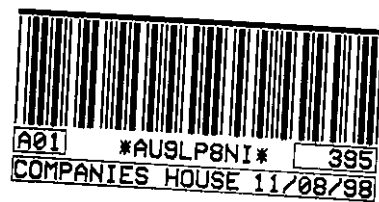


3047122

Report and Accounts
TGE Group Limited

31 December 1997



TGE Group Limited

Registered No. 3047122

DIRECTORS

J A Cope
J K L McBride
T Twigger
G Wrigley (Chairman)

SECRETARY

M Jackson

AUDITORS

Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7EU

BANKERS

National Westminster Bank PLC
City of London Office
21 Lombard Street
London EC1A 2DY

SOLICITORS

Lovell White Durrant
65 Holborn Viaduct
London EC1A 2DY

REGISTERED OFFICE

30 Homefield Road
Wimbledon
London SW19 4QF

TGE Group Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1997.

RESULTS AND DIVIDENDS

Sales for the year ended 31 December 1997 were £57,698,000 (1996 – £47,200,000). The profit for the year after taxation and preference dividends of £287,000 (1996 – £295,000) amounted to £2,489,000 (1996 – £1,090,000). The directors do not propose to declare an ordinary dividend.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

On 21 December 1995 the company purchased several subsidiary undertakings and commenced providing management services to these undertakings. The undertakings operated in two areas, Instrumentation and Process Engineering. A list of the group undertakings is given in note 12.

FUTURE DEVELOPMENTS

The directors aim to maintain the management policies which have resulted in the satisfactory performance in the year. They consider that 1998 will continue to show a satisfactory performance.

EVENTS SINCE THE BALANCE SHEET DATE

Since the balance sheet date the group has been restructured the result of which is that the company has become the wholly owned subsidiary of 267th Shelf Investment Company Limited and the company's subsidiaries, Ai Qualitek Limited and TG Group Inc have become wholly owned by 268th Shelf Investment Company Limited. Both of these investment companies are separately owned by the company's former shareholders pro rata to their holdings immediately prior to the reconstruction.

DIRECTORS AND THEIR INTERESTS

The directors at 31 December 1997 and their interest in the share capital of the company (which were all beneficially held) were as follows:

| | <i>As at 31 December 1997 Ordinary shares</i> | <i>As at 1 January 1997 Ordinary shares</i> |
|---------------|---|---|
| J A Cope | 80,000 | 80,000 |
| J K L McBride | 80,000 | 80,000 |
| T Twigger | — | — |
| G Wrigley | — | — |

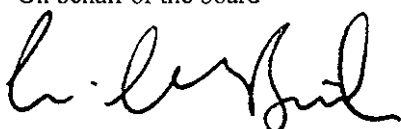
During the year the company purchased and maintained liability insurance for its directors and officers as permitted by section 310(3) of the Companies Act 1985.

G Wrigley is a partner of Schroder Venture Advisers, adviser to the Schroder Funds which own all the "B" ordinary shares.

AUDITORS

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

On behalf of the board



Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that the accounts comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of TGE Group Limited

We have audited the accounts on pages 5 to 24, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 10 and 11.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

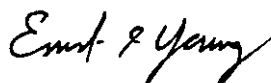
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 31 December 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

7 May 1998

TGE Group Limited

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 1997

| | | <i>Year ended 31 December 1997 £000</i> | <i>Period ended 31 December 1996 £000</i> |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| TURNOVER | 2 | 57,698 | 47,200 |
| Cost of sales | | (37,227) | (29,986) |
| GROSS PROFIT | | 20,471 | 17,214 |
| Selling and distribution costs | | (8,111) | (7,213) |
| Administrative expenses | | (6,263) | (6,150) |
| Other operating income | | 52 | 10 |
| Loss from interests in associated undertakings | | (143) | 347 |
| Debt issue costs written off | | (603) | (900) |
| Moisture project development costs | | (194) | - |
| | | (15,262) | (13,906) |
| OPERATING PROFIT | 3 | 5,209 | 3,308 |
| Bank interest receivable | | 112 | 221 |
| Interest payable and similar charges | 6 | (740) | (1,133) |
| | | (628) | (912) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 4,581 | 2,396 |
| Tax on profit on ordinary activities | 7 | (1,805) | (1,011) |
| PROFIT FOR THE YEAR | | 2,776 | 1,385 |
| Dividends | 8 | (287) | (295) |
| RETAINED PROFIT FOR THE YEAR | | 2,489 | 1,090 |

All activities relate to continuing operations.

TGE Group Limited

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 1997

| | <i>Year ended 31 December 1997 £000</i> | <i>Period ended 31 December 1996 £000</i> |
|---|---|---|
| Profit for the year | 2,489 | 1,090 |
| Current translation differences on foreign currency net investments | (138) | 290 |
| Total recognised gains and losses relating to the year | <u>2,351</u> | <u>1,380</u> |

TGE Group Limited

CONSOLIDATED BALANCE SHEET at 31 December 1997

| | Notes | 1997 £000 | 1996 £000 |
|--|-------|-----------------|-----------------|
| FIXED ASSETS | | | |
| Intangible assets | 10 | 91 | 91 |
| Tangible assets | 11 | 3,148 | 2,709 |
| Investments | 12 | 614 | 1,201 |
| | | <u>3,853</u> | <u>4,001</u> |
| CURRENT ASSETS | | | |
| Stocks | 13 | 3,204 | 2,444 |
| Debtors | 14 | 25,616 | 16,245 |
| Cash at bank and in hand and short term deposits | | 347 | 2,930 |
| | | <u>29,167</u> | <u>21,619</u> |
| CREDITORS: amounts falling due within one year | 16 | <u>(24,791)</u> | <u>(18,441)</u> |
| NET CURRENT ASSETS | | <u>4,376</u> | <u>3,178</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>8,229</u> | <u>7,179</u> |
| CREDITORS: amounts falling due after more than one year | | | |
| Loans | 17 | (6,695) | (7,827) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 19 | (1,118) | (931) |
| | | <u>(7,813)</u> | <u>(8,758)</u> |
| | | <u>416</u> | <u>(1,579)</u> |
| CAPITAL AND RESERVES | | | |
| Equity share capital | | 8 | 8 |
| Non-equity share capital | | 7,170 | 7,170 |
| Called up share capital | 20 | 7,178 | 7,178 |
| Share premium account | 21 | 692 | 692 |
| Goodwill | 21 | (11,185) | (10,829) |
| Profit and loss account | 21 | 3,731 | 1,380 |
| | | <u>416</u> | <u>(1,579)</u> |



Director

COMPANY BALANCE SHEET
at 31 December 1997

L. L. Biele

Director

TGE Group Limited

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 1997

| | | <i>Year ended 31 December 1997 £000</i> | <i>Period ended 31 December 1996 £000</i> |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 25 | 1,500 | 5,799 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | 47 | 242 |
| Interest paid | | (683) | (1,084) |
| Cash received from associated undertaking | | 489 | – |
| Preference dividend paid | | (215) | (223) |
| Dividends paid | | – | – |
| | | <u>(362)</u> | <u>(1,065)</u> |
| TAXATION | | | |
| Corporation tax paid | | (1,395) | (830) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Receipts from sales of tangible fixed assets | | 80 | 33 |
| Payments to acquire tangible fixed assets | | (1,126) | (988) |
| | | <u>(1,046)</u> | <u>(955)</u> |
| ACQUISITIONS AND DISPOSALS | | | |
| Purchase of subsidiary undertakings | | – | (15,395) |
| Acquisition costs paid | | – | (273) |
| Net cash acquired with subsidiary undertakings | | – | 2,724 |
| | | <u>–</u> | <u>(12,944)</u> |
| FINANCING | | | |
| Issue of ordinary share capital | 20 | – | 580 |
| Issue of preference share capital | 20 | – | 7,170 |
| New long term loans | | – | 7,500 |
| Issue and acquisition costs | | – | (1,506) |
| Repayment of long term loans | | (649) | (1,450) |
| | | <u>(649)</u> | <u>12,294</u> |
| (DECREASE)/INCREASE IN CASH | 15 | <u>(1,952)</u> | <u>2,299</u> |

NOTES TO THE ACCOUNTS

at 31 December 1997

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared in accordance with the historical cost convention, modified to include the revaluation of certain assets, and in accordance with applicable accounting standards in the United Kingdom.

Basis of consolidation

The group accounts consolidate the accounts of TGE Group Limited and all its subsidiary undertakings drawn up to 31 December 1997. No profit and loss account is presented for TGE Group Limited as permitted by section 230 of the Companies Act 1985.

Undertakings, other than subsidiary undertakings, in which the group has an investment and over which it is in a position to exercise a significant influence are treated as associated undertakings. The group accounts include the appropriate share of these undertakings' results and reserves based on audited accounts to 31 December 1997.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

| | |
|---------------------------------------|------------------|
| Freehold buildings | 2-4% per annum |
| Leasehold improvements | 20% |
| Plant, equipment and vehicles between | 10-20% per annum |
| Office equipment | 20% |
| Computer equipment | 20% |

Depreciation is not provided on freehold land.

Stocks and work in progress, excluding long term contracts

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first-in, first-out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Long term contracts

Turnover on long term contracts is recognised according to the stage reached in the contract by reference to the value of work done. A prudent estimate of the profit attributable to work completed is made once the outcome of the contract can be assessed with reasonable certainty. The amount by which the turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts. The costs on long term contracts not yet taken to the profit and loss account less related foreseeable losses and payments on account are shown in stocks as long term contract balances.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance.

Deferred taxation assets are only recognised without replacement by equivalent debit balances is reasonable certain.

NOTES TO THE ACCOUNTS
at 31 December 1997

1. ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are translated into sterling at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the balance sheet date are translated into sterling at rates of exchange ruling at that date. These translation differences are taken to the profit and loss account in the year in which they arise.

Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation.

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Research and development costs

Research and development expenditure is charged to the profit and loss account as it is incurred.

Goodwill

Purchased goodwill and goodwill arising on consolidation are written off directly to reserves in the year in which they arise.

Trademarks and patents

Patents and trademarks are capitalised at their cost of acquisition or creation. Amounts capitalised are amortised over 10 years.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

2. TURNOVER AND SEGMENTAL ANALYSIS

Analysis of turnover by segment and geographical area are detailed below:

| | <i>Year ended 31 December 1997 £000</i> | <i>Period ended 31 December 1996 £000</i> |
|-------------------------|---|---|
| Segments: | | |
| Instrumentation | 19,061 | 15,890 |
| Process engineering | 38,637 | 31,310 |
| | <u>57,698</u> | <u>47,200</u> |
| Country of origin: | | |
| UK | 36,813 | 31,225 |
| Germany | 1,111 | 1,140 |
| North America | 19,774 | 12,094 |
| South & Central America | — | 1,716 |
| Other | — | 1,025 |
| | <u>57,698</u> | <u>47,200</u> |

TGE Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

2. TURNOVER AND SEGMENTAL ANALYSIS (continued)

| | <i>Year ended 31 December 1997 £000</i> | <i>Period ended 31 December 1996 £000</i> |
|-------------------------|---|---|
| Geographical market: | | |
| UK | 14,930 | 8,569 |
| Germany | 1,111 | 1,173 |
| Rest of Europe | 7,246 | 8,640 |
| North America | 13,892 | 11,529 |
| South & Central America | 3,395 | 1,819 |
| Middle East | 12,254 | 4,814 |
| Asia | 2,225 | 10,351 |
| Other | 2,645 | 305 |
| | <u>57,698</u> | <u>47,200</u> |

3. OPERATING PROFIT

This is stated after charging /(crediting):

| | <i>Year ended 31 December 1997 £000</i> | <i>Period ended 31 December 1996 £000</i> |
|--|---|---|
| Rent payable | (56) | — |
| Surplus on disposal of fixed assets and after charging: | (81) | (10) |
| Depreciation and amortisation of fixed assets | | 563 |
| Research and development expenditure | 680 | 831 |
| Auditors' remuneration — audit services | 67 | 74 |
| — other services | 22 | 15 |
| Operating lease rentals — plant and machinery | 146 | 40 |
| — land and buildings | 133 | 274 |
| Reorganisation costs | 240 | 164 |
| | <u></u> | <u></u> |

4. DIRECTORS' EMOLUMENTS

| | <i>Year ended 31 December 1997 £000</i> | <i>Period ended 31 December 1996 £000</i> |
|--|---|---|
| Emoluments | 280 | 311 |
| | <u></u> | <u></u> |
| Company contributions paid to money purchase pension schemes | — | — |
| | <u></u> | <u></u> |
| | <i>No.</i> | <i>No.</i> |
| Members of money purchase pension schemes | 1 | 1 |
| | <u></u> | <u></u> |

Total payments made to Thornwick Limited, a company in which J Cope has a controlling interest were £163,320. The amount included J Cope's fees as a director.

TGE Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

4. DIRECTORS' EMOLUMENTS (continued)

The amounts in respect of the highest paid directors are as follows:

| | <i>Year ended 31 December 1997 £000</i> | <i>Period ended 31 December 1996 £000</i> |
|--|---|---|
| Emoluments | 130 | 143 |
| Company contributions paid to money purchase pension schemes | — | — |

5. STAFF COSTS

| | <i>Year ended 31 December 1997 £000</i> | <i>Period ended 31 December 1996 £000</i> |
|-----------------------|---|---|
| Wages and salaries | 9,643 | 8,527 |
| Social security costs | 990 | 848 |
| Other pension costs | 371 | 322 |
| | 11,004 | 9,697 |

| | <i>No.</i> | <i>No.</i> |
|---|------------|------------|
| The monthly average number of employees during the year was as follows: | | |
| Manufacturing | 99 | 61 |
| Contracting and service | 92 | 70 |
| Selling and distribution | 82 | 97 |
| Administration | 49 | 45 |
| | 322 | 273 |

6. INTEREST PAYABLE AND SIMILAR CHARGES

| | <i>Year ended 31 December 1997 £000</i> | <i>Period ended 31 December 1996 £000</i> |
|---------------------------|---|---|
| Bank loans and overdrafts | 740 | 1,133 |

NOTES TO THE ACCOUNTS
at 31 December 1997

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

| | <i>Year ended 31 December 1997 £000</i> | <i>Period ended 31 December 1996 £000</i> |
|--|---|---|
| UK corporation tax at 31.5% (1996 – 33%) | 1,007 | 673 |
| Deferred taxation | (4) | – |
| Overseas taxation – current | 894 | 278 |
| – deferred | – | (55) |
| Associated undertaking | (45) | 115 |
| | <hr/> 1,852 | <hr/> 1,011 |
| Corporation tax overprovided in previous years | (47) | – |
| | <hr/> 1,805 | <hr/> 1,011 |
| | <hr/> <hr/> | <hr/> <hr/> |

8. DIVIDENDS

| | <i>Year ended 31 December 1997 £000</i> | <i>Period ended 31 December 1996 £000</i> |
|--|---|---|
| Non equity dividends on preference shares: | | |
| Paid | 215 | 223 |
| Accrued | 72 | 72 |
| | <hr/> 287 | <hr/> 295 |
| | <hr/> <hr/> | <hr/> <hr/> |

9. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT UNDERTAKING

The profit dealt with in the accounts of the parent undertaking was £1,083,000 (1996 – £356,000).

TGE Group Limited

NOTES TO THE ACCOUNTS at 31 December 1997

10. INTANGIBLE FIXED ASSETS

| <i>Group</i> | <i>Patents/ trademarks £000</i> |
|--------------------------------------|---|
| Cost: | |
| At 31 December 1996 | 137 |
| Subsidiaries acquired | — |
| Exchange movement | 6 |
| Additions | 10 |
| | <hr/> |
| At 31 December 1997 | 153 |
| | <hr/> |
| Amounts written off: | |
| At 31 December 1996 | (46) |
| Subsidiaries acquired | — |
| Exchange movement | (3) |
| Additional provision during the year | (13) |
| | <hr/> |
| | (62) |
| | <hr/> |
| Net book value: | |
| At 31 December 1997 | 91 |
| | <hr/> |
| At 31 December 1996 | 91 |
| | <hr/> |

11. TANGIBLE FIXED ASSETS

| <i>Group</i> | <i>Freehold land and buildings £000</i> | <i>Long leasehold land and buildings £000</i> | <i>Short leasehold land and buildings £000</i> | <i>Plant, machinery and vehicles £000</i> | <i>Fixtures and fittings £000</i> | <i>Total £000</i> |
|--------------------------|---|---|--|---|---|-----------------------|
| Cost: | | | | | | |
| At 31 December 1996 | 1,099 | 362 | 20 | 2,020 | 2,303 | 5,804 |
| Exchange adjustment | — | — | 1 | 37 | 29 | 67 |
| Additions | — | 2 | 3 | 569 | 552 | 1,126 |
| Disposals | (1) | — | — | (329) | (317) | (647) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 1997 | 1,098 | 364 | 24 | 2,297 | 2,567 | 6,350 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Depreciation: | | | | | | |
| At 31 December 1996 | (183) | (72) | (12) | (1,339) | (1,489) | (3,095) |
| Exchange adjustment | — | — | (1) | (23) | (20) | (44) |
| Provided during the year | (22) | (10) | (2) | (324) | (324) | (682) |
| Disposals | — | — | — | 349 | 270 | 619 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | (205) | (82) | (15) | (1,337) | (1,563) | (3,202) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value: | | | | | | |
| At 31 December 1997 | 893 | 282 | 9 | 960 | 1,004 | 3,148 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 1996 | 916 | 290 | 8 | 681 | 814 | 2,709 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

NOTES TO THE ACCOUNTS
at 31 December 1997

11. TANGIBLE FIXED ASSETS (continued)

| <i>Company</i> | <i>Fixtures and fittings £000</i> | <i>Total £000</i> |
|--------------------------|---------------------------------------|-----------------------|
| Cost: | | |
| At 31 December 1996 | 18 | 18 |
| Additions | — | — |
| | <u>18</u> | <u>18</u> |
| At 31 December 1997 | | |
| Depreciation: | | |
| At 31 December 1996 | (5) | (5) |
| Provided during the year | (5) | (5) |
| | <u>(10)</u> | <u>(10)</u> |
| Net book value: | | |
| At 31 December 1997 | 8 | 8 |
| At 31 December 1996 | <u>13</u> | <u>13</u> |

On a historic cost basis, freehold land and buildings would be included at cost £704,000 (1996 – £704,000) less depreciation £151,000 (1996 – £142,000).

Depreciation has not been charged on freehold land, which is stated at an amount of £400,000 (1996 – £400,000).

12. INVESTMENTS

| | <i>1997 £000</i> | <i>1996 £000</i> |
|---|--|----------------------|
| Associated undertakings | <u>614</u> | <u>1,201</u> |
| | <i>Share of net tangible assets £000</i> | |
| At 1 January 1997 | 1,201 | |
| Acquisition of subsidiary undertakings | — | |
| Share of loss retained by associated undertakings | (98) | |
| Profits distributed by associated undertakings | (489) | |
| At 31 December 1997 | <u>614</u> | |

NOTES TO THE ACCOUNTS
at 31 December 1997

12. INVESTMENTS (continued)

Details of the investments in which the group or the company holds more than 20% of the nominal value of any class of share capital are as follows:

| <i>Subsidiary undertakings</i> | <i>Country of registration (or incorporation) and operation</i> | <i>Holding</i> | <i>Proportion of voting rights and shares held</i> | <i>Nature of business</i> |
|--|---|-----------------|--|-------------------------------|
| Ai Qualitek Limited (formerly Ai Cambridge Limited) | England and Wales | Ordinary shares | 100% | Process Instrumentation |
| Axsia Serck Baker Limited (formerly Serck Baker Limited) | England and Wales | Ordinary shares | 100% | Process Engineering |
| Axsia Howmar Limited (formerly Howmar International Limited) | England and Wales | Ordinary shares | 100% | Process Instrumentation |
| Qualitek Limited (dormant)* | England and Wales | Ordinary shares | 100% | Process Instrumentation |
| Meltron Messtechnik GmbH* | Germany | Ordinary shares | 100% | Process Instrumentation |
| TG Group Inc. | United States | Ordinary shares | 100% | Holding Company |
| Ion Track instruments Inc. | United States | Ordinary shares | 100% | Process Instrumentation |
| Delta F Corporation | United States | Ordinary shares | 100% | Process Instrumentation |
| Axsia Serck Baker Inc. (formerly Serck Baker Inc.) | United States | Ordinary shares | 100% | Process Engineering |
| Serck Baker A/S (dormant)* | Norway | Ordinary shares | 80% | Dormant |
| Axsia Limited | England and Wales | Ordinary shares | 100% | Dormant |
| TGE Dormant I Limited | England and Wales | Ordinary shares | 100% | Dormant |
| TGE Dormant II Limited | England and Wales | Ordinary shares | 100% | Dormant |
| <i>Associated Undertaking</i> | | | | |
| White Tiger Joint Venture* | Russia | Joint Venture | 50% | Process Engineering |

* held by a subsidiary undertaking

TGE Group Limited

NOTES TO THE ACCOUNTS at 31 December 1997

13. STOCKS

Group

| | 1997 £000 | 1996 £000 |
|-------------------------------------|--------------|--------------|
| Raw materials and consumables | 1,132 | 941 |
| Work in progress | 1,708 | 433 |
| Finished goods and goods for resale | 391 | 387 |
| Long term contract balances | (27) | 683 |
| | <u>3,204</u> | <u>2,444</u> |

The difference between purchase price as production cost of stocks and their replacement cost is not material.

| | 1997 £000 | 1996 £000 |
|---|--------------|--------------|
| Long term contract balances consist of: | | |
| Costs to date less provision for losses | 155 | 683 |
| Less: applicable payments on account | (182) | — |
| | <u>(27)</u> | <u>683</u> |

14. DEBTORS

| | Group | | Company | |
|---|---------------|---------------|--------------|--------------|
| | 1997 £000 | 1996 £000 | 1997 £000 | 1996 £000 |
| Trade debtors | 14,325 | 5,750 | 1 | — |
| Amounts owed by subsidiary undertakings | — | — | 2,556 | 946 |
| Amounts owed by associated undertakings | — | 1,177 | — | — |
| Amounts recoverable on contracts | 9,806 | 5,978 | — | — |
| Other debtors | 640 | 2,504 | (38) | 39 |
| Prepayments and accrued income | 279 | 238 | — | — |
| Dividends receivable from subsidiary undertakings | — | — | 1,482 | 677 |
| | <u>25,050</u> | <u>15,647</u> | <u>4,001</u> | <u>1,662</u> |
| Amounts falling due after more than one year: | | | | |
| Tax recoverable | 531 | 598 | 178 | 395 |
| Other debtor | 35 | — | — | — |
| | <u>25,616</u> | <u>16,245</u> | <u>4,179</u> | <u>2,057</u> |

TGE Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

15. CASH AND CASH EQUIVALENTS

| | 1997 £000 | Change in year £000 | 1996 £000 |
|--------------------------|--------------|---------------------------|--------------|
| Cash at bank and in hand | 347 | (2,583) | 2,930 |
| Bank overdrafts | — | 631 | (631) |
| | <u>347</u> | <u>(1,952)</u> | <u>2,299</u> |

16. CREDITORS: amounts falling due within one year

| | 1997 £000 | Group 1996 £000 | 1997 £000 | Company 1996 £000 |
|--|---------------|-----------------------|--------------|-------------------------|
| Bank loans and overdrafts | 1,333 | 1,263 | 4 | 250 |
| Debt issue costs | — | (606) | — | (606) |
| Payments on account on long term contracts | — | 1,117 | — | — |
| Trade creditors | 8,607 | 3,556 | — | 4 |
| Amounts owed to subsidiary undertakings | — | — | — | 1,422 |
| UK corporation tax | 816 | 812 | — | — |
| Advance Corporation Tax | — | 607 | — | — |
| Overseas tax | 395 | (160) | — | — |
| Other taxes and social security | 177 | 898 | — | — |
| Other creditors | 2,563 | 2,831 | 21 | 67 |
| Accruals | 10,900 | 8,123 | 431 | 313 |
| | <u>24,791</u> | <u>18,441</u> | <u>456</u> | <u>1,450</u> |

17. LOANS

| | 1997 £000 | Group 1996 £000 | 1997 £000 | Company 1996 £000 |
|--|--------------|-----------------------|--------------|-------------------------|
| Loan note | 3,000 | 3,000 | 3,000 | 3,000 |
| Bank loans | 3,695 | 4,827 | — | — |
| Amounts due to subsidiary undertakings | — | — | 2,631 | 2,626 |
| | <u>6,695</u> | <u>7,827</u> | <u>5,631</u> | <u>5,626</u> |
| Amounts falling due: | | | | |
| In one year or less or on demand | 1,333 | 632 | — | 250 |
| Between one and two years | 3,695 | 1,280 | — | — |
| Between two and five years | — | 3,547 | — | — |
| | <u>5,028</u> | <u>5,459</u> | <u>—</u> | <u>250</u> |
| Less issue costs | — | (606) | — | (606) |
| | <u>5,028</u> | <u>4,853</u> | <u>—</u> | <u>(356)</u> |

All bank loans and overdrafts are wholly repayable within 5 years. The bank loans are secured by fixed charges over the group's properties and by a floating charge over the group's assets.

NOTES TO THE ACCOUNTS

at 31 December 1997

18. OPERATING LEASE COMMITMENTS

At 31 December 1997 the group was committed to making the following payments during the next year in respect of operating leases:

| Group | Land and buildings | | Other | |
|--------------------------|--------------------|-----------|-----------|----------|
| | 1997 | 1996 | 1997 | 1996 |
| | £000 | £000 | £000 | £000 |
| Leases which expire: | | | | |
| Within one year | 1 | — | — | — |
| Within two to five years | 164 | — | 24 | — |
| After five years | 318 | 65 | 65 | — |
| | <u>483</u> | <u>65</u> | <u>89</u> | <u>—</u> |

The parent undertaking had no operating lease commitments.

19. PROVISIONS FOR LIABILITIES AND CHARGES

| | 1997 | Group |
|--|-----------------------|---------------------|
| | £000 | 1996 |
| | £000 | £000 |
| PENSION AND SIMILAR OBLIGATIONS | | |
| Balance at start of year | (20) | — |
| Arising on the acquisition of subsidiary undertaking | — | (20) |
| Arising during the year | (51) | (86) |
| Utilised | 64 | 86 |
| At end of year | <u>(7)</u> | <u>(20)</u> |
| PRODUCT GUARANTEES | | |
| Balance at start of year | (896) | — |
| Arising on the acquisition of subsidiary undertaking | — | (851) |
| Arising during the year | (514) | (286) |
| Exchange difference | (12) | — |
| Utilised | 322 | 241 |
| | <u>(1,100)</u> | <u>(896)</u> |
| DEFERRED TAXATION | <u>(11)</u> | <u>(15)</u> |
| TOTAL AT END OF YEAR | <u><u>(1,118)</u></u> | <u><u>(931)</u></u> |

NOTES TO THE ACCOUNTS
at 31 December 1997

19. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

DEFERRED TAXATION

| | 1997 £000 |
|---|--------------|
| Balance at start of year | (15) |
| Arising on the acquisition of subsidiary undertakings | — |
| Provided during the year | 4 |
| Balance at end of year | (11) |

Deferred taxation provided in the accounts and not provided are as follows:

| | Provided £000 | Not provided £000 |
|---|------------------|----------------------|
| Capital allowances in advance of depreciation | (11) | — |
| Other timing differences | — | 225 |
| | (11) | 225 |

20. SHARE CAPITAL

| | 1997 No. of shares | 1996 No. of shares | 1997 £000 | 1996 £000 |
|-------------------------------------|-----------------------|-----------------------|--------------|--------------|
| Authorised: | | | | |
| Ordinary shares of 1p each | 800,000 | 800,000 | 8 | 8 |
| Preference shares of £1 each | 7,170,000 | 7,170,000 | 7,170 | 7,170 |
| Allotted, called up and fully paid: | | | | |
| Ordinary shares of 1p each | 800,000 | 800,000 | 8 | 8 |
| Preference shares of £1 each | 7,170,000 | 7,170,000 | 7,170 | 7,170 |

The ordinary shares all rank pari passu and carry similar rights as to interest in the income and capital however there are greater restrictions on the transfer of the 'A' shares and the 'C' shares. The preference shares rank before the ordinary shares, are cumulative and carry a coupon rate of 4% from date of issue to 31 December 1997 and a coupon rate of 12% thereafter, payable half yearly in arrears on 31 March and 30 September. The dividend rights are cumulative.

The preference shares carry no voting rights at meetings unless any sum due in respect of the preference shares is not paid on the due date, in which event each preference shareholder will be entitled to one vote on a show of hands and one vote per share on a poll.

The preference shares are redeemable in full on 3 December 2001.

TGE Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

20. SHARE CAPITAL (continued)

ANALYSIS OF CHANGES IN SHARE CAPITAL DURING THE YEAR

| | 1997 £000 | 1996 £000 |
|--|--------------|--------------|
| Balance at start of year | 7,870 | — |
| Net cash inflow from financing | — | 7,750 |
| Shares issued for non-cash consideration | — | 120 |
| Balance at end of year | <u>7,870</u> | <u>7,870</u> |

21. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

| <i>Group</i> | <i>Share capital £000</i> | <i>Share premium £000</i> | <i>Goodwill £000</i> | <i>Profit and loss account £000</i> | <i>Total £000</i> |
|--|-----------------------------------|-----------------------------------|--------------------------|---|-----------------------|
| Balance at 31 December 1996 | 7,178 | 692 | (10,829) | 1,380 | (1,579) |
| Retained profit for the year | — | — | — | 2,489 | 2,617 |
| Foreign currency translation adjustments | — | — | — | (138) | (138) |
| Fair value adjustment | — | — | (356) | — | (356) |
| Balance at 31 December 1997 | <u>7,178</u> | <u>692</u> | <u>(11,185)</u> | <u>3,731</u> | <u>544</u> |
| <i>Company</i> | <i>Share capital £000</i> | <i>Share premium £000</i> | <i>Goodwill £000</i> | <i>Profit and loss account £000</i> | <i>Total £000</i> |
| Balance at 31 December 1996 | 7,178 | 692 | — | 474 | 8,344 |
| Retained profit for the year | — | — | — | 1,083 | 1,083 |
| Balance at 31 December 1997 | <u>7,178</u> | <u>692</u> | <u>—</u> | <u>1,557</u> | <u>9,427</u> |

The fair value adjustment relates to the following:

| | |
|--|------------|
| Difference on contract valuation at Axsia Serck Baker Limited | 263 |
| Unrecoverable inter-company written off at Ai Qualitek Limited | 93 |
| | <u>356</u> |

22. POST BALANCE SHEET EVENTS

Since the balance sheet date the group has been restructured the result of which is that the company has become the wholly owned subsidiary of 267th Shelf Investment Company Limited and the company's subsidiaries, Ai Qualitek Limited and TG Group Inc have become wholly owned by 268th Shelf Investment Company Limited. Both of these investment companies are separately owned by the company's former shareholders pro rata to their holdings immediately prior to the reconstruction.

TGE Group Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

23. CAPITAL COMMITMENTS

| | 1997 £000 | Group 1996 £000 | 1997 £000 | Company 1996 £000 |
|-----------------------------------|--------------|-----------------------|--------------|-------------------------|
| Contracted for but not provided | 7 | 26 | — | — |
| Authorised but not yet contracted | — | 18 | — | — |

24. PENSION COMMITMENTS

The company operates a defined contribution pension scheme, the TGE Group Pension Scheme, for all its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The unpaid contributions outstanding at the year end, included in Other Creditors (note 16) are £25,000 (1996 – £3,797).

25. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operating activities

| | 1997 £000 | 1996 £000 |
|---|--------------|--------------|
| Profit before interest and tax | 5,209 | 3,298 |
| Depreciation and amortisation | 682 | 563 |
| Profit on sale of fixed assets | (52) | — |
| Amortisation of debt issue costs | 603 | 900 |
| Loss incurred by associated undertaking | 143 | (347) |
| Increase in stocks | (759) | (633) |
| Increase in debtors | (9,498) | (4,336) |
| Increase in creditors | 5,405 | 5,425 |
| Movement on provisions | (27) | 568 |
| Exchange gain | 57 | 361 |
| Prior year adjustment | (263) | — |
| Cash flow from operating activities | 1,500 | 5,799 |

(b) Analysis of changes in net debt.

| | 1996 £000 | Cash flow £000 | Exchange movement £000 | 1997 £000 |
|------------------------|--------------|-------------------|------------------------------|--------------|
| Cash in hand, at bank | 2,930 | (2,583) | — | 347 |
| Overdrafts | (631) | 631 | — | — |
| | 2,299 | (1,952) | — | 347 |
| Debt due after 1 year | (7,827) | 931 | 201 | (6,695) |
| Debt due within 1 year | (632) | (718) | 17 | (1,333) |
| Total | (6,160) | (1,739) | 218 | (7,681) |

NOTES TO THE ACCOUNTS

at 31 December 1997

26. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | £000 |
|---|---------|
| Decrease in cash in the year | (1,952) |
| Cash inflow from increase in debt | 649 |
| Change in net debt resulting from cash flows | (1,303) |
| Loans and finance leases acquired with subsidiary | - |
| New finance leases | - |
| Translation difference | (218) |
| Movement in net debt in the year | (1,521) |
| Net debt at 31 December 1996 | (6,160) |
| Net debt at 31 December 1997 | (7,681) |

27. CONTINGENT LIABILITIES

| | 1997 | Group 1996 |
|------------------------------|-------|---------------|
| | £000 | £000 |
| Bank guarantees | 6,502 | 4,894 |
| Discounted bills of exchange | 207 | 288 |
| | 6,709 | 5,182 |

Bank guarantees and bills of exchange are entered into under the group's credit agreement. Amounts under the credit agreement are secured by fixed charges over the group's properties and by a floating charge over the group's assets.