

Darchem Holdings Limited

**Directors' report and consolidated
financial statements**

Registered number 3966333

31 December 2001



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Directors' report

The directors present their report and the audited financial statements for the fourteen month period ended 31 December 2001.

Principal activities

The principal activity of the company is to act as a holding company.

The principal activities of the group during the period were:

- Aero products – light weight insulation systems, honeycomb structures and precision fabrications.
- Nuclear and marine products – metallic insulation and outage systems.
- Fire protection and industrial products – fire protection, thermal radiation systems, blast walls, engineered thermal and acoustic insulation, gas turbine exhausts and high duty fabrications.
- Heat treatment – heat and surface treatments and metal joining services.
- Technology centre – NAMAS approved test laboratory, asbestos and air monitoring service, fire testing, physical and chemical testing of insulation, thermal performance evaluation of insulation systems and design consultancy.
- Hoyt metal – plain bearings, manufacture and relining services, bearing test and relining equipment and the manufacture of anti-friction metals and non-ferrous alloys.

Business review

The directors consider the result for the period to be satisfactory.

Directors and directors' interests

The directors who held office during the period were as follows:

HSE Directors Limited	(resigned 18 December 2000)
Mr JW Menzies	(appointed 18 December 2000)
Mr J Love	(appointed 18 December 2000)
Mr JR Padbury	(appointed 18 December 2000)
Mr JW Gagg	(appointed 18 December 2000)
Mr ST James	(appointed 18 December 2000)
Mr HW Gregson	(appointed 18 December 2000)
Mr JJ Hobbs	(appointed 25 January 2001)

The directors who held office at the end of the financial period had the following interests in the ordinary shares of group companies according to the register of directors' interests:

	Company	Class of share	Interest at end of period £	Interest at date of appointment £
JW Menzies	Darchem Holdings Limited	Ordinary	57,144	80
JW Gagg	Darchem Holdings Limited	Ordinary	35,714	50
ST James	Darchem Holdings Limited	Ordinary	35,714	50
J Love	Darchem Holdings Limited	Ordinary	35,714	50
JR Padbury	Darchem Holdings Limited	Ordinary	35,714	50

According to the register of directors' interests, no rights to subscribe for shares in the company were granted to any of the directors or their immediate families, or exercised by them, during the period.

Directors' report *(continued)*

Employees

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

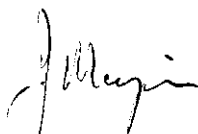
Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

During the year the policy of providing employees with information about the company has been achieved through the production and distribution on a regular basis of news bulletins for employees. Regular meetings are held between management and employees to allow a free flow of information and ideas.

Auditors

In accordance with Section 384 of the Companies Act 1985, 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



JW Menzies
Director

Ironmasters Way
Stillington
Stockton on Tees
Cleveland
TS21 1LB

26 March 2002

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



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Report of the independent auditors to the members of Darchem Holdings Limited

We have audited the financial statements on pages 5 to 27.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 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 group is not disclosed.

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 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 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 affairs of the company and the group as at 31 December 2001 and of the loss of the group for the fourteen month period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

26 March 2002

Consolidated profit and loss account
for the fourteen month period ended 31 December 2001

	<i>Note</i>	14 month period ended 31 December 2001		7 month period ended 31 October 2000	
		£000	£000	£000	£000
Turnover					
Continuing operations		-		-	
Acquisitions	2	37,647		-	
		<hr/>		<hr/>	
Cost of sales	2		37,647 (29,720)		- -
			<hr/>		<hr/>
Gross profit			7,927		-
Distribution costs	2		(1,014)		-
Administrative expenses (including exceptional costs of £450,000 (2000: £nil))	4		(5,175)		-
Other operating income	2		(1)		-
			<hr/>		<hr/>
Operating profit					
Continuing operations	2	(1,620)		-	
Acquisitions	2	3,357		-	
		<hr/>		<hr/>	
Other interest receivable and similar income	6		1,737		-
Interest payable and similar charges	7		16 (2,567)		- -
			<hr/>		<hr/>
Loss on ordinary activities before taxation	2-8		(814)		-
Tax on loss on ordinary activities	9		(74)		-
			<hr/>		<hr/>
Retained loss for the period			(888)		-
			<hr/>		<hr/>

The group had no recognised gains or losses other than the result for the period.

Consolidated balance sheet
at 31 December 2001

	<i>Note</i>	2001	31 October 2000
		£000	£000
Fixed assets			
Intangible assets	10	13,189	-
Tangible assets	11	5,578	-
		<hr/>	<hr/>
		18,767	-
Current assets			
Stocks	13	5,109	-
Debtors	14	6,933	-
Cash at bank and in hand		552	-
		<hr/>	<hr/>
		12,594	-
Creditors: amounts falling due within one year	15	(4,412)	-
		<hr/>	<hr/>
Net current assets		8,182	-
		<hr/>	<hr/>
Total assets less current liabilities		26,949	-
Creditors: amounts falling due after more than one year	16	(26,593)	-
Provisions for liabilities and charges	17	(530)	-
		<hr/>	<hr/>
Net liabilities		(174)	-
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	18	205	-
Share premium account	19	509	-
Profit and loss account	19	(888)	-
		<hr/>	<hr/>
Shareholders' funds – equity		(174)	-
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 26 March 2002 and were signed on its behalf by:


JW Menzies
Director


J Love
Director

Company balance sheet
at 31 December 2001

	Note	2001 £000	31 October 2000 £000
Fixed assets			
Investments	12	24,254	-
Current assets			
Debtors	14	4,859	-
		<u>4,859</u>	<u>-</u>
Creditors: amounts falling due within one year	15	<u>(4,032)</u>	<u>-</u>
Net current assets		827	-
Total assets less current liabilities		<u>25,081</u>	<u>-</u>
Creditors: amounts falling due after more than one year	16	<u>(26,593)</u>	<u>-</u>
Net liabilities		<u>(1,512)</u>	<u>-</u>
Capital and reserves			
Called up share capital	18	205	-
Share premium account	19	509	-
Profit and loss account	19	<u>(2,226)</u>	<u>-</u>
Shareholders' funds – equity		<u>(1,512)</u>	<u>-</u>

These financial statements were approved by the board of directors on 26 March 2002 and were signed on its behalf by:


JW Menzies
Director


J Love
Director

Consolidated cash flow statement
for the fourteen month period ended 31 December 2001

	<i>Note</i>	14 month period ended 31 December 2001 £000	7 month period ended 31 October 2000 £000
Cash flow statement			
Cash flow from operating activities	22	4,300	-
Returns on investments and servicing of finance	23	(2,178)	-
Taxation		(587)	-
Capital expenditure and financial investment	23	(735)	-
Acquisitions and disposals	23	(27,744)	-
		<hr/>	<hr/>
Cash outflow before financing		(26,944)	-
Financing	23	27,496	-
		<hr/>	<hr/>
Increase in cash in the period		552	-
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt			
	24		
Increase in cash in the period		552	-
Cash inflow from increase in debt		(26,782)	-
		<hr/>	<hr/>
Movement in net debt in the period		(26,230)	-
Net debt at the start of the period		-	-
		<hr/>	<hr/>
Net debt at the end of the period		(26,230)	-
		<hr/>	<hr/>

Reconciliations of movements in shareholders' funds
for the 14 month period ended 31 December 2001

	Group		Company	
	14 month period ended 31 December 2001 £000	7 month period ended 31 October 2000 £000	14 month period ended 31 December 2001 £000	7 month period ended 31 October 2000 £000
Loss for the financial period	(888)	-	(2,226)	-
Dividends	-	-	-	-
New share capital subscribed	714	-	714	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net reduction in shareholders' funds	(174)	-	(1,512)	-
Opening shareholders' funds	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	(174)	-	(1,512)	-
	<hr/>	<hr/>	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2001. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

Tangible fixed assets and depreciation

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

Freehold land and buildings	-	50 years
Leasehold land and buildings	-	life of lease
Plant and machinery	-	3 to 15 years

Foreign currencies

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

Notes (continued)

1 Accounting policies (continued)

Leases

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

Post retirement benefits

Up until 30 September 2001 Darchem Holdings Limited was part of the Weir Group defined benefit pension scheme which is set up under a separate trust. Contributions to the scheme were charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. Since 30 September 2001 Darchem Holdings Limited has contributed to a stakeholder pension scheme managed by Legal and General plc. Contributions are charged to profit and loss as incurred.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the period in which it is incurred.

Stocks

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

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax on the basis that a liability has crystallised.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers. An analysis of turnover by geographical market has not been disclosed. The directors are of the opinion that to disclose such information could be seriously prejudicial to the interests of the company.

Notes (continued)

1 Accounting policies (continued)

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

2 Analysis of continuing operations

	14 month period ended 31 December 2001		7 month period ended 31 October 2000	
	Continuing £000	Acquisition £000	Total Continuing £000	Total Continuing £000
Group turnover	-	37,647	37,647	-
Cost of sales	-	(29,720)	(29,720)	-
Gross profit	-	7,927	7,927	-
Distribution costs	-	(1,014)	(1,014)	-
Administrative expenses	(1,620)	(3,555)	(5,175)	-
Other operating income	-	(1)	(1)	-
Group operating (loss)/profit	(1,620)	3,357	1,737	-

3 Loss on ordinary activities before taxation

14 month period ended 31 December 2001 £000	7 month period ended 31 October 2000 £000
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Loss on ordinary activities before taxation is stated

after charging

Auditors' remuneration:

Group	- audit	39	-
	- fees paid to the auditors and its associates in respect of other services	3	-
Company	- audit	4	-
Depreciation and other amounts written off tangible fixed assets:			
Owned		1,218	-
Amortisation of goodwill		694	-
Hire of plant and machinery - rentals payable under operating leases		200	-
Hire of other assets - operating leases		258	-
Loss on disposal of fixed assets		6	-
Exchange losses		72	-

Notes (continued)

4 Exceptional costs

Exceptional costs relate to redundancies and the transfer of the fabrication operation from the company's Gloucester site to its Stillington site.

5 Remuneration of directors

	14 month period ended 31 December 2001 £000	7 month period ended 31 October 2000 £000
Directors' emoluments	477	-
Company contributions to money purchase pension schemes	18	-
	<hr/> 495	<hr/> -

The aggregate of emoluments of the highest paid director was £120,000 (2000:£Nil), and company pension contributions of £15,000 (2000:£Nil) were made to a money purchase scheme on his behalf.

	Number of directors	
	14 month period ended 31 December 2001	7 month period ended 31 October 2000
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes (see note 21)	5	-

6 Staff numbers and costs

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

	Number of employees	
	14 month period ended 31 December 2001	7 month period ended 31 October 2000
Manufacturing	450	-
Administration	334	-
	<hr/> 784	<hr/> -

Notes (continued)

6 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	14 month period ended 31 December 2001 £000	7 month period ended 31 October 2000 £000
Wages and salaries	15,792	-
Social security costs	1,298	-
Other pension costs	443	-
	<u>17,533</u>	<u>-</u>

7 Other interest receivable and similar income

	14 month period ended 31 December 2001 £000	7 month period ended 31 October 2000 £000
Other	16	-
	<u>16</u>	<u>-</u>

8 Interest payable and similar charges

	14 month period ended 31 December 2001 £000	7 month period ended 31 October 2000 £000
On bank loans and overdrafts	2,567	-
	<u>2,567</u>	<u>-</u>

Notes (continued)

9 Taxation

Analysis of charge in period

	14 month period ended 31 December 2001 £000	7 month period ended 31 October 2000 £000
Current corporation tax on profit for the period	11	-
Adjustment relating to previous period	60	-
Deferred tax (see note 17)	3	-
	<hr/> 74	<hr/> -

10 Intangible fixed assets

Group	Goodwill £000
<i>Cost</i>	
At beginning of period	-
Arising on acquisition (see note 12)	13,883
	<hr/> 13,883
At end of period	<hr/> 13,883
<i>Amortisation</i>	
At beginning of period	-
Charged in period	694
	<hr/> 694
At end of period	<hr/> 694
<i>Net book value</i>	
At 31 December 2001	13,189
	<hr/>
At 31 October 2000	-
	<hr/>

During the period the group acquired the share capital and net assets of Darchem Engineering Limited, giving rise to goodwill of £13,883,000. The directors are of the opinion that the goodwill has a long economic life as it is an inseparable part of the value of the business acquired and is linked to the products and services that the business provides. The products are continuously improved with all development expenditure written off as incurred. This, in the opinion of the directors, maintains the economic life of the products and hence the goodwill.

The directors do however recognise that it is prudent to amortise goodwill over a defined period and in the light of the above have decided to write off goodwill on a straight line basis over 20 years.

Notes (continued)

11 Tangible fixed assets

	Freehold land and buildings £000	Short leasehold land and buildings £000	Plant and machinery £000	Total £000
Group				
<i>Cost</i>				
At beginning of period	-	-	-	-
On acquisition	2,099	285	9,133	11,517
Additions	9	8	731	748
Disposals	-	-	(43)	(43)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of period	2,108	293	9,821	12,222
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of period	-	-	-	-
On acquisition	277	110	5,063	5,450
Charge for period	99	33	1,086	1,218
On disposals	-	-	(24)	(24)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of period	376	143	6,125	6,644
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2001	1,732	150	3,696	5,578
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 2000	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

12 Fixed asset investments

Company	Shares in group undertakings £000
<i>Cost</i>	
At the beginning of the period	-
On acquisition of Darchem Engineering Limited	21,254
Additional increase in share capital of Darchem Engineering Limited	3,000
	<hr/>
At end of period	24,254 <hr/>

The companies in which the group and company's interest at the period end was more than 20%, each of which is incorporated in Great Britain, are as follows:

	Principal Activity	Percentage of ordinary shares held	
		Group	Company
<i>Subsidiary undertakings</i>			
Darchem Engineering Limited	Manufacturing	100%	100%
Insumat Limited	Dormant	100%	-
Expert Heat Treatments (Gosport) Limited	Dormant	100%	-
Expert Heat Treatments (Kent) Limited	Dormant	100%	-

Notes (continued)

12 Fixed asset investments (continued)

On 21 December 2000 the company acquired all of the issued ordinary shares of Darchem Engineering Limited and its subsidiary companies. The resulting goodwill of £13,883,000 was capitalised and will be written off over 20 years.

	Book value	Accounting policy alignment	Other adjustments	Fair value
	£000	£000	£000	£000
Fixed assets				
Tangible	6,067	-	-	6,067
Investments	2,754	-	(358)	2,396
Current assets				
Stock	4,753	-	(20)	4,733
Debtors	8,003	(72)	-	7,931
Total assets	<u>21,577</u>	<u>(72)</u>	<u>(378)</u>	<u>21,127</u>
Liabilities				
Creditors	(13,609)	-	(147)	(13,756)
Total liabilities	<u>(13,609)</u>	<u>(70)</u>	<u>(77)</u>	<u>(13,756)</u>
Net assets	<u>7,968</u>	<u>(70)</u>	<u>(527)</u>	<u>7,371</u>
Goodwill				<u>13,883</u>
Purchase consideration and costs of acquisition				<u>21,254</u>

The acquired undertaking made a loss of £3,857,000 from the beginning of its financial year to the date of acquisition. In its previous financial year the profit was £1,653,000.

In the twelve months prior to the acquisition provisions of £Nil were made for reorganisation and restructuring costs.

The reduction of £358,000 represents the difference between the cost of the investments in the subsidiary's books and the carrying value of the net assets of its subsidiaries.

An accrual for £70,000 has been included to provide for the final cost of a project instigated and run by Darchem Engineering Limited's previous holding company. This project was terminated at the date of acquisition by Darchem Holdings Limited.

A £97,000 adjustment has been made to reflect the costs of the closure of a site. This was as a direct consequence of the acquisition.

The £72,000 adjustment has been made to align accounting policies.

Notes (continued)

13 Stocks

	Group		Company	
	31 October		31 October	
	2001	2000	2001	2000
	£000	£000	£000	£000
Raw materials and consumables	1,603	-	-	-
Work in progress	3,333	-	-	-
Finished goods and goods for resale	173	-	-	-
	<u>5,109</u>	<u>-</u>	<u>-</u>	<u>-</u>

Work in progress includes the following amounts in respect of long-term contracts:

	Group		Company	
	31 October		31 October	
	2001	2000	2001	2000
	£000	£000	£000	£000
Net cost less foreseeable losses	4,517	-	-	-
Less payments on account received and receivable not matched with turnover	(1,184)	-	-	-
	<u>3,333</u>	<u>-</u>	<u>-</u>	<u>-</u>

14 Debtors

	Group		Company	
	31 October		31 October	
	2001	2000	2001	2000
	£000	£000	£000	£000
Trade debtors	6,547	-	-	-
Amounts owed by group undertakings	-	-	4,000	-
Group relief receivable	-	-	859	-
Corporation tax recoverable	128	-	-	-
Other debtors	23	-	-	-
Prepayments and accrued income	235	-	-	-
	<u>6,933</u>	<u>-</u>	<u>4,859</u>	<u>-</u>

Notes (continued)

15 Creditors: amounts falling due within one year

	Group		Company	
	2001	31 October 2000	2001	31 October 2000
	£000	£000	£000	£000
Bank loans and overdrafts (see note 16)	684	-	3,920	-
Trade creditors	1,737	-	-	-
Corporation tax	-	-	24	-
Taxation and social security	745	-	-	-
Other creditors	122	-	3	-
Accruals and deferred income	1,124	-	85	-
	<u>4,412</u>	<u>-</u>	<u>4,032</u>	<u>-</u>

16 Creditors: amounts falling due after more than one year

	Group		Company	
	2001	31 October 2000	2001	31 October 2000
	£000	£000	£000	£000
Bank loans	14,602	-	14,602	-
10% unsecured loan notes	11,991	-	11,991	-
	<u>26,593</u>	<u>-</u>	<u>26,593</u>	<u>-</u>

Analysis of debt:

	Group		Company	
	2001	31 October 2000	2001	31 October 2000
	£000	£000	£000	£000
Debt can be analysed as falling due:				
In one year or less, or on demand	684	-	3,920	-
Between one and two years	1,691	-	1,691	-
Between two and five years	18,564	-	18,564	-
In five years or more	6,338	-	6,338	-
	<u>27,277</u>	<u>-</u>	<u>30,513</u>	<u>-</u>

Included within the 10% unsecured shareholder loan notes is £1,124,000 of accrued interest, payable on redemption of the notes 1 January 2004.

Bank loans comprise 2 term loans – 'A' and 'B'. Term loan 'A' is repayable in half yearly instalments until 2007. Term loan 'B' is repayable in 2 equal instalments in 2008. Interest is charged at a rate per annum determined to be the aggregate of: a) the applicable margin, b) LIBOR, and c) any additional cost for the period.

The bank loans are secured by a floating charge over the group's assets.

Notes (continued)

17 Provisions for liabilities and charges

	Deferred taxation £000	Other provisions £000	Total £000
Group			
At beginning of period	-	-	-
On acquisition	77	-	77
Provided during the year	3	-	3
Created during the year	-	450	450
	<hr/>	<hr/>	<hr/>
At end of period	80	450	530
	<hr/>	<hr/>	<hr/>

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2001 Provided £000	Unprovided £000	2000 Provided £000	Unprovided £000
Difference between accumulated depreciation and amortisation and capital allowances	128	-	-	-
Other timing differences	(48)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	80	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

18 Called up share capital

	2001 £	2000 £
Authorised		
Equity: Ordinary shares of £1 each	200,000	280
'A' Preferred ordinary shares of £0.01 each	5,143	-
	<hr/>	<hr/>
	205,143	280
	<hr/>	<hr/>
Allotted, called up and fully paid		
Equity: Ordinary shares of £1 each	200,000	280
'A' Preferred ordinary shares of £0.01 each	5,143	-
	<hr/>	<hr/>
	205,143	280
	<hr/>	<hr/>

On 18 December 2000 the company increased its authorised share capital by 199,720 to 200,000 ordinary shares of £1 each. The company issued 199,720 shares at £1 per share during the period.

On 22 December 2000 the company further increased its authorised share capital by 514,286 'A' Preferred ordinary shares of £0.01p each. The company issued 514,286 shares at £1 per share creating £509,144 of share premium.

The 'A' Preferred ordinary shares rank equally with the Ordinary shares in all respect, except on a return of assets of the company, the surplus assets after the payment of liabilities shall be applied to repaying the preferred shareholders immediately before the ordinary shareholders.

The Preferred ordinary shares can be converted to Ordinary shares at a ratio of 1:100 if required by a majority of the Preferred ordinary shareholders.

Notes *(continued)*

19 Share premium and reserves

	Group and company Share premium account £000	Group Profit and loss account £000
At beginning of period	-	-
Retained loss for the period		(888)
Premium on share issues, less expenses	509	-
	<hr/>	<hr/>
At end of period	509	(888)
	<hr/>	<hr/>
		Company profit and loss account £000
At beginning of period		-
Retained loss for the period		(2,226)
		<hr/>
At end of period		(2,226)
		<hr/>

Notes (continued)

20 Commitments

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

	Group 2001 £000	2000 £000	Company 2001 £000	2000 £000
Contracted	246	-	-	-

- (b) Annual commitments under non-cancellable operating leases are as follows:

	2001 Land and buildings £000	Other £000	2000 Land and buildings £000	Other £000
Group				
Operating leases which expire:				
Within one year	29	69	-	-
In the second to fifth years inclusive	-	212	-	-
Over five years	194	-	-	-
	223	281	-	-

21 Pension scheme

Until 30 September 2001 the company participated in the Weir Group pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. At this date the company ceased its participation in this scheme and employees of the company who contributed to the scheme became deferred members.

The pension cost charge for the period from 30 December 2000 to 30 September 2001 represents contributions payable by the group to the Weir Group Scheme and amounted to £293,000 (2000: £715,000).

Contributions amounting to £Nil (2000: Nil) were payable to the scheme and included in creditors.

From 1 October 2001 the company has operated a defined contribution pension scheme. The pension cost charge for the period from 1 October 2001 to 28 December 2001 represents contributions payable by the group to the scheme and amounted to £135,000 (2000: £Nil).

In addition, contributions totalling £15,000 (2000: £Nil) have been paid into a personal pension scheme.

Contributions amounting to £62,000 (2000: £Nil) were payable to the scheme and included in creditors.

Notes *(continued)*

22 Reconciliation of operating profit to operating cash flows

	14 month period ended 31 December 2001 £000	7 month period ended 31 October 2000 £000
Operating profit	1,737	-
Depreciation and amortisation charges	1,912	-
Loss on sale of fixed assets	6	-
Increase in stocks	(376)	-
Decrease in debtors	1,248	-
Decrease in creditors	(227)	-
Net cash inflow from operating activities	4,300	-

Notes (continued)

23 Analysis of cash flows

	14 month period ended 31 December 2001		7 month period ended 31 October 2000	
	£000	£000	£000	£000
Returns on investment and servicing of finance				
Interest received	16		-	
Interest paid	(1,443)		-	
Loan arrangement fees	(751)			
		(2,178)		-
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(745)		-	
Sale of plant and machinery	10		-	
		(735)		-
Acquisitions and disposals				
Purchase of subsidiary undertaking	(21,254)		-	
Net overdrafts acquired with subsidiary	(6,490)		-	
		(27,744)		
Financing				
Issue of ordinary share capital	714		-	
Repayment of secured loan	(2,250)		-	
Debt due after more than one year:				
New secured loan repayable in instalments until 2007	14,000		-	
New secured loan repayable in 2008	4,000		-	
10% Unsecured Loan stock notes	11,032		-	
		27,496		-

Notes (continued)

24 Analysis of net debt

	At beginning of period	Cash flow	Acquisition (excluding cash and overdrafts)	Other non cash changes	At end of period
	£000	£000	£000	£000	£000
Cash in hand, at bank	-	552	-	-	552
	-	552	-	-	552
Debt due within one year	-	750	-	(1,500)	(750)
Debt due after one year	-	(27,532)	-	1,500	(26,032)
Total	-	(26,230)	-	-	(26,230)

Included within total net debt is £30,018,000 of debt due on demand and in future years. This differs to the analysis of debt by £2,741,000 (see note 16). This difference can be attributed to the requirement under FRS 4 to include within the analysis of net debt accrued interest of £1,124,000 and loan arrangement fees of £629,000. A right of set off exists for the company's overdraft of £3,236,000.

25 Purchase of subsidiary undertaking

	£000
Net assets acquired	
Tangible fixed assets	6,067
Stocks	4,733
Debtors	7,931
Creditors	(4,793)
Bank overdrafts	(6,490)
Deferred taxation	(77)
	<hr/>
	7,371
Goodwill	13,883
	<hr/>
	21,254
	<hr/>
Satisfied by	
Cash	21,254
	<hr/>

The subsidiary undertaking acquired during the year contributed £4,984,000 to the group's net operating cash flows, paid £15,000 in respect of net returns on investments and servicing of finance, paid £587,000 in respect of taxation and utilised £735,000 for capital expenditure.

Notes *(continued)*

26 Related party disclosures

The company is controlled by its board of directors. The directors consider themselves to be the ultimate controlling party.

27 Ultimate parent company and parent undertaking of larger group

The largest group in which the results of the company are consolidated is that headed by Darchem Holdings Limited, a company incorporated in the United Kingdom. The consolidated accounts of this company are available to the public and may be obtained from Stillington, Stockton on Tees, Cleveland, TS21 1LB.