

Registered no: 2233451

Aero & Industrial Technology Limited
Annual report
for the year ended 31 December 1998



Aero & Industrial Technology Limited

Annual report for the year ended 31 December 1998

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Directors and advisers

Directors

P Atherton

E R Thorley

M McCay

Bankers

Barclays Bank PLC

Pall Mall Corporate Banking Group

50 Pall Mall

LONDON

SW1 Y5AX

Secretary and registered office

M McCay

PO Box 46

Wood Top

Burnley

BB11 4BX

Solicitors

Southern Coopers & Partners

Bank Parade

Burnley

Lancashire

Registered Auditors

PricewaterhouseCoopers

Abacus Court

6 Minshull Street

Manchester

M1 3ED

Directors' report for the year ended 31 December 1998

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

Principal 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 business and future developments

The company had a satisfactory year. During the year the company's ultimate holding company, EIS Group PLC, was acquired by TI Group PLC.

Dividends and transfers to reserves

The loss for the year after taxation was £49,620 (1997: profit £950,022).

The directors have recommended and paid a dividend of £200,000.

Directors

The directors of the company at 31 December 1998, all of whom have been directors for the whole of the year ended on that date, except for those detailed below, are listed on page 1.

P J K Haslehurst	(resigned 31 December 1998)
J Hobbs	(resigned 23 July 1998)
M McCay	(appointed 27 January 1998)

Directors' interests in shares of the company

No director had any interest in the shares of the company as at 31 December 1998. The directors' interests in the shares of the ultimate holding company, TI Group PLC, are disclosed in that company's financial statements.

Directors' responsibility

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Year 2000

The Year 2000 issue, which stems from computer programs written using two digits rather than four to define the applicable year, could result in processing faults on the change of century, producing a wide range of consequences.

The company is continuing to review its computer systems and computer-controlled processes. Plans have been established to identify and address issues which may arise. These involve either replacement or repair of the affected systems, in close collaboration with system suppliers.

Costs incurred to date have been charged to the profit and loss account in accordance with UITF20. The directors consider that the total cost will not be significant compared with the activities of the company.

Payment policy

It is company's payment policy to negotiate terms with its suppliers in all sectors to ensure that they know the terms on which payment will take place when the business is agreed. It is our policy to abide by these terms. The number of days' purchases outstanding at the year end was 76.

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.

Employee involvement

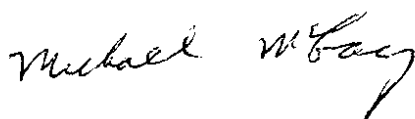
Although each company in the TI Group operates autonomously, every employee has access to a copy of the annual report and financial statements and the interim statement. The company also holds regular meetings with employee representatives to discuss matters affecting employees. The matters discussed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

A share related Save As You Earn Option Scheme (SAYE) is provided whereby employees may save up to £250 per month over a three/five/seven 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.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the annual general meeting.

By order of the board



M McCay
Company secretary

9 August 1999

Report of the auditors to the members of Aero & Industrial Technology Limited

We have audited the financial statements on pages 6 to 16, which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 3, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board 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 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.

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 at 31 December 1998 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Manchester

23 August 1999.

Profit and loss account for the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Turnover - continuing	2	16,317,315	15,491,989
Cost of sales		(14,229,416)	(13,484,101)
Gross profit		2,087,899	2,007,888
Distribution cost		(484,834)	(552,769)
Administrative expenses		(807,750)	(442,253)
Operating profit		795,315	1,012,866
Interest payable	5	(7,963)	(11,041)
Profit on ordinary activities before taxation	6	787,352	1,001,825
Taxation on profit on ordinary activities	7	(836,972)	(51,803)
(Loss)/profit on ordinary activities after taxation		(49,620)	950,022
Dividends paid	8	(200,000)	(500,000)
Retained (loss)/profit for the year	16	(249,620)	450,022

The results relate to continuing activities.

The company has no recognised gains or losses other than those included in the profit above and therefore no separate statement of total recognised gains and losses is required.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

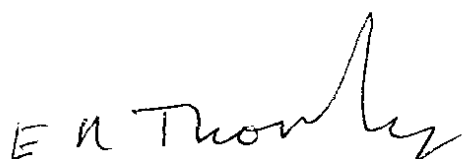
Note of historical cost profits and losses**Reconciliation of movements in shareholders' funds**

	1998 £	1997 £
(Loss)/profit for the financial year	(49,620)	950,022
Dividends	(200,000)	(500,000)
Opening shareholders' funds	1,954,827	1,504,805
Closing shareholders' funds	<u>1,705,207</u>	<u>1,954,827</u>

Balance sheet at 31 December 1998

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	9	2,787,277	2,813,989
Current assets			
Stocks	10	2,756,466	3,679,840
Debtors	11	5,049,916	5,278,579
Cash at bank and in hand		95,762	717,347
		<u>7,902,144</u>	<u>9,675,766</u>
Creditors: amounts falling due within one year	12	(4,881,474)	(6,104,285)
Net current assets		<u>3,020,670</u>	<u>3,571,481</u>
Total assets less current liabilities		<u>5,807,947</u>	<u>6,385,470</u>
Creditors: amounts falling due after more than one year	13	(4,053,740)	(4,430,643)
Provisions for liabilities and charges	14	(49,000)	-
Net assets		<u><u>1,705,207</u></u>	<u><u>1,954,827</u></u>
Capital and reserves			
Called up share capital	15	1,500,000	1,500,000
Profit and loss account	16	205,207	454,827
Equity shareholders' funds		<u><u>1,705,207</u></u>	<u><u>1,954,827</u></u>

The financial statements on pages 6 to 16 were approved by the board of directors on 9 August 1999 and were signed on its behalf by:



E R Thorley
Director

Notes to the financial statements for the year ended 31 December 1998

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies which have been applied consistently is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Tangible fixed assets

Depreciation is provided for on fixed assets in order to write them down, by equal instalments, to their estimated residual values over their estimated economic lives at the following rates:

	%
Plant and equipment	10 - 25
Fixtures and fittings	10 - 20
Leasehold land and buildings	2

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In the case of work in progress and finished goods, cost consists of direct materials, labour and, where appropriate, attributable production overheads.

Research and development

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

Turnover

Turnover represents the value of goods and services invoiced to customers during the year, net of all credits and allowances.

Deferred taxation

Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise.

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.

Hire purchase and leasing

Assets acquired under hire purchase contracts and finance leases are included in fixed assets and are depreciated over their useful lives. The interest element of the agreements is charged to the profit and loss account over the period of those agreements and represents a constant proportion of the balance of capital repayments outstanding.

2 Turnover

The company's turnover derives from sales originating in the United Kingdom made to the following geographical areas:

	1998 £	1997 £
United Kingdom	13,081,301	11,476,511
Europe	2,696,380	3,107,231
Asia, Far East and Australia	535,215	908,247
North, South and Central America	4,419	-
	<u>16,317,315</u>	<u>15,491,989</u>

3 Directors' emoluments

	1998 £	1997 £
Aggregate emoluments	<u>285,643</u>	<u>156,393</u>

Retirement benefits are accruing to 3 directors (1997: 2) under a defined benefit scheme.

Highest paid director

	1998 £	1997 £
Emoluments	88,692	65,213
Defined benefit pension scheme:		
Accrued pension at end of year	<u>12,000</u>	<u>10,000</u>

4 Employee information

The average weekly number of persons (including executive directors) employed during the year was:

	1998 Number	1997 Number
Sales, administration and distribution	60	59
Manufacture	239	227
	<u>299</u>	<u>286</u>

	£	£
Staff costs (for the above persons)		
Wages and salaries	5,932,197	5,494,438
Social security costs	447,589	424,177
Other pension costs (see note 19)	199,376	168,675
	<u>6,579,162</u>	<u>6,087,290</u>

5 Interest payable/(receivable)

	1998 £	1997 £
Bank interest receivable	(108,246)	(133,449)
Bank interest payable	107,586	132,868
On hire purchase agreements	8,623	11,622
	<u>7,963</u>	<u>11,041</u>

6 Profit on ordinary activities before taxation

	1998 £	1997 £
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation on:		
Tangible owned fixed assets	530,330	407,714
Tangible leased fixed assets	17,260	28,282
Auditors' remuneration	23,000	16,336
Operating leases:		
Charges - buildings	123,928	143,865
Plant	63,751	62,795
	<u></u>	<u></u>

7 Taxation on profit on ordinary activities

	1998 £	1997 £
United Kingdom corporation tax at 31%:		
Current	(307,000)	(72,000)
Prior	38,674	62,061
Deferred	(49,000)	(8,599)
Prior	(519,646)	(33,265)
	<u>(836,972)</u>	<u>(51,803)</u>

8 Dividends and appropriations

	1998 £	1997 £
Ordinary:		
Interim paid of 13.3p per share (1997: 0p)	200,000	-
Final proposed of 0p per share (1997: 33.3p)	-	500,000
	<u>200,000</u>	<u>500,000</u>

9 Tangible fixed assets

	Land and buildings £	Plant and machinery £	Total £
Cost			
At 1 January 1998	783,826	4,548,953	5,332,779
Additions	-	531,791	531,791
Disposals	-	(49,791)	(49,791)
At 31 December 1998	783,826	5,030,953	5,814,779
Depreciation			
At 1 January 1998	63,729	2,455,061	2,518,790
Charge for year	15,677	531,913	547,590
Eliminated in respect of disposals	-	(38,878)	(38,878)
At 31 December 1998	79,406	2,948,096	3,027,502
Net book value			
At 31 December 1998	704,420	2,082,857	2,787,277
Net book value			
At 31 December 1997	720,097	2,093,892	2,813,989

Fixed assets with a net book value of £135,141 (1997: £197,649) are held under finance leases.

10 Stocks

	1998 £	1997 £
Work in progress	<u>2,756,466</u>	<u>3,679,840</u>

11 Debtors

	1998 £	1997 £
Amounts falling due within one year		
Trade debtors	3,799,228	3,465,308
Amounts due from group companies	125,709	80,094
Other debtors	2,976	5,537
Prepayments and accrued income	<u>36,802</u>	<u>41,989</u>
	<u>3,964,715</u>	<u>3,592,928</u>
Amounts falling due after more than one year		
Amounts due from group companies	1,085,201	1,166,005
Deferred tax	-	519,646
	<u>5,049,916</u>	<u>5,278,579</u>

12 Creditors: amounts falling due within one year

	1998 £	1997 £
Bank loans and overdraft	-	900,000
Trade creditors	2,775,819	3,723,132
Corporation tax	298,299	72,000
Other taxation and social security payable	302,990	309,129
Amounts due to group undertakings	522,009	124,343
Accruals and deferred income	945,838	442,161
Obligations under finance leases	36,519	33,520
Dividends proposed	-	500,000
	<u>4,881,474</u>	<u>6,104,285</u>

13 Creditors: amounts falling due after more than one year

	1998 £	1997 £
Obligations under finance leases	53,359	89,878
Bank loans	-	1,050,000
Amounts due to group companies	<u>4,000,381</u>	<u>3,290,765</u>
	<u>4,053,740</u>	<u>4,430,643</u>

The net finance lease obligations to which the company are committed are:

	1998 £	1997 £
In one year or less	36,519	33,520
Between one and two years	39,519	36,519
Between two and five years	13,840	53,359
	<u>89,878</u>	<u>123,398</u>

Bank loans are repayable as follows:

	£'000	£'000
Within one year	-	900,000
Between one and two years	-	300,000
Between two and five years	-	750,000
	<u>-</u>	<u>1,950,000</u>

14 Provisions for liabilities and charges

	Provisions £
At 1 January 1998	(519,646)
Deferred taxation (see below)	568,646
	<u>49,000</u>
At 31 December 1998	<u>49,000</u>

Deferred taxation

Deferred taxation provided in the financial statements, and the amount unprovided of the total potential liability, are as follows:

	Amount provided		Amount unprovided	
	1998 £	1997 £	1998 £	1997 £
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	<u>49,000</u>	<u>(519,646)</u>	<u>-</u>	<u>-</u>

15 Called up share capital

	1998 £	1997 £
Authorised		
1,500,000 ordinary shares of £1 each	<u>1,500,000</u>	<u>1,500,000</u>
Allotted, called up and fully paid		
1,500,000 ordinary shares of £1 each	<u>1,500,000</u>	<u>1,500,000</u>

16 Reserves

	Profit and loss account £
At 1 January 1998	454,827
Loss for the year	(249,620)
At 31 December 1998	<u>205,207</u>

17 Financial commitments

As at 31 December 1998 the company had annual commitments under non-cancellable operating leases as follows:

	1998		1997	
	Land and buildings £	Other £	Land and buildings £	Other £
Expiring within one year	12,000	7,832	6,750	-
Expiring between two and five years	-	37,712	120,553	64,644
Expiring in more than five years	84,553	-	-	-
	<u>96,553</u>	<u>45,544</u>	<u>127,303</u>	<u>64,644</u>

18 Capital commitments

	1998 £	1997 £
Contracts placed for future capital expenditure not provided in the financial statements	<u>77,606</u>	<u>339,598</u>

19 Pensions

The company operates a pension scheme operated by EIS Group plc 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 project unit method. The most recent valuation was at 5 April 1997 and showed that the market value of the scheme's assets were £52.2 million and that the actuarial value of those assets represented 118% 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 1.5% higher than the rate of annual salary increase and that present and future pensions would increase at a rate of 3.0% per annum until 5 April 1998 and 5.0% per annum thereafter.

The pensions charge for the year was £199,376 (1997: £168,675) and has been determined over the average remaining service lives of the employees.

20 Related party disclosure

The company is a wholly owned subsidiary of TI Group PLC. In accordance with paragraph 3(c) of FRS 8, 'Related party transactions', the company is exempt from disclosing details of arrangements with other companies in the TI Group.

21 Ultimate holding company

The ultimate holding company is TI Group PLC, a company incorporated in England. Copies of the group financial statements are available from: The Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3HZ.