

Servomex Group Limited

Directors' report and financial
statements

2170458

31 December 1999



SERVOMEX GROUP LIMITED

DIRECTORS' REPORT

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

Principal activities

The Company's principal activity during the year continued to be the design, manufacture and distribution of industrial instruments for gas analysis to its fellow subsidiary undertakings.

Business Review

With effect from April 1999 the company was split so that design, manufacture and sales of transducers was undertaken by Servomex Transducers Limited enabling Servomex Group Limited to concentrate and focus on the design and manufacture of analysers.

In June 1999 Servomex plc was acquired by Fairey Group plc who became the ultimate holding company of Servomex Group Limited. The decision was made by Fairey Group management to consolidate the Servomex UK operations within a single entity. Consequently the businesses of Servomex Transducers Limited and Servomex International Limited was transferred to Servomex Group Limited on 31 December 1999.

The turnover for the year was £8,532k (1998 £10,596k). The turnover of Servomex Transducers Limited for its 9 months of trading was £3,459k.

The loss on ordinary activities for the year was £731k (1998 profit £162k) after charging exceptional items of £768k (1998 Nil).

Directors

The directors of the Company who served during the year are as follows:

Roger Harrop *	(resigned 25 June 1999)	(Chairman)
Hans Nilsson #	(appointed 25 June 1999)	(Chairman)
Leslie James	(resigned 28 February 1999)	(Managing Director)
Lester Goodman	(appointed 3 September 1999)	(Managing Director)
Andrew Armitage	(appointed 1 April 1999)	
Spencer Cheng		
Martin Johnston *	(resigned July 1999)	
Kevin Jowett	(resigned 22 September 1999)	
Riad Kocache		
Robert Kydd	(resigned 22 September 1999)	
Melvin Platte		
Auke Rentenaar	(resigned 22 September 1999)	
Valerie Stevens		
Kenneth Thomas	(appointed 1 April 1999)	
Robert Wang		
J Graham Zacharias #	(appointed 25 June 1999)	

The directors and their families have no beneficial interests in the ordinary share capital of the Company.

The directors marked (*) were also directors of the Company's parent undertaking, Servomex Limited, and their interests in the share capital of that company are stated in the annual report and financial statements of Servomex Limited for the year ended 31 December 1999.

The directors marked (#) were also directors of the Company's ultimate holding company, Fairey Group Limited. Their interests in the share capital of that company are stated in the annual report and financial statements of Fairey Group Limited for the year ended 31 December 1999.

Directors' interests in shares and share options to acquire shares of Servomex plc, and subsequently Fairey Group plc are listed in note 5 to the financial statements.

Spencer Cheng and Robert Wang resigned as Directors in March 2000 and Melvin Platte in June 2000.

Dividends

The directors recommend that no dividend be paid (1998: Nil)

The Euro

The Company has adapted its commercial and financial processes to enable it to transact business in the Euro, after its introduction on 1 January 1999.

Policy and practice on payment of creditors

The Company policy and practice is to pay suppliers in accordance with contractually negotiated terms. Trade creditors at the year-end amounted to 49 days of average supplies for the year.

Research and Development

The Company'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 Company to devote significant funds each year towards the exploitation of new technology within the industrial instrumentation field. The amount of this expenditure is given in note 4 to the financial statements.

Year 2000

As a result of a Year 2000 programme all products and critical operating systems continued to operate through the Year 2000 transition without interruption. There were minimal additional costs as the necessary upgrades to propriety software had been effected in the normal course of business and accounted for accordingly.

By order of the Board



V Stevens
Company Secretary
24 October 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.

Report of the auditors, KPMG Audit Plc, to the members of Servomex Group Limited.

We have audited the financial statements on pages 6 to 19.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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 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

KPMG Audit Plc
Chartered Accountants
Registered Auditor

30 ^{*cl*} October 2000
1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

Profit and loss account

For the year ended December 1999

	Note	1999 £000	1998 £000	1998 £000
Turnover	2	8532	10596	
		<hr/>	<hr/>	
		8532		10596
Change in stocks of finished goods and WIP	3	90	(11)	
Other operating income	3	972	1147	
Raw materials and consumables	3	(4335)	(3824)	
Staff costs	3,5,6	(4579)	(5528)	
Depreciation and other amounts written off tangible fixed assets	3	(347)	(487)	
Other operating charges	3	(1681)	(2324)	
		<hr/>	<hr/>	
		(9880)		(11027)
Operating loss	3	(1348)		(431)
		<hr/>		<hr/>
		(1348)		(431)
Income from other fixed asset investments	7	636	600	
Interest payable and similar charges	8	(19)	(7)	
		<hr/>	<hr/>	
(Loss) / profit on ordinary activities before taxation		(731)		162
Tax on profit on ordinary activities	9	279		66
		<hr/>		<hr/>
(Loss) / profit on ordinary activities after taxation and retained (loss) / profit for the year		(452)		228
		<hr/>		<hr/>

Exceptional Costs

Operating loss includes exceptional items of £768 3

Balance sheet

As at 31 December 1999

	Note	1999 £000	1998 £000	1998 £000
Fixed assets				
Tangible assets	10	1540		1526
Investments	11	1986		1986
		<u>3526</u>		<u>3512</u>
Current assets				
Stocks	12	1438	1255	
Debtors	13	15740	7020	
Cash at bank and in hand		84	6	
		<u>17262</u>	<u>8281</u>	
Creditors: amounts falling due within one year	14	<u>(16286)</u>	<u>(7156)</u>	
Net current assets		976		1125
Total assets less current liabilities		<u>4502</u>		<u>4637</u>
Creditors: amounts falling due after more than one year	15	(137)		(231)
Provisions for liabilities and charges	16	(411)		0
Net assets		<u>3954</u>		<u>4406</u>
Capital and reserves				
Called up share capital	17	4426		4426
Profit and loss account	18	(472)		(20)
Equity Shareholders' funds		<u>3954</u>		<u>4406</u>

These financial statements were approved by the board of directors on 24 October 2000 and were signed on its behalf by:



V Stevens
Director

Statement of total recognised gains and losses

for the year ended 31 December 1999

	1999 £000	1998 £000
Total recognised gains and losses relating to the financial year	(452)	599
Prior year adjustment (as explained in note 21)	0	(371)
Total gains and losses recognised since last annual report	<u>(452)</u>	<u>228</u>

Reconciliation of movements in shareholders' funds

for the year ended 31 December 1999

	1999 £000	1998 £000
(Loss) / profit for the financial year	(452)	228
Dividends	0	0
	<u>(452)</u>	<u>228</u>
Net (reduction in) / addition to shareholders' funds	(452)	228
Opening shareholders' funds (originally £4,777,000 restated for prior year adjustment of £371,000)	4406	4178
Closing shareholders' funds	<u>3954</u>	<u>4406</u>

Notes *(forming part of the financial statements)*

Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As 100% of the company's voting rights are controlled within the group by Fairey Group plc, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Fairey Group plc, within which this company is included, can be obtained from the address given in note 22.

Goodwill and negative goodwill

Purchased goodwill (both positive and negative) arising on business combination in respect of acquisitions before 1 January 1998, when FRS 10 *Goodwill and intangible assets* was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	50 years
Leasehold land		
and buildings	-	life of lease
Plant and machinery	-	3 to 16 years

No depreciation is provided on freehold land.

Leases

Assets acquired under finance leases are capitalised and the outstanding future obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Notes (accounting policies continued)

Post-retirement benefits

The company participates in two pension schemes run by group companies, one a defined benefit scheme and the other a defined contribution scheme. Details of these schemes are given in the accounts of Fairey Group Limited (see note 22).

The assets of the defined contribution scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the period. The assets of the defined benefit scheme are held separately from those of the company.

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

Research and development expenditure

Expenditure on research and development is written off against profits in the year in which it is incurred

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, a first in first out basis is used. For work in progress and finished goods the cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

2. Analysis of turnover

<i>By activity</i>	1999 £000	1998 £000
Analysers	8532	8162
Transducers	0	2434
Total sales	8532	10596

As described in the directors' report a section of the business traded as Servomex Transducers Limited for nine months of the year. During that period, Servomex Transducers Limited had a turnover of £3,459.

The directors consider that it would be seriously prejudicial to the interests of the company to disclose turnover by geographical region.

Notes (continued)

3. Analysis of exceptional costs

	Ordinary Costs £000	1999 Exceptional Costs £000	Total Costs £000	Ordinary Costs £000	1998 Exceptional Costs £000	Total Costs £000
Turnover	8532		8532	10596		10596
Change in stocks of finished goods and work in progress	90		90	(11)		(11)
Other operating income	972		972	1147		1147
Raw materials and consumables	(4335)		(4335)	(3824)		(3824)
Staff costs	(4169)	(410)	(4579)	(5528)		(5528)
Depreciation and other amounts written off tangible fixed assets	(352)		(347)	(487)		(487)
Other operating charge	(1318)	(358)	(1681)	(2324)		(2324)
Operating loss	(580)	(768)	(1348)	(431)		(431)

4. Loss on ordinary activities before taxation

	1999 £000	1998 £000
<i>Loss on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Audit	49	48
Other services – fees paid to the auditor and its associates	4	0
Exchange losses	5	0
Hire of plant and machinery - rentals payable under operating leases	48	61
Hire of other assets - operating leases	204	204
Research and development expenditure	676	1244
<i>After crediting</i>		
Exchange gains	(20)	0

Notes (continued)

5. Remuneration of directors

	1999 £000	1998 £000
Directors' emoluments	387	493
Compensation for loss of office	387 96	493 0
	<u>483</u>	<u>493</u>

Melvin Platte is employed in the USA by Servomex Company Inc and receives no remuneration from the company. Spencer Cheng is employed in Taiwan by Servomex Asia Pacific Ltd and receives no remuneration from the company. Remuneration of other UK based directors not employed by the company in respect of their services to Servomex Group Ltd is shown in the financial statements of Servomex Ltd together with details of employer pension contributions.

The highest paid director was Robert Wang. He is a member of a defined benefit scheme, under which his accrued pension at the year-end was £1,845(1998:£6,334), and his accrued lump sum was £4,150(1998:£1,865)

Following the resignations of Auke Rentenaar, Kevin Jowett and Robert Kydd as directors of the company on 22nd September 1999 it was agreed that they would continue to receive basic salary and certain benefits until the earlier of 21st Sep 00 for Auke Rentenaar and Kevin Jowett, and 21st Mar 01 for Robert Kydd, or until the date they commence comparable permanent full-time employment.

	Number of directors	
	1999	1998
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	9	7
The number of directors who exercised share options was	0	1

The compensation for loss of office includes the estimated money value of P11D benefits at £6k

Notes (continued)

Shares and Share Options

The interests of those directors who, at year-end, were also directors of Fairey Group plc are disclosed in the financial statements of Fairey Group plc. The interests of the other directors in the shares and options to acquire shares of Fairey Group plc are as follows:

		Servomex Plc Share Options			Fairey Group PLC Share Options						
		At 1.1.99 or appointment	Lapsed	At 26.8.99 Date of acq.	Conversion price	At 1.1.99 or appointment	Granted	At 31.12.99 or resignation	Exercise price	Date exercisable	Expiry Date
L James		60,000	60,000								
R Kydd		15,000		15,000	2.27		6,607	6,607	677.64p	Dec-00	Dec07
K Jowett		15,000		15,000	2.27		6,607	6,607	395.01p	Sep-01	Sep08
M Platte		15,000		15,000	2.27		6,607	6,607	677.64p	Dec-00	Dec07
A Armitage		8,400		8,400	2.27		3,700	3,700	796.82p	May-01	May06
S Cheng		8,400		8,400	2.27		3,700	3,700	395.10p	Sep-01	Sep08
		6,600		6,600	2.27		2,907	2,907	677.64p	Dec-00	Dec07
V Stevens	917	15,000		15,000	2.27		6,607	6,607	395.01p	Sep01	Sep08
K Thomas	81	8,400		8,400	2.27		3,700	3,700	533.48p	Apr-99	Apr04
R Wang		15,000		15,000	2.27		6,607	6,607	822.93p	Apr-01	Apr08
		8,275		8,275	2.27		3,645	3,645	822.93p	Apr-01	Apr08
		6,725		6,725	2.27		2,962	2,962	624.29p	Apr-98	Apr03
L Goodman	50,500					10,000		10,000	389.00p	Mar-98	Mar05
						7,000		7,000	635.00p	Oct-00	Oct07
						7,000		7,000	5.00p	Mar-01	Oct04
						10,000		10,000	245.00p	Sep-01	Sep08
						10,000		10,000	5.00p	Mar-02	Sep05
R Kocache *	106,340	15,000		15,000	2.27		6,607	6,607	677.64p	Dec-00	Dec07

* Includes share-holdings belonging to wife and children's trust

Notes (continued)

6. Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1999	1998
Production & Distribution	120	132
Other	97	88
	<u>217</u>	<u>220</u>

The aggregate payroll costs of these persons were as follows

	1999 £000	1998 £000
Wages and salaries	3697	4744
Social security costs	379	363
Other pension costs	93	50
Exceptional pension costs (1998: prior year adjustment)	410	371
	<u>4579</u>	<u>5528</u>

The exceptional pension costs arise from additional funding made by the company following an actuarial valuation during 1999. See also note 21.

7. Income from other fixed asset investments

	1999 £000	1998 £000
Dividend received from Servomex International Limited	636	600
	<u>636</u>	<u>600</u>

8. Interest payable and similar charges

	1999 £000	1998 £000
Finance charges payable in respect of finance leases and hire purchase contracts	19	7
	<u>19</u>	<u>7</u>

Notes (continued)

9. Taxation

	1999 £000	1998 £000
UK corporation tax credit at 30.25 % (1998 : 31 %)	279	66
	<u>279</u>	<u>66</u>

10. Tangible fixed assets

	Land and Buildings Freehold £000	Land and Buildings Leasehold £000	Plant and Machinery £000	Total £000
Cost				
At beginning of year	88	702	4180	4970
Additions			284	284
Disposals			(113)	(113)
Transfers from Group Companies		112	1323	1435
Transfers to Group Companies		(112)	(776)	(888)
At end of year	<u>88</u>	<u>702</u>	<u>4898</u>	<u>5141</u>
Depreciation				
At beginning of year	(20)	(279)	(3145)	(3444)
Charge for year	(5)	(27)	(320)	(352)
Disposals			89	89
Transfers from Group Companies		(45)	(944)	(992)
Transfers to Group Companies		42	506	548
At end of year	<u>(25)</u>	<u>(309)</u>	<u>(3814)</u>	<u>(4151)</u>
Net book value				
At 31 Dec 1999	<u>63</u>	<u>393</u>	<u>1084</u>	<u>1540</u>
At 31 Dec 1998	<u>68</u>	<u>423</u>	<u>1035</u>	<u>1526</u>

Notes (continued)

11. Fixed asset investments

Investment in Subsidiary Undertaking

Shares in
Group
Undertakings
£000

Cost and Net Book Value

At 1 January 1999 and 31 Dec 1999

1986

The companies in which the company's interest at the year-end is more than 20% are as follows:

	Country of incorporation	Principal Activity	Class and percentage of shares held
Subsidiary undertakings			
Servomex International Limited	England	Engineering, Sales & service	Ordinary 100%

12. Stocks

	1999 £000	1998 £000
Raw materials and consumables	680	674
Work in progress	597	581
Finished goods and goods for resale	161	0
	<u>1438</u>	<u>1255</u>

13. Debtors

	1999 £000	1998 £000
Trade debtors	1166	109
Amounts owed by group undertakings	14115	6224
Other debtors	428	0
Prepayments and accrued income	31	687
	<u>15740</u>	<u>7020</u>

Debtors include no prepayments and accrued income due after more than one year. (1998 :£367)

Notes (continued)

14. Creditors: amounts falling due within one year

	1999 £000	1998 £000
Obligations under finance leases and hire purchase contracts	44	0
Trade creditors	1117	1085
Amounts owed to group undertakings	14637	5334
Taxation and social security	175	48
Other creditors	103	479
Accruals and deferred income	210	210
	<u>16286</u>	<u>7156</u>

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

	1999 £000	1998 £000
The maturity of obligations under finance leases and hire purchase contracts due in less than 5 years	137	231
	<u>137</u>	<u>231</u>

16. Provisions for liabilities and charges

	Other provisions £000	Total £000
At beginning of year	0	0
Charge for the year	411	411
	<u>411</u>	<u>411</u>
At end of year	411	411

Breakdown of Other Provisions: Product Warranty £188, pre-paid contract £93, other overheads £130.

Notes (continued)

17 Called up share capital

	1999 £000	1998 £000
<i>Authorised</i>		
Equity: Ordinary shares of £ 1 each	5000	5000
	<hr/>	<hr/>
	5000	5000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Equity: Ordinary shares of £ 1 each	4426	4426
	<hr/>	<hr/>
	4426	4426
	<hr/>	<hr/>

18 Reserves

	Profit and loss account £000
At beginning of year (<i>originally £351 restated for prior year adjustment</i>)	(20)
Retained profit for the year	(452)
	<hr/>
At end of year	(472)
	<hr/>

19 Contingent liabilities

The company has outstanding bank guarantees at 31 December 1999 to the value of £163,342.

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: Senior Loan Notes \$100,000,000

20 Commitments

- a) Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	1999 £000	1998 £000
Contracted	70	40
	<hr/>	<hr/>

b) Annual commitments on operating leases are:

	1999		1998	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year				5
In the second to fifth years inclusive		136		53
Over five years	130		130	
	<u>130</u>	<u>136</u>	<u>130</u>	<u>58</u>

21 Pension scheme

The company participates in a defined benefit pension scheme and a defined contribution scheme, operated by Fairey Group plc, which provides retirement and death benefits for the majority of employees and directors. Details of the scheme are disclosed in the financial statements of Fairey Group plc.

Following an actuarial valuation in 1999 a shortfall in the pension fund was identified. A deficit of £410,000 has been charged as an exceptional operating cost in the year.

A pension prepayment of £371,000 has been written off as a prior year adjustment on the grounds of a fundamental error.

22 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Fairey Group plc incorporated in the UK.

The largest and smallest group in which the results of the company are consolidated is that headed by Fairey Group plc. The directors consider that Fairey Group plc is the ultimate parent company. Copies of the accounts of that company can be obtained from Fairey Group plc, Station Road, Egham, Surrey, TW20 9NP.