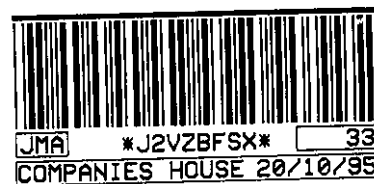


AERO & INDUSTRIAL TECHNOLOGY LTD.  
(Registered Number 2233451)

DIRECTORS' REPORT AND ACCOUNTS FOR  
THE YEAR ENDED 31 DECEMBER, 1994



# AERO & INDUSTRIAL TECHNOLOGY LTD.

## REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited accounts for the year to 31 December, 1994.

### ACTIVITIES

The principal activity of the company continues to be the design, development, testing and manufacture of combustion equipment for use in aero and industrial gas turbines.

### REVIEW OF THE BUSINESS

The company achieved an increase in turnover and a turnaround to profit during the year despite difficult trading conditions.

### RESULTS

	£
Profit on ordinary activities for the year before taxation	28,425
Taxation	474,472
Retained profit in year	502,897
Retained loss brought forward	(1,996,074)
Retained loss carried forward	(1,493,177)

### DIRECTORS

The directors who served during the year were:-

Mr P J K Haslehurst	(Chairman)
Mr B W Farncombe	(Managing Director)
Mr J J Hobbs	
Mrs C Garrett	(Appointed 17 January 1994)
Mr P Atherton	(Appointed 17 January 1994)
Mr E R Thorley	(Appointed 17 January 1994)
Mr M K Wood	(Appointed 17 January 1994)
	(Resigned 2 February 1995)

AERO & INDUSTRIAL TECHNOLOGY LTD.

REPORT OF THE DIRECTORS  
(contd.)

DIRECTORS' INTERESTS

Directors' interests in the share capital of the ultimate holding company, EIS Group PLC, as recorded in the register of directors' interests were:-

	<u>Interest in 25p ordinary shares</u>		<u>Options to acquire 25p ordinary shares</u>	
	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1993</u>
B Farncombe	-	-	15,000	-
C Garrett	-	-	4,423	-
P Atherton	-	-	1,506	-
E R Thorley	-	-	425	-

The interests of Mr P J K Haslehurst and Mr J J Hobbs in the share capital of the ultimate holding company are shown in the directors' report of that company. The directors' interests were beneficially owned.

With the exception of the interests disclosed above, no director had any interest in the shares or debentures of any group company at either 31st December 1994 or 31st December 1993.

FIXED ASSETS

The changes in fixed assets during the year are summarised in note 8 to the accounts.

RESEARCH AND DEVELOPMENT

The company is committed to a policy of investment in the future both by acquisition of new capital equipment and by expenditure on product development and improvement.

EMPLOYMENT OF DISABLED PERSONS

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of employees becoming disabled, every effort is made to ensure that their employment with the company continues and that any appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be the same as that of a person who is fortunate enough not to suffer from a disability.

AERO & INDUSTRIAL TECHNOLOGY LTD.

REPORT OF THE DIRECTORS  
(contd.)

EMPLOYEE INVOLVEMENT

Although each company in the EIS Group operates autonomously, every employee receives a copy of the annual report and accounts and the interim statement. The company also holds regular meetings with employee representatives to discuss matters affecting employees. The matters discussed include the terms and conditions of employment, health and safety, and working methods.

A share related Save As You Earn Option Scheme is provided whereby employees may save up to £250 per month over a five year term and then exercise an option over the appropriate number of ordinary shares in the group. The number of shares is calculated when an employee enters the SAYE contract.

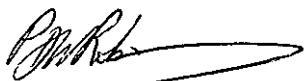
POLITICAL AND CHARITABLE CONTRIBUTIONS

No charitable or political donations were made during the year.

AUDITORS

A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Secretary

21st April 1995

AERO & INDUSTRIAL TECHNOLOGY LTD.

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 of the company for the year. In preparing those financial statements, the directors are required to:

- (i) select suitable accounting policies and then apply them consistently;
- (ii) make judgments and estimates that are reasonable and prudent;
- (iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (iv) 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 a general responsibility for taking such steps as are open to them to safeguard the assets of the company to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF AERO & INDUSTRIAL TECHNOLOGY LTD.

We have audited the financial statements on pages 5 to 15.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described above, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1994 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*hmg*  
KPMG

Chartered Accountants  
Registered Auditors

21st April, 1995

AERO & INDUSTRIAL TECHNOLOGY LTD.

PROFIT AND LOSS ACCOUNT FOR  
THE YEAR ENDED 31 DECEMBER 1994

	<u>Notes</u>	<u>1994</u> £	9 months to 31 December <u>1993</u> £
TURNOVER	2	8,748,228	7,219,608
Cost of sales		(7,983,725)	(8,805,013)
GROSS PROFIT/(LOSS)		764,503	(1,585,405)
Distribution & Selling costs		(356,513)	(223,504)
Administration costs		(372,768)	(61,180)
OPERATING PROFIT/(LOSS)	3	35,222	(1,870,089)
Interest net	6	(6,797)	(125,985)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		28,425	(1,996,074)
Taxation on profit/(loss) on ordinary activities	7	474,472	—
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		502,897	(1,996,074)
RETAINED PROFIT/(LOSS) FOR THE YEAR	16	502,897	(1,996,074)

There have been no acquisitions or discontinued operations during the period

The notes on pages 8 to 15 form part of these accounts.

# AERO & INDUSTRIAL TECHNOLOGY LTD.

## NOTE OF HISTORICAL COST PROFITS AND LOSSES

		9 months to 31 December
	<u>1994</u>	<u>1993</u>
	£	£
Reported profit on ordinary activities before taxation	28,425	(1,996,074)
Difference between the historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued asset	14,980	3,745
Historical cost profit on ordinary activities before taxation	43,405	(1,992,329)
Historical cost profit for the year, retained after taxation and dividends	517,877	(1,992,329)

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains and losses other than the profit or loss for the period.

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

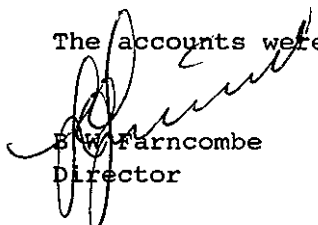
		9 months to 31 December
	<u>1994</u>	<u>1993</u>
	£	£
Profit for the financial year	502,897	(1,996,074)
Dividends	—	—
Share issues in year	502,897 1,400,000	(1,996,074) —
Opening shareholders' funds	1,902,897 (1,896,074)	(1,996,074) 100,000
Closing shareholders' funds	6,823	(1,896,074)

AERO & INDUSTRIAL TECHNOLOGY LTD.

BALANCE SHEET AT 31 DECEMBER, 1994

	<u>Note</u>	<u>1994</u> £	<u>1993</u> £
FIXED ASSETS			
Tangible assets	8	2,117,462	2,094,959
CURRENT ASSETS			
Stocks	10	1,847,986	1,417,986
Debtors	11	3,720,033	4,622,129
Cash at bank and in hand		26,091	27,447
		<hr/>	<hr/>
		5,594,110	6,067,562
CREDITORS: amounts falling due within one year	12	(4,176,801)	(4,239,457)
		<hr/>	<hr/>
NET CURRENT ASSETS		1,417,309	1,828,105
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,534,771	3,923,064
CREDITORS: amounts falling due after one year	13	(3,839,627)	(5,819,138)
PROVISIONS FOR LIABILITIES AND CHARGES	14	311,679	—
		<hr/>	<hr/>
		6,823	(1,896,074)
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	15	1,500,000	100,000
Profit and loss account	16	(1,493,177)	(1,996,074)
		<hr/>	<hr/>
		6,823	(1,896,074)
		<hr/>	<hr/>

The accounts were approved by the board of directors on 21st April, 1995.

  
E.W. Farncombe  
Director

The notes on pages 8 to 15 form part of these accounts.



# AERO & INDUSTRIAL TECHNOLOGY LTD.

## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies which are in accordance with applicable accounting standards have been applied consistently in dealing with items which are considered material in relation to the company's accounts.

#### a) Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

#### b) Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Fixtures & Fittings	10% to 20%
Plant and machinery	10% to 25%
Buildings	2% p.a.
Leasehold land and building	2% p.a.

#### c) Stocks and work-in-progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes works overheads where applicable.

#### d) Research and development

Research and development expenditure is written off against profit in the year in which the expenditure arises.

#### e) Deferred taxation

Deferred taxation is provided at the future rate of taxation using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future.

#### f) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date or where there are matching forward contracts in respect of trading transactions, the rates of exchange specified in the contracts are used. All realised differences are taken to the profit and loss account and unrealised differences on forward contracts are taken to the balance sheet.

AERO & INDUSTRIAL TECHNOLOGY LTD.

NOTES TO THE ACCOUNTS  
(contd.)

g) Grants

Government and other similar grants are recognised in the profit and loss account so as to match them with the expenditure to which they are intended to contribute.

h) Cash flow statement

The company has not produced a Cash Flow Statement as it is a wholly owned subsidiary of EIS Group P.L.C., whose accounts include a consolidated Cash Flow Statement.

i) Leased Assets

Assets acquired under finance leases and hire purchase contracts are included in tangible assets and the outstanding future obligations are shown in creditors. Annual payments under operating leases are charged to profit in the year.

2. TURNOVER

Turnover represents invoiced sales during the year exclusive of value added tax.

All of the company's turnover and profit on ordinary activities before taxation relate to the company's principal activity.

The geographic analysis of turnover is as follows:

	<u>1994</u>	9 months to 31 December <u>1993</u>
	£	£
United Kingdom	6,804,615	5,662,921
North, South & Central America	115,673	128,520
Europe	1,628,407	1,428,167
Asia, Far East & Australia	199,533	-
	<hr/> 8,748,228 <hr/>	<hr/> 7,219,608 <hr/>

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following items:

	<u>1994</u>	9 months to 31 December <u>1993</u>
	£	£
Auditors' remuneration	13,000	14,400
Depreciation	424,524	449,247
Operating lease charges - Plant	67,373	115,493
	<hr/>	<hr/>

AERO & INDUSTRIAL TECHNOLOGY LTD.

NOTES TO THE ACCOUNTS  
(contd.)

4. DIRECTORS' EMOLUMENTS

	<u>1994</u>	<u>9 months to 31 December 1993</u>
	£	£
For services as directors	181,390	37,505

The amounts (excluding pension contributions) paid to the chairman and highest paid director were as follows:

	<u>1994</u>	<u>1993</u>
	£	£
Chairman	NIL	NIL
Highest paid director	52,886	38,855

The emoluments of the directors fell within the following bands:

	<u>1994</u>	<u>1993</u>
	No.	No.
£Nil - £5,000	3	4
£35,001 - £40,000	2	1
£50,001 - £55,000	2	—

5. STAFF COSTS

The average weekly number of employees, including directors, during the year was as follows:

	<u>1994</u>	<u>1993</u>
	No.	No.
Sales, administration and distribution	48	49
Manufacturing	165	205
	213	254

The aggregate payroll costs of these persons were as follows:

	<u>1994</u>	<u>1993</u>
	£	£
Wages and salaries	3,560,920	2,792,975
Social security costs	279,584	237,886
Other pension costs	279,132	232,719
	4,119,636	3,263,580

**AERO & INDUSTRIAL TECHNOLOGY LTD.**

**NOTES TO THE ACCOUNTS**

(contd.)

**6. INTEREST**

	<u>1994</u>	9 months to 31 December <u>1993</u>
	£	£
Interest Receivable from parent company	198,456	—
Interest Payable:		
Bank loans and overdrafts	(198,398)	—
Hire purchase loans	(6,855)	(125,985)
	<hr/>	<hr/>
Interest (net)	(6,797)	(125,985)
	<hr/>	<hr/>

**7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES**

	<u>1994</u>	<u>1993</u>
	£	£
Based on the profit for the year:		
Corporation tax at 33% (1993:33%)	—	—
Deferred taxation charge	20,675	—
	<hr/>	<hr/>
	20,675	—
Taxation credit relating to prior years:		
Corporation tax	(162,793)	—
Deferred taxation	(332,354)	—
	<hr/>	<hr/>
	(474,472)	—
	<hr/>	<hr/>

**8. TANGIBLE FIXED ASSETS**

	<u>Land and buildings</u>	<u>Plant and machinery</u>	<u>Total</u>
	£	£	£
<b>COST OR VALUATION</b>			
At 1 January, 1994	749,000	2,665,196	3,414,196
Additions	—	447,611	447,611
Disposals	—	(11,075)	(11,075)
	<hr/>	<hr/>	<hr/>
At 31 December, 1994	749,000	3,101,732	3,850,732
	<hr/>	<hr/>	<hr/>
<b>DEPRECIATION</b>			
At 1 January, 1994	3,745	1,315,492	1,319,237
Charge for the year	14,980	409,544	424,524
Disposals	—	(10,491)	(10,491)
	<hr/>	<hr/>	<hr/>
At 31 December, 1994	18,725	1,714,545	1,733,270
	<hr/>	<hr/>	<hr/>
<b>NET BOOK VALUE</b>			
At 31 December, 1994	730,275	1,387,187	2,117,462
	<hr/>	<hr/>	<hr/>
At 31 December, 1993	745,255	1,349,704	2,094,959
	<hr/>	<hr/>	<hr/>

AERO & INDUSTRIAL TECHNOLOGY LTD.

NOTES TO THE ACCOUNTS  
(contd.)

8. TANGIBLE FIXED ASSETS (Contd.)

Included in Freehold land and buildings is £749,000 (1993 £749,000) of depreciable assets. Included in Plant & machinery are assets with a net book value of £78,315 (1993 £89,336) held under finance leases.

9. COMMITMENTS

Capital commitments at 31 December 1994, for which no provision has been made in these accounts, were as follows:-

	<u>1994</u> £	<u>1993</u> £
Contracted	51,825	—
Authorised but not contracted	356,323	—
	<hr/> 408,148 <hr/>	<hr/> — <hr/>

10. STOCKS

	<u>1994</u> £	<u>1993</u> £
Work-in-progress	1,847,986	1,417,986
	<hr/>	<hr/>

The replacement value of stock and work in progress is not considered to be materially different from the book value.

11. DEBTORS

	<u>1994</u> £	<u>1993</u> £
Amounts falling due within one year:		
Trade debtors	2,253,114	3,572,937
Amounts owed by group companies	1,368,893	894,578
Other debtors	48,661	57,482
Prepayments and accrued income	49,365	97,132
	<hr/> 3,720,033 <hr/>	<hr/> 4,622,129 <hr/>

**AERO & INDUSTRIAL TECHNOLOGY LTD.**

**NOTES TO THE ACCOUNTS**  
(contd.)

**12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<u>1994</u>	<u>1993</u>
	£	£
Bank loans and overdrafts	600,000	600,000
Hire purchase loans	24,937	22,248
Trade creditors	1,936,235	1,954,257
Other taxation and social security	170,912	68,831
Amounts owed to group undertakings	105,348	59,915
Accruals and deferred income	1,339,369	1,534,206
	<hr/>	<hr/>
	4,176,801	4,239,457
	<hr/>	<hr/>

**13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<u>1994</u>	<u>1993</u>
	£	£
Bank loans between 1 and 2 years	1,200,000	1,200,000
between 2 and 5 years	600,000	1,200,000
Hire purchase loans:		
repayable between 1 and 2 years	25,487	24,937
repayable between 2 and 5 years	—	25,486
Amounts owed to group companies	2,014,140	3,368,715
	<hr/>	<hr/>
	3,839,627	5,819,138
	<hr/>	<hr/>

The bank loans are secured by a fixed and floating charge over the assets of the company. The hire purchase loans are secured on the assets to which they relate.

**14. PROVISION FOR LIABILITIES AND CHARGES**

	<u>Amount Provided</u>	
	<u>1994</u>	<u>1993</u>
	£	£
Deferred taxation:		
Accelerated capital allowances	130,275	—
Other timing differences	181,404	—
	<hr/>	<hr/>
	311,679	—
	<hr/>	<hr/>
<u>Movement in year</u>		
Balance at 1 January 1994		—
Amount charged to profit and loss account for the year		<hr/>
		311,679
		<hr/>
Balance at 31 December 1994		311,679
		<hr/>

AERO & INDUSTRIAL TECHNOLOGY LTD.

NOTES TO THE ACCOUNTS  
(contd.)

15. SHARE CAPITAL

	<u>1994</u>		<u>and 1993</u>	
	<u>Authorised</u>		<u>Allotted, called up</u>	
	No.	£	No.	£
<u>Ordinary shares of £1 each</u>				
As at 1 January 1994	100,000	100,000	100,000	100,000
Issued during the year	1,400,000	1,400,000	1,400,000	1,400,000
As at 31 December 1994	1,500,000	1,500,000	1,500,000	1,500,000

The authorised and paid up share capital was increased to £1,500,000 on 28 February 1994 by the existing shareholder subscribing for the entire additional share capital, to strengthen the capital base of the company.

16. RESERVES

	<u>Profit and loss account</u> £
At 1 January, 1994	(1,996,074)
Retained profit for year	502,897
At 31 December, 1994	(1,493,177)

17. CONTINGENT LIABILITIES

	<u>1994</u> £	<u>1993</u> £
Guarantees in respect of indebtedness of third parties	5,122,000	5,072,000

18. OPERATING LEASES

The commitments which fall to be paid in the following year under non-cancellable operating leases are:-

	<u>1994</u> Land and <u>Buildings</u> £	<u>1993</u> Land and <u>Buildings</u> £	<u>1994</u> <u>Other</u> £	<u>1993</u> <u>Other</u> £
Operating leases which expire:				
Within one year	—	—	13,231	31,050
Between 1 year and 5 years	36,000	—	14,459	37,950
Over 5 years	66,250	—	—	—
	102,250	—	27,690	69,000

AERO & INDUSTRIAL TECHNOLOGY LTD.

NOTES TO THE ACCOUNTS  
(contd.)

19. PENSIONS

The Company operates a pension scheme providing benefits on final pensionable pay. The assets of the scheme are held separately from those of the company being invested with an insurance company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 5th April 1993 and showed that the market value of the scheme's assets were £17.0m and that the actuarial value of those assets represented 152% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The valuation assumed that the investment return would be 2.5% higher than the rate of annual salary increase and that present and future pensions would increase at a rate of 3% per annum.

The pension charge for the period was £279,132 (1993: £232,719) and has been determined over the average remaining service lives of the employees. There may be some increase in pension costs in future years as a consequence of the Social Security Act 1990.

20. ULTIMATE HOLDING COMPANY

The ultimate holding company is EIS Group P.L.C., a company incorporated in England. Copies of the group accounts are available from:

The Registrar of Companies  
Companies House  
Crown Way  
Cardiff  
CF4 3HZ