3 %
Vehicles	-	25%

Investments

Investments in subsidiaries and other investments are stated at cost, less amounts written off where there has been an impairment in value.

Deferred taxation

Provision is made under the liability method, at the expected applicable rates, for taxation deferred in respect of all material timing difference between accounting and taxation treatment, except when it is thought reasonably possible that the tax effects of such deferrals will continue for the foreseeable future.

Pension costs

In respect of the defined benefit pension plans, pension fund contributions are based on percentages of employees' wages and salaries in accordance with the recommendations of the scheme actuary. Contributions are charged to profit and loss account with variations due to a fund valuation surplus or deficiency apportioned over the average future service lives of the membership.

In the case of defined contribution plans, contributions are charged to the profit and loss account as incurred.

Notes (continued)

Leases

Finance lease rentals are capitalised at the total amount of rentals payable under the leasing agreement (excluding finance charges) and depreciated in accordance with group policy above. Finance charges are written off over the period of the lease in reducing amounts in relation to the written down carrying cost.

Operating lease rentals are written off as incurred.

Cashflow statements

The company is a wholly owned subsidiary of Fairey Group plc and its cash flows are included in the consolidated group cash flow statement of Fairey Group plc. Consequently, the company is exempt under FRS 1 (Revised) from publishing a cash flow statement.

2. Operating loss

Operating loss is stated after charging:

	1999 £000	1998 £000
Depreciation	817	110
Auditors' remuneration:		
Audit fees	10	10
Other services	32	-
Operating lease rentals:		
Motor vehicles	3	5

3. Loss on disposal of fixed assets

	1999 £000	1998 £000
Disposal of investment in Bicotest Limited	865	-
Disposal of investment in Bühler Montec Holdings Limited	251	-
	<hr/> 1,116	<hr/> -

4. Net interest (payable)/receivable

	1999 £000	1998 £000
Interest payable and similar charges:		
On borrowing repayable wholly within five years:		
Bank loans and overdrafts	187	487
Other loans	40	100
	<hr/> 227	<hr/> 587

Other interest receivable and similar income:

Interest receivable on deposits	(4)	(1)
	<hr/> 223	<hr/> 586

Notes (continued)

5. Tax on loss on ordinary activities

	1999	1998
	£000	£000
UK corporation tax at 30% (1998:31%)	541	(356)

6. Dividends

	1999	1998
	£000	£000
Interim dividend paid at 0p per share (1998 : 2.85p)	-	294

7. Staff numbers and costs

The average weekly number of employees (including executive directors) was as follows:

	Number of employees	
	1999	1998
Administration and management	10	9

The aggregate payroll costs of these persons were as follows:

	1999	1998
	£000	£000
Wages and salaries	740	409
Social security costs	25	39
Other pension costs	5	15
	770	463

8. Directors' remuneration

	1999	1998
	£000	£000
Emoluments	162	271
Compensation for loss of office	450	-
Total remuneration	612	271
Highest paid director: Remuneration (including compensation for loss of office)	365	134

Details of directors share options are included within the Directors Report.

Notes (continued)

9. Pension costs

Servomex Limited currently operates a defined benefit plan. The valuation of the Servomex Pension and Assurance Scheme was carried out as at 1 July 1999 using the Projected Unit Method. The valuation assumed that the participating employers' businesses would continue and that the return on investment would exceed the general rate of increases in earnings (including merit and promotional increases) by 2.5% per annum in the case of equity investments and 1% per annum in the case of gilts investments. The valuation also assumed that investment returns from equities would exceed dividend growth by 3% per annum. The Scheme has been closed to new members, save current employees having a contractual right to commence participation.

The valuation showed assets of £11.1m (market value £13.6m) and a deficit of £0.5m. The funding level was assessed to be 96%. A Minimum Funding Requirement analysis at the same date showed the market value of liabilities to be £12.8m, giving a surplus of £0.8m on this basis. The actuary recommended a lump sum company contribution of £570,000, restoring the Scheme to 100% funding, and a company contribution rate of 9.8% of pensionable pay. Active members pay an additional 5% of pensionable pay.

In order to determine the pension costs for the current accounting period, the actuary carried out a further SSAP24 review for the Servomex Pension and Assurance Scheme. The assumptions used were identical to the actuarial valuation. As a result of the SSAP24 calculations, the pension cost for the accounting period was assessed to be £24,000. There was no pension plan repayment or provision.

10. Tangible fixed assets

	Freehold Land and Buildings £'000	Plant and Equipment £'000	Total £'000
Cost or valuation:			
At 1 January 1999	2,255	150	2,405
Additions	-	35	35
Disposals	-	(185)	(185)
	<hr/>	<hr/>	<hr/>
At 31 December 1999	2,255	-	2,255
	<hr/>	<hr/>	<hr/>
Depreciation:			
At 1 January 1999	390	74	464
Charge for the year	760	57	817
Disposals	-	(131)	(131)
	<hr/>	<hr/>	<hr/>
At 31 December 1999	1,150	-	1,150
	<hr/>	<hr/>	<hr/>
Net book values:			
31 December 1999	1,105	-	1,105
	<hr/>	<hr/>	<hr/>
31 December 1998	1,865	76	1,941
	<hr/>	<hr/>	<hr/>

Notes (continued)

The depreciation charge for the year against land and buildings includes £684,000 relating to a provision for impairment

At 31 December 1999 the net book value of assets held under finance lease was NIL.

11. Investments

	1999 £000	1998 £000
Shares in group undertakings:		
At 1 January 1999	20,870	20,870
Acquisition	2,824	-
Impairment loss provision	(988)	-
Disposal	(2,824)	-
	<hr/>	<hr/>
At 31 December 1999	19,882	20,870
	<hr/>	<hr/>

The following are the group's principal subsidiary undertakings, which are incorporated in Great Britain and registered in England except where stated. They operate mainly in the countries of incorporation. All the subsidiaries are wholly owned by Servomex Limited through intermediate holding companies.

Company	Country of incorporation	Nature of business
Servomex Group Limited	England	Manufactures, sales and service
Servomex International Limited	England	Engineering, sales and service
Servomex SA	France	Sales and service
Servomex GmbH	Germany	Sales and service
Servomex BV	Netherlands	Sales and service
Servomex Asia Pacific Limited	Taiwan	Sales and service
Servomex Company Inc	United States of America	Engineering, sales and service

12. Debtors

	1999 £000	1998 £000
Amounts falling due within one year:		
Amounts owed by group undertakings	3,473	-
Trade debtors	-	1
Other debtors	241	2
Prepayments and accrued income	21	62
Corporation tax	-	138
	<hr/>	<hr/>
	3,735	203
	<hr/>	<hr/>

Notes (continued)

13. Creditors: amounts falling due within one year

	1999 £000	1998 £000
Medium term loan	-	1,000
Bank loans and overdrafts	192	4,449
Trade creditors	5	60
Other creditors including taxation and social security	1,085	13
Accruals and deferred income	977	178
ACT payable	-	74
Amounts owed to group undertakings	3,359	-
	<u>5,618</u>	<u>5,774</u>

14. Creditors: amounts falling due after more than one year

	1999 £000	1998 £000
Amounts owed to group undertakings	13,388	6,739
Medium term borrowings	-	750
	<u>13,388</u>	<u>7,489</u>

15. Commitments

	1999 £000	1998 £000
Capital expenditure		
Contracted but not provided for	-	35

Operating leases

Annual commitments under non-cancellable operating leases are as follows:

	1999		1998	
	Land and Buildings	Other	Land and Buildings	Other
Expiring:				
Within one year	-	8	-	5
Between two and five years	-	-	-	53
After five years	-	-	130	-
	<u>-</u>	<u>8</u>	<u>130</u>	<u>58</u>

Notes (continued)

16. Contingent liabilities

With other members of the Group, the company has guaranteed facilities made available to Fairey Group plc in respect of which the following amounts were outstanding at 31 December 1999;

National Westminster Bank PLC	£ 12,328,000
National Westminster Bank PLC	£ 1,543,000

17. Share capital

	Number of Shares 000's	£'000
Authorised:		
Ordinary shares of 5p each	15,000	750
	<hr/>	<hr/>
Issued and fully paid:		
1 January 1999	10,322	516
Shares issued during the year	16	1
	<hr/>	<hr/>
Balance at 31 December 1999	10,338	517
	<hr/>	<hr/>

18. Share premium and reserves

	1999 £000	1998 £000
1 January 1999	2,068	2,019
Shares issued during the year	19	49
	<hr/>	<hr/>
31 December 1999	2,087	2,068
	<hr/>	<hr/>
	1999 £000	1998 £000
Other reserves		
Non-distributable reserve	2,256	2,256
	<hr/>	<hr/>

Notes (continued)

19. Profit and loss account

	1999	1998
	£000	£000
1 January 1999	5,097	6,351
Retained loss	(3,603)	(1,254)
	<hr/>	<hr/>
31 December 1999	1,494	5,097
	<hr/>	<hr/>

20. Reconciliation of movements in equity shareholders' funds

	1999	1998
	£000	£000
Loss for the financial year	(3,603)	(960)
Dividends	-	(294)
New share capital subscribed	20	50
	<hr/>	<hr/>
Net reduction to equity shareholders' funds	(3,583)	(1,204)
Opening equity shareholders' funds	9,937	11,141
	<hr/>	<hr/>
Closing equity shareholders' funds	6,354	9,937
	<hr/>	<hr/>

21. Related parties

Under Financial Reporting Standard No. 8, the company is exempt from disclosure of transactions with other group undertakings on the grounds that it is a wholly owned subsidiary of Fairey Group plc and its results are included in the consolidated statements of that company

22. Ultimate parent company

The company's holding company is the Fairey Group plc, a company incorporated in Great Britain and registered in England.

Copies of the consolidated financial statements of Fairey Group plc are available from The Secretary, Fairey Group plc, Station Road, Egham, Surrey TW20 9NP.