Voith Fabrics Blackburn Limited

Report and Financial Statements

30 September 2004

Registered No: 3724228

Directors

H Lackner
R Rothery
A Regan

Secretary

A Regan

Auditors

Ernst & Young LLP
Silkhouse Court
Tithebarn Street
Liverpool
L2 2LE

Bankers

HSBC Bank plc
60 Church Street
Blackburn
Lancashire
BB1 5AS

Solicitors

Taylors Solicitors
Rawlings House
Exchange Street
Blackburn
BB1 7JN

Registered Office

Cartmell Road
Blackburn
Lancashire
BB2 2SZ

Directors' report

The directors present their report and financial statements for the year ended 30 September 2004.

Results and dividends

The profit for the year after taxation was £1,730,969 (2003: £2,115,689).

During the year, the company paid an interim dividend of £2,500,000 (2003: £1,750,000). The directors do not recommend the payment of a final dividend.

The retained loss for the year of £769,031 (2003: profit of £365,689) was transferred to reserves.

Principal activities and review of the business

The company is one of the world's leading suppliers of paper machine cloth. Through its ultimate parent company, it is part of Voith Paper Technology, which is unique as a manufacturer and supplier of both paper machines and clothing. The core function of the company is to provide solutions for the customers' process requirements through product design, manufacturing consistency, application, development and innovation.

The search for product improvement will continue, aided by the synergy that exists between members of the Voith Group which operates in the field of the manufacture of paper machines and clothing and yarn technology, combined with the Group's excellent research and development facilities.

Charitable contributions

During the year the company made charitable donations in the UK of £340 (2003 - £385).

Research and development

Investment in research and development is a prime consideration of the company and is focused on the areas of potential growth where commercial relevance and future profitability are considered vital. The company's continuing success depends ultimately on its ability to develop and improve both the manufacture and performance of existing products and to invent new ones for both existing and new business. The company spent £822,770 on research during this period (2003 - £529,352).

Directors and their interests

The directors of the company during the year were:

H Lackner	(appointed 30 September 2004)
R Rothery	
K Porteous	(resigned 30 September 2004)
H Berry	(resigned 1 October 2003)
A Regan	(appointed 24 June 2005)

No director had any beneficial interests in the shares of the company or any group company during the year.

Directors' report

Employees and employment policies

Information concerning employees and their remuneration is given in note 3 of the financial statements.

It is company policy to ensure that employees are aware of their individual roles and responsibilities and are informed about the trading performance and progress of the company.

The company recognises the essential contribution made by its employees, and by encouraging progressive involvement in full use of individual skills, promotes the fulfilment of their potential in improving their own corporate performance.

Complementing these arrangements designed for specific purposes are the established institutions such as team briefings and permanent consultative committees. Prominent among the latter are the health and safety committees, monitoring work-place procedures and practices, providing safety awareness, and contributing to effective responses to the growing body of health and safety legislation.

It is company policy that the disabled continue to receive consideration for employment equal to that given to the able-bodied, taking account of their particular abilities and job requirements. All possible efforts are made to maintain continuity of employment for existing employees who become disabled.

Auditors

A resolution has been passed in the year to appoint Ernst & Young LLP as auditors. A resolution to reappoint Ernst & Young LLP will be put to the members at the Annual General Meeting.

By order of the board

A Regan

Secretary

Date: 28 July 2005

Statement of directors' responsibilities in respect of the financial statements

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 of the company 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 departure disclosed and explained in the financial statements; and
- 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 are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ERNST & YOUNG

Independent auditors' report

to the members of Voith Fabrics Blackburn Limited

We have audited the financial statements for the year ended 30 September 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 1985. 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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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.

ERNST & YOUNG

Independent auditors' report

to the members of Voith Fabrics Blackburn Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Liverpool

29 July 2005

Profit and loss account

For the year ended 30 September 2004

	Notes	2004 £	2003 £
Turnover	2	27,673,105	27,793,321
Change in stocks of finished goods and work in progress	12	(357,750)	12,695
Other operating income		127,481	34,498
Raw materials and consumables		(10,468,647)	(10,692,573)
Other external charges		(6,072,696)	(6,048,190)
Staff costs	3	(7,316,376)	(6,806,484)
Depreciation and amortisation	5	(1,195,408)	(1,244,653)
Operating profit	5	2,389,709	3,048,614
Interest receivable from group undertakings		92,595	92,015
Interest payable and similar charges	6	(13,678)	(80,285)
Profit on ordinary activities before taxation		2,468,626	3,060,344
Tax on profit on ordinary activities	7	(737,657)	(944,655)
Profit for the financial year		1,730,969	2,115,689
Dividends	8	(2,500,000)	(1,750,000)
Retained (loss)/profit for the financial year	18	(769,031)	365,689

Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss of £769,031 attributable to the shareholders for the year ended 30 September 2004 (2003 - profit of £365,689).

Balance sheet

at 30 September 2004

	Note	2004 £	2003 £
Fixed assets			
Intangible asset	9	1,591,840	1,700,995
Tangible assets	10	6,304,596	5,997,518
Investments	11	1	1
		7,896,437	7,698,514
Current assets			
Stocks	12	4,991,548	5,064,854
Debtors	13	14,518,432	9,864,572
Cash at bank and in hand		15,579	2,953,032
		19,525,559	17,882,458
Creditors: amounts falling due within one year	14	(6,405,835)	(3,649,294)
Net current assets		13,119,724	14,233,164
Total assets less current liabilities		21,016,161	21,931,678
Provision for liabilities and charges	15	(1,158,746)	(1,298,488)
Accruals and deferred income			
Deferred government grants	16	(43,722)	(50,466)
		(1,202,468)	(1,348,954)
		19,813,693	20,582,724
Capital and reserves			
Called up share capital	17	19,400,002	19,400,002
Profit and loss account	18	413,691	1,182,722
Equity shareholders' funds	19	19,813,693	20,582,724

H Lackner

Director

Date: 28 . JUL . 05

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Notes to the financial statements

For the year ended 30 September 2004

1. Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Group financial statements

The company has not prepared group financial statements as it is exempt from the requirement to do so, by Section 228 Companies Act 1985.

Depreciation

Depreciation is calculated to write down the cost of all tangible fixed assets (except freehold land) by equal annual instalments over their expected useful lives. The periods generally applicable are:

Freehold buildings - 40 years

Plant and machinery - between 3 and 15 years

Fixtures and fittings - between 5 and 15 years

Stocks and work in progress

Stocks have been valued at the lower of cost and net realisable value. Progress payments received and receivable are deducted from work in progress; where progress payments exceed the value of work in progress the excess is included in creditors. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and other stocks	-	purchase cost, less trade discounts, on a first in, first out basis.
Work in progress and finished goods	-	cost of direct materials, less trade discounts, and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

For the year ended 30 September 2004

1. Accounting policies (continued)

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies at the accounting date are translated at the rates of exchange prevailing at the balance sheet date or where covered by forward currency contracts, at the forward rate. Gains and losses arising from currency fluctuations are included in the profit on ordinary activities before taxation.

Research and development

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

Pension costs

The staff and employees of the company are eligible to be members of The Voith UK Pension Scheme, a defined contribution pension scheme. The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

Related party transactions

The company has taken advantage of the exemption available under paragraph 3(c) of Financial Reporting Standard No 8, permitting non-disclosure of transactions between consolidated group undertakings.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the financial statements

For the year ended 30 September 2004

Cash Flow

The ultimate parent undertaking presents a consolidated cash flow statement in its financial statements. Voith Fabrics Blackburn Limited has, therefore, not presented a cash flow, as allowed by FRS1 (Revised)

2. Turnover

Turnover is the total amount receivable by the company in the ordinary course of business for goods supplied as a principal, and excludes value added tax. In respect of short term contracting work performed, turnover is only recognised on completion of the contract.

Commission income from group companies is accounted for on a receivable basis.

The turnover and profit before taxation is attributable to the principal activity of design and manufacture of paper finishing machinery together with other specialist machinery.

	2004	*2003*
	£	*£*
Turnover is analysed as follows:		
United Kingdom	11,149,509	10,789,932
Rest of Europe	12,395,670	11,997,539
North America	192,710	340,966
Asia	1,743,562	1,970,918
Other	2,191,654	2,693,966
	27,673,105	27,793,321

3. Staff costs

	2004	*2003*
	£	*£*
Wages and salaries	6,352,266	5,926,047
Social security costs	657,498	588,920
Other pension costs	306,612	291,517
	7,316,376	6,806,484

3. Staff costs (continued)

The monthly average number of employees (including directors) during the year was as follows:

	2004	*2003*
	Number	*Number*
Production	206	209
Sales	21	22
Administration	54	53
Central services	47	53
Overseas employees	8	10
	336	347

Notes to the financial statements

For the year ended 30 September 2004

4. Directors' emoluments

	2004	*2003*
	£	*£*
Emoluments	129,391	58,902
Company contributions to money purchase pension schemes	15,300	9,234
	144,691	68,136

	Number	*Number*
Members of money purchase pension schemes	1	1

5. Operating profit

	2004	*2003*
	£	*£*
This is stated after charging/(crediting):		
Depreciation	1,086,253	1,135,498
Amortisation of goodwill	109,155	109,155
	1,195,408	1,244,653
Operating lease rentals – plant and machinery	143,276	163,014
Investment grants released	(6,744)	(7,299)
Auditors' remuneration		
- audit services	26,593	22,500
- non-audit services	7,000	10,624

6. Interest payable

	2004	*2003*
	£	*£*
Bank overdraft	1,868	53,518
Other loans	11,810	26,767
	13,678	80,285

Notes to the financial statements

For the year ended 30 September 2004

7. Taxation on profit from ordinary activities

a) Tax on profit on ordinary activities

	2004 £	*2003* £
UK corporation tax	811,441	896,497
Group relief payable	68,796	-
Adjustment in respect of previous years	(2,838)	(40,997)
Total current tax	877,399	855,500
Deferred tax		
Origination and reversal of timing differences	(139,742)	89,155
	737,657	944,655

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £	*2003* £
Profit on ordinary activities before taxation	2,468,626	3,060,344
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2002 – 30%)	740,588	918,103
Effects of:		
Expenses not deductible for tax purposes	8,854	69,739
Capital allowances and depreciation	115,795	203,899
Release of grant income	-	(2,190)
Special pension contributions spread over several years	-	(293,054)
Adjustment in respect of prior periods	(2,838)	(40,997)
Other timing differences	15,000	-
	877,399	855,500

8. Dividend

	2004 £	*2003* £
Ordinary dividend on ordinary shares:		
Interim paid	2,500,000	1,750,000

Notes to the financial statements

For the year ended 30 September 2004

9. Intangible assets

	Goodwill £
Cost:	
At 1 October 2003 and 30 September 2004	2,183,094
Amortisation:	
At 1 October 2003	482,099
Provided for the year	109,155
At 30 September 2004	591,254
Net book value:	
At 30 September 2004	1,591,840
At 30 September 2003	1,700,995

10. Tangible assets

	Freehold land and buildings £	*Plant and machinery* £	*Total* £
Cost:			
At 1 October 2003	2,636,173	30,039,391	32,675,564
Additions	-	1,393,331	1,393,331
At 30 September 2004	2,636,173	31,432,722	34,068,895
Depreciation:			
At 1 October 2003	1,655,542	25,022,504	26,678,046
Provided during the year	70,565	1,015,688	1,086,253
At 30 September 2004	1,726,107	26,038,192	27,764,299
Net book value:			
At 30 September 2004	910,066	5,394,530	6,304,596
At 30 September 2003	980,631	5,016,887	5,997,518

Notes to the financial statements

For the year ended 30 September 2004

11. Investments

	£
Cost:	
At 1 October 2003 and 30 September 2004	22,152
Provision for diminution in value:	
At 1 October 2003 and 30 September 2004	22,151
Net book value:	
At 1 October 2003 and 30 September 2004	1

As at 30 September 2004 the company held the whole of the issued share capital of Scapa-Porritt Limited GmbH, a dormant company which is incorporated in Germany. The company disposed of the investment subsequent to the year end.

12. Stocks

	2004 £	*2003* £
Work in progress	907,604	1,014,999
Raw materials and consumables	592,530	346,693
Finished goods and goods held for resale	2,966,174	3,216,529
Maintenance and other stock	525,240	486,633
	4,991,548	5,064,854

13. Debtors

	2004 £	*2003* £
Trade debtors	4,757,331	5,111,424
Amounts owed by group undertakings	9,519,241	4,343,982
Other debtors	89,028	220,376
Prepayments and accrued income	152,832	188,790
	14,518,432	9,864,572

Included within other debtors is an amount of £45,000 (2003 - £45,000) which is due after more than one year.

Notes to the financial statements

For the year ended 30 September 2004

14. Creditors: amounts falling due within one year

	2004	*2003*
	£	*£*
Bank overdraft	1,862,360	23,605
Trade creditors	586,812	1,166,598
Amounts owed to group undertakings	2,274,317	695,428
Corporation tax	210,989	496,729
Other taxes and social security costs	337,375	246,479
Other creditors	4,945	283
Accruals and deferred income	1,129,037	1,020,172
	6,405,835	3,649,294

15. Provisions for liabilities and charges

Deferred tax provided in the financial statements is as follows:

	2004	*2003*
	£	*£*
Accelerated capital allowance	1,182,692	1,298,488
Other timing differences	(23,946)	-
	1,158,746	1,298,488

The movement on the deferred tax liability during the year was as follows:

	£
At 1 October 2003	1,298,488
Deferred tax charge in profit and loss account (note 7(a))	(139,742)
At 30 September 2004	1,158,746

16. Accruals and deferred income

	Deferred government grants
	£
Balance as at 1 October 2003	50,466
Released during the year	(6,744)
Balance as at 30 September 2004	43,722

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Notes to the financial statements

For the year ended 30 September 2004

17 Share capital

	2004	2003
	£	£
Authorised		
30,000,000 (2003 – 30,000,000) ordinary shares of £1 each	30,000,000	30,000,000
Allotted, called up and fully paid		
19,400,002 (2003 – 19,400,002) ordinary shares of £1 each	19,400,002	19,400,002

18. Profit and loss account

	£
At 1 October 2003	1,182,722
Profit for the year	(769,031)
At 30 September 2004	413,691

19. Reconciliation of movements in equity shareholders' funds

	2004	2003
	£	£
Profit for year	1,730,969	2,115,689
Dividends	(2,500,000)	(1,750,000)
	(769,031)	365,689
Opening equity shareholders' funds	20,582,724	20,217,035
Closing equity shareholders' funds	19,813,693	20,582,724

Notes to the financial statements

For the year ended 30 September 2004

20. Other financial commitments

As at 30 September 2004, the company had annual commitments under non-cancellable operating leases, none of which related to land and buildings, which expire as follows:

	2004	*2003*
	£	*£*
Within one year	23,848	33,312
In two to five years	138,384	112,224
	162,232	145,536

21. Ultimate parent company

The company's parent undertaking is Forming Fabrics UK Limited, which does not prepare group accounts. The ultimate parent undertaking and controlling party is J M Voith AG.

Copies of the consolidated financial statements of the J M Voith AG group are available from P O Box 2002, 89510 Heidenheim, Germany.