

NORSON GROUP LIMITED

Report and Financial Statements

31 March 2000



**Deloitte & Touche
Lomond House
9 George Square
Glasgow
G2 1QQ**

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REPORT AND FINANCIAL STATEMENTS 2000

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REPORT AND FINANCIAL STATEMENTS 2000

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R McColl
W M Bell
S Fudge (Non-executive)

SECRETARY

Paull & Williamsons

REGISTERED OFFICE

Investment House
6 Union Row
Aberdeen
AB10 1DQ

BANKERS

Clydesdale Bank PLC
89 St Vincent Street
Glasgow
G2 5TF

SOLICITORS

Paull & Williamsons
Investment House
6 Union Row
Aberdeen
AB10 1DQ

AUDITORS

Deloitte & Touche
Lomond House
9 George Square
Glasgow
G2 1QQ

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2000.

PRINCIPAL ACTIVITY

The principal activities of the group are the design, manufacture, installation and servicing of products for the oil and gas, marine and petrochemical markets, the stocking and distribution of hydraulic components, the service and repair of hydraulic components and equipment, and the provision of pipework and industrial services. The company operates as a holding and management company.

BUSINESS REVIEW

On 8 December 2000, the trade and assets of Norson Engineering Limited, a subsidiary of the company, were sold. From this date the trade of Norson Engineering Limited has been significantly reduced.

The group balance sheet as detailed on page 6 shows shareholders' funds amounting to £2,299,982 (1999 - £3,211,141).

RESULTS, DIVIDENDS AND APPROPRIATIONS

The results for the year are shown in the profit and loss account on page 5.

The directors paid and proposed dividends on all shares amounting to £135,000 (1999 - £155,273) in the year and made appropriations in respect of non-equity shareholders' funds of £10,235 (1999 - £19,416). The balance of loss for the year is to be transferred against reserves.

The directors are confident of growth in the coming year.

DIRECTORS

The directors of the company during the year and their interests in the shares of the company were as follows:

	Ordinary shares of £1 each	
	2000	1999
R McColl	50,000	50,000
W M Bell	50,000	50,000
R McKeown (resigned 9 December 2000)	50,000	50,000
J McMillan (resigned 1 July 1999)	-	-

S Fudge was appointed as a director of the company on 13 February 2001.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



R McColl
Director
29 June 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group as at the end of the financial year and of the profit or loss of the group 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; and
- 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 group and 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF

NORSON GROUP LIMITED

We have audited the financial statements on pages 5 to 22 which have been prepared under 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 financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with 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 circumstances of the company and the group, 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.

Uncertainty relating to contracts in dispute

In forming our opinion we have considered the adequacy of the disclosure made in note 14 and note 23 to the accounts in relation to the outcome of two contracts which are in dispute and to the claim of \$3 million (£1,898,494) for damages made against the company. It is not possible to estimate, with any reasonable degree of certainty, whether or not adjustments are, or will be, required in respect of the outcome of these disputes and the claim for damages to the figures included in the financial statements for turnover, profits, trade debtors and amounts recoverable on contracts. Our opinion is not qualified in this respect.

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 March 2000 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

29 June 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 March 2000

	Note	2000 £	1999 £
TURNOVER	2	10,865,813	20,356,288
Cost of sales		(9,597,476)	(17,956,085)
GROSS PROFIT		1,268,337	2,400,203
Operating expenses		(1,841,013)	(1,946,929)
OPERATING (LOSS)/PROFIT	4	(572,676)	453,274
Interest receivable	5	6,819	36,308
Interest payable	6	(193,645)	(116,657)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(759,502)	372,925
Taxation	7	(16,657)	(114,120)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(776,159)	258,805
Dividends	8	(135,000)	(155,273)
Other appropriations: non-equity shares		(10,235)	(19,416)
Retained (loss)/profit for the year	18	(921,394)	84,116

None of the group's activities were acquired or discontinued during the year to 31 March 2000.


There are no recognised gains or losses in 2000 or 1999 other than the profit for those years.

CONSOLIDATED BALANCE SHEET
31 March 2000

	Note	2000 £	1999 £
FIXED ASSETS			
Intangible assets	10	1,786,899	1,894,396
Tangible assets	11	241,365	418,364
		<u>2,028,264</u>	<u>2,312,760</u>
CURRENT ASSETS			
Stocks	13	420,074	457,020
Debtors	14	5,046,795	5,899,029
Cash at bank and in hand		1,088,312	1,375,203
		<u>6,555,181</u>	<u>7,731,252</u>
CREDITORS: amounts falling due within one year	15	(6,181,588)	(6,643,755)
NET CURRENT ASSETS		<u>373,593</u>	<u>1,087,497</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,401,857	3,400,257
CREDITORS: amounts falling due after more than one year	16	(101,875)	(189,116)
		<u>2,299,982</u>	<u>3,211,141</u>
CAPITAL AND RESERVES			
Called up share capital	17	2,235,000	2,235,000
Profit and loss account	18	(90,874)	830,520
Share premium account	19	71,645	71,645
Other reserve	20	84,211	73,976
TOTAL SHAREHOLDERS' FUNDS	21	<u>2,299,982</u>	<u>3,211,141</u>
Analysed as:			
Equity shareholders' funds		415,771	1,337,165
Non-equity shareholders' funds		1,884,211	1,873,976
		<u>2,299,982</u>	<u>3,211,141</u>

These financial statements were approved by the Board of Directors on 29 June 2001.

Signed on behalf of the Board of Directors



R McColl

Director

COMPANY BALANCE SHEET
31 March 2000

	Note	2000 £	1999 £
FIXED ASSETS			
Tangible assets	11	62,996	89,351
Investments	12	2,633,098	2,633,098
		<u>2,696,094</u>	<u>2,722,449</u>
CURRENT ASSETS			
Debtors	14	414,502	342,316
CREDITORS: amounts falling due within one year	15	(612,807)	(502,029)
NET CURRENT LIABILITIES		<u>(198,305)</u>	<u>(159,713)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,497,789	2,562,736
CREDITORS: amounts falling due after more than one year	16	(98,886)	(175,206)
		<u>2,398,903</u>	<u>2,387,530</u>
CAPITAL AND RESERVES			
Called up share capital	17	2,235,000	2,235,000
Profit and loss account	18	8,047	6,909
Share premium account	19	71,645	71,645
Other reserve	20	84,211	73,976
TOTAL SHAREHOLDERS' FUNDS	21	<u>2,398,903</u>	<u>2,387,530</u>
Analysed as:			
Equity shareholders' funds		514,692	513,554
Non-equity shareholders' funds		1,884,211	1,873,976
		<u>2,398,903</u>	<u>2,387,530</u>

These financial statements were approved by the Board of Directors on 29 June 2001.

Signed on behalf of the Board of Directors



R McColl

Director

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 March 2000

	Note	2000 £	1999 £
Net cash inflow /(outflow) from operating activities	i	570,470	(2,956,827)
Returns on investments and servicing of finance			
Interest received		6,819	36,308
Interest paid		(193,645)	(116,657)
Non-equity dividends paid		(202,500)	(67,500)
		<u>(389,326)</u>	<u>(147,849)</u>
Taxation		(16,899)	(566,059)
Capital expenditure			
Purchase of tangible fixed assets		(25,579)	(137,772)
Receipts from sale of tangible fixed assets		7,550	26,926
		<u>(18,029)</u>	<u>(110,846)</u>
Equity dividends paid		-	(71,730)
Cash outflow before financing		146,216	(3,853,311)
Financing			
Capital element of finance lease rentals		(41,598)	(38,188)
Bank loan repayments		(125,000)	(112,500)
		<u>(166,598)</u>	<u>(150,688)</u>
Decrease in cash		<u>(20,382)</u>	<u>(4,003,999)</u>
		2000	1999
		£	£
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the period	ii	(20,382)	(4,003,999)
Cash outflow from decrease in debt and lease financing		<u>166,598</u>	<u>150,688</u>
Movement in net debt		146,216	(3,853,311)
Opening net debt	ii	(2,544,521)	1,308,790
Closing net debt	ii	<u>(2,398,305)</u>	<u>(2,544,521)</u>

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 March 2000

**i. RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH INFLOW/(OUTFLOW)
 FROM OPERATING ACTIVITIES**

	2000 £	1999 £
Operating (loss)/profit	(572,676)	453,274
Depreciation charge/amortisation charge	222,939	245,559
Profit on sale of fixed assets	(2,913)	(8,476)
Decrease in stock	36,946	58,468
Decrease/(increase) in debtors	869,109	(64,393)
Decrease in creditors	(65,434)	(3,641,259)
Impairment of tangible fixed assets	82,499	-
	<u>570,470</u>	<u>(2,956,827)</u>

ii. ANALYSIS OF CHANGES IN NET DEBT

	At 1.4.99 £	Cash flow £	Other non cash changes £	At 31.3.00 £
Cash in hand, at bank	1,375,203	(286,891)	-	1,088,312
Overdrafts	(3,650,923)	266,509	-	(3,384,414)
	<u>(2,275,720)</u>	<u>(20,382)</u>	<u>-</u>	<u>(2,296,102)</u>
Debt due after one year	(62,500)	-	62,500	-
Debt due within one year	(125,000)	125,000	(62,500)	(62,500)
Finance leases and hire purchase contracts	(81,301)	41,598	-	(39,703)
	<u>(268,801)</u>	<u>166,598</u>	<u>-</u>	<u>(102,203)</u>
Total	<u>(2,544,521)</u>	<u>146,216</u>	<u>-</u>	<u>(2,398,305)</u>

NOTES TO THE ACCOUNTS

Year ended 31 March 2000

1. ACCOUNTING POLICIES

Basis of accounting

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 incorporate the accounts of the company and its subsidiaries for the period ended 31 March 2000. No profit and loss account is presented for Norson Group Limited as provided by S230 of the Companies Act 1985. The profit for Norson Group Limited is given in note 21.

Goodwill

Goodwill arising on consolidation is amortised over a period of twenty years being the directors' estimate of its useful life.

Tangible fixed assets

Tangible fixed assets are shown at cost to the group on consolidation. Any related government grants are reported as deferred income and amortised over the expected useful life of the assets concerned. The balance of unamortised grants is included within deferred income.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value of each asset on a straight-line or reducing balance basis over its estimated useful life as follows:

Leasehold buildings	4% - 15% per annum straight line
Plant and machinery depending on type	15% per annum reducing balance, 25-50% per annum straight-line,

Leases and hire purchase contracts

Tangible fixed assets acquired under finance leases and hire purchase contracts are capitalised at the estimated fair value at the date of inception of each lease or contract. The total finance charges are allocated over the period of the lease or contract in such a way as to give a reasonably constant charge on the outstanding liability.

Rentals paid under operating leases are charged to the profit and loss account as incurred. Further information on future commitments is given in note 22.

Stocks

Stocks are stated at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition is based on:

Raw materials and consumables	- Purchase cost on a first-in, first-out basis
Work-in-progress and finished goods	- Cost of direct materials and labour plus a reasonable proportion of manufacturing overheads based on normal levels of activity, net of progress payments received

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

In the case of long-term contracts, turnover represents the proportion of contract value applicable to the activity in the year, ascertained by reference to the level of costs incurred to date. The related costs are matched with this turnover, resulting in the reporting of attributable profit proportionate to the contract activity. Where the outcome of a contract cannot be foreseen with reasonable certainty but no loss is expected, turnover and costs are recorded as activity progresses using a zero estimate of profit.

NOTES TO THE ACCOUNTS**Year ended 31 March 2000****1. ACCOUNTING POLICIES (CONTINUED)****Stocks (continued)**

Estimates of total contract costs and revenues are reviewed periodically, and the cumulative effects of changes are recognised in the period in which they are identified. All known or anticipated losses are provided for in full as soon as they are foreseen.

Net costs incurred in excess of amounts transferred to cost of sales are classified as long-term contract balances. Revenues recognised in excess of amounts billed are classified as amounts recoverable on contract balances, with any residual balances being classified as payments on account and included in creditors. Long-term contract balances are stated at contract costs incurred less amounts transferred to cost of sales, foreseeable losses and payments on account.

Pension costs

The company provides pensions for its employees through the Norson Group Limited Pension Scheme. The scheme is a defined benefits scheme, providing benefits based on final pensionable salary. The assets of the scheme are administered by Sun Life Pensions Management Limited.

It is the policy of the company to provide for and fund pension liabilities on a going concern basis, on the advice of external actuaries, by payments to independent trusts or to insurance companies. Payments made to the fund and charged in the financial statements comprise current and past service contributions. Independent actuarial valuations on a going concern basis are carried out every three years.

The amount charged to the profit and loss account is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect the variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining working life of scheme members. The difference between amounts charged to the profit and loss account and contributions paid to the pension scheme is shown within creditors falling due after more than one year.

Further information on pension costs is provided in note 24.

Foreign currency

Transactions denominated in foreign currencies are recorded in sterling at actual exchange rates as of the date of the transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end or, where appropriate at the rate of exchange in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Deferred taxation

Deferred taxation is provided on the liability method in respect of the taxation effect of all timing differences to the extent that tax liabilities are likely to crystallise in the foreseeable future.

2. TURNOVER

Turnover represents the amount derived from the provision of goods and services which fall within the group's ordinary activities, stated net of value added tax.

An analysis of turnover by geographical market has been omitted as the directors believe that such disclosure would be prejudicial to the interests of the group.

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

3. DIRECTORS AND EMPLOYEES

	2000 £	1999 £
Staff costs including directors' emoluments		
Wages and salaries	3,732,277	4,858,391
Social security costs	324,599	378,766
Pension costs	233,119	222,637
	<u>4,289,995</u>	<u>5,459,794</u>
	No.	No.
Average number of persons employed		
Production	119	140
Sales and distribution	17	19
Administration	18	19
	<u>154</u>	<u>178</u>
	£	£
Directors		
Directors' emoluments	231,782	268,978
Pension contributions	24,630	22,679
	<u>256,412</u>	<u>291,657</u>
	£	£
Emoluments excluding pension scheme contributions		
Highest paid director	78,243	87,682
Pension contributions	9,312	8,419
	<u>87,555</u>	<u>96,101</u>

The number of directors accruing benefits under the pension scheme during the year was 3 (1999 – 3).

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

4. OPERATING (LOSS)/PROFIT

	2000	1999
	£	£
Operating (loss)/profit is after charging/(crediting):		
Staff costs	4,289,995	5,459,794
Auditors' remuneration	18,250	18,000
Non audit fees	-	28,000
Operating leases		
Hire of plant and machinery	101,567	109,991
Hire of other assets	138,052	176,501
Amortisation of goodwill	107,497	107,497
Depreciation of tangible fixed assets		
- owned assets	76,742	83,639
- held under finance leases and hire purchase contracts	38,700	54,693
Profit on sale of tangible fixed assets	(2,913)	(8,476)
	<u> </u>	<u> </u>

5. INTEREST RECEIVABLE

	2000	1999
	£	£
Bank interest	6,819	36,308
	<u> </u>	<u> </u>

6. INTEREST PAYABLE

	2000	1999
	£	£
Bank overdraft interest	187,301	74,468
Bank loan interest	-	17,482
Other interest	6,344	24,707
	<u> </u>	<u> </u>
	<u>193,645</u>	<u>116,657</u>

7. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2000	1999
	£	£
Corporation tax on profit on ordinary activities at 30% (1999 - 30%)	-	118,000
Under / (Over) provision in prior years	16,657	(3,880)
	<u> </u>	<u> </u>
	<u>16,657</u>	<u>114,120</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

8. DIVIDENDS

	2000 £	1999 £
Equity dividends		
Proposed - nil per 'A' ordinary share (1999 - 7.1p)	-	20,273
Non-equity dividends		
Paid - 7.5p per preference share (1999 - 3.75p)	135,000	67,500
Proposed - nil per preference share (1999 - 3.75p)	-	67,500
	<u>135,000</u>	<u>155,273</u>

9. PARENT COMPANY PROFIT AND LOSS ACCOUNT

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts.

10. INTANGIBLE FIXED ASSETS

Group	Goodwill £
Cost	
At 1 April 1999 and at 31 March 2000	<u>2,149,958</u>
Amortisation	
At 1 April 1999	255,562
Charge for the year	<u>107,497</u>
At 31 March 2000	<u>363,059</u>
Net book value	
At 31 March 2000	<u>1,786,899</u>
At 31 March 1999	<u>1,894,396</u>

The goodwill on consolidation arose on the acquisition of Norson Services Limited and Norson Hydraulic Services Limited and is being amortised over its estimated useful economic life of 20 years.

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

11. TANGIBLE FIXED ASSETS

Group	Leasehold buildings £	Plant and machinery £	Total £
Cost			
At 1 April 1999	214,553	2,561,147	2,775,700
Additions	-	25,579	25,579
Disposals	-	(11,397)	(11,397)
At 31 March 2000	214,553	2,575,329	2,789,882
Depreciation			
At 1 April 1999	175,000	2,182,336	2,357,336
Charge for the year	12,954	102,488	115,442
Disposals	-	(6,760)	(6,760)
Impairment	-	82,499	82,499
At 31 March 2000	187,954	2,360,563	2,548,517
Net book amount			
At 31 March 2000	26,599	214,766	241,365
At 31 March 1999	39,553	378,811	418,364

The net book amount of fixed assets includes £42,971 (1999 - £124,841) in respect of assets held under finance leases and hire purchase contracts, the depreciation of which is shown in note 4.

Company	Plant and machinery £
Cost	
At 1 April 1999	229,300
Additions	5,390
At 31 March 2000	234,690
Depreciation	
At 1 April 1999	139,950
Charge for year	31,744
At 31 March 2000	171,694
Net book amount	
At 31 March 2000	62,996
At 31 March 1999	89,351

The net book amount of fixed assets includes £33,563 (1999 - £68,812) in respect of assets held under finance leases and hire purchase contracts.

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

12. INVESTMENTS

Company	Subsidiary undertakings £
Cost	
At 1 April 1999 and 31 March 2000	<u>2,633,098</u>

The company holds 100% of the share capital in the following companies:

Name	Trade	Country of incorporation
Norson Services Limited	Stocking and distribution of hydraulic components, the service and repair of hydraulic components, the service and repair of hydraulic components and equipment, and the provision of pipework and industrial services.	Scotland
Norson Engineering Limited	Design, manufacture, installation and servicing of products for the oil and gas, marine and petrochemical markets.	Scotland

The company indirectly holds 100% of the share capital of Norson Hydraulic Services Limited, a dormant company incorporated in Scotland.

The results of the above companies have been included in the consolidated financial statements.

13. STOCKS

Group	2000 £	1999 £
Work-in-progress	268,603	214,822
Finished goods and goods for resale	<u>151,471</u>	<u>242,198</u>
	<u>420,074</u>	<u>457,020</u>
Long term contract balances consist of:		
Costs due to date less provision for losses	147,402	78,978
Less: applicable payments on account	<u>(82,435)</u>	<u>(61,441)</u>
	<u>64,967</u>	<u>17,537</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

14. DEBTORS

	2000		1999	
	Group £	Company £	Group £	Company £
Trade debtors	3,716,336	7,804	4,436,623	-
ACT recoverable	16,875	16,875	-	-
Amounts recoverable on contracts	1,150,386	-	1,320,778	-
Amounts owed by group undertakings	-	-	60,030	9,053
Other debtors	112,239	-	81,598	7,795
Prepayments and accrued income	50,959	389,823	-	325,468
	<u>5,046,795</u>	<u>414,502</u>	<u>5,899,029</u>	<u>342,316</u>

Included in prepayments and accrued income is an amount of £nil (1999 - £18,050) which is due after more than one year.

Included within debtors are sums due to the company in respect of two contracts under dispute.

The group has referred to arbitration certain disputes arising under the first contract in respect of sums owed to the company. The group believes it has a contractual entitlement under this contract of £7.5 million. To date, the customer has paid a total of £5.5 million.

Under the second contract the group has received a claim for damages from the customer for \$3 million (£1,898,494) as disclosed in note 23 to the accounts. The directors and the solicitors acting on behalf of the group do not believe that this sum is payable under the terms of the contract or on any other basis. The group also believes it has a contractual entitlement under this contract value of £12.045 million. To date the customer has paid a total of £11.725 million.

The directors are confident of a satisfactory outcome to these matters and that the values finally agreed will not be substantially at variance from those included in the financial statements.

The directors have not disclosed the actual amounts included within the financial statements as they believe it may prejudice the final outcome of the disputes. Until a settlement is reached it is not possible to estimate, with any degree of certainty, whether or not any adjustments are required to the figures included in the financial statements for turnover, profits, trade debtors and amounts recoverable on contracts.

NOTES TO THE ACCOUNTS
Year ended 31 March 2000**15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2000		1999	
	Group £	Company £	Group £	Company £
Bank loan	62,500	62,500	125,000	125,000
Bank overdraft	3,384,414	430,363	3,650,923	149,866
Trade creditors	1,356,715	-	1,144,447	-
Payments received on account in respect of contracts	253,587	-	410,375	-
Corporation tax	79,555	6,351	62,922	1,425
Social security and other taxes	203,575	-	307,997	-
Accruals and deferred income	790,584	71,009	813,360	116,469
Obligations under finance leases and hire purchase contracts	30,385	22,311	40,958	21,496
Proposed dividends	20,273	20,273	87,773	87,773
	<u>6,181,588</u>	<u>612,807</u>	<u>6,643,755</u>	<u>502,029</u>

The bank loan and overdraft are secured by a floating charge over the assets of the group.

Cross guarantees exist between the company and all of its subsidiaries for all sums due. At 31 March 2000 the group had net bank borrowings of £2,358,602 (1999 - £1,774,408).

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2000		1999	
	Group £	Company £	Group £	Company £
Bank loan	-	-	62,500	62,500
Deferred income	1,863	-	2,839	-
Pension scheme	90,694	90,694	83,434	83,434
Obligations under finance leases and hire purchase contracts	9,318	8,192	40,343	29,272
	<u>101,875</u>	<u>98,886</u>	<u>189,116</u>	<u>175,206</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

Maturity of debt	2000		1999	
	Group £	Company £	Group £	Company £
Bank loans are repayable as follows:				
In one year or less, or on demand – see note 15	62,500	62,500	125,000	125,000
Between one and two years	-	-	62,500	62,500
	<u>62,500</u>	<u>62,500</u>	<u>187,500</u>	<u>187,500</u>
Obligations under finance leases and hire purchase contracts				
	2000		1999	
	Group £	Company £	Group £	Company £
These are repayable over varying periods by monthly instalments as follows:				
In the next year – see note 15	30,385	22,311	40,958	21,496
In second to fifth year	9,318	8,192	40,343	29,272
	<u>39,703</u>	<u>30,503</u>	<u>81,301</u>	<u>50,768</u>

Obligations under finance leases and hire purchase contracts are secured by the related assets.

17. CALLED UP SHARE CAPITAL

Group and company	2000 £	1999 £
Authorised Equity		
150,000 ordinary shares of £1 each	150,000	150,000
285,000 'A' ordinary shares of £1 each	285,000	285,000
Non-equity		
1,800,000 cumulative preference shares of £1 each	1,800,000	1,800,000
	<u>2,235,000</u>	<u>2,235,000</u>
Allotted, called up and fully paid Equity		
150,000 ordinary shares of £1 each	150,000	150,000
285,000 'A' ordinary shares of £1 each	285,000	285,000
Non-equity		
1,800,000 cumulative preference shares of £1 each	1,800,000	1,800,000
	<u>2,235,000</u>	<u>2,235,000</u>

NOTES TO THE ACCOUNTS

Year ended 31 March 2000

17. CALLED UP SHARE CAPITAL (CONTINUED)

Preference shares

Dividend rights:

Fixed cumulative preferential net cash dividend at the rate of £0.075 per annum payable half yearly on 31 March and 30 September. These are payable in priority to any other class of shareholding.

Redemption of shares:

Redeemable in 5 annual instalments of 390,000 shares, 390,000 shares, 400,000 shares, 310,000 shares and 310,000 shares respectively, at £1.10 per share. These redemptions were scheduled to commence on 31 March 1999, however no redemptions have been made.

Winding up:

On a winding up the holders have priority over all other classes to receive repayment of £1.10 per share plus all other arrears of dividend.

Voting rights:

The holders have no voting rights in normal circumstances.

'A' ordinary shares

Dividend rights:

Cumulative preferential net cash profit related dividend is payable annually depending on conditions determined in the articles of association. These rank second for payment and commenced in the year ended 31 March 1998.

Winding up:

On a winding up the holders have second priority to receive repayment of £1 per share plus all other arrears of dividend.

Voting rights:

The holders are entitled to one vote per share.

18. PROFIT AND LOSS ACCOUNT

	Group £	Company £
At 1 April 1999	830,520	6,909
(Loss)/profit for the year	(921,394)	1,138
At 31 March 2000	<u>(90,874)</u>	<u>8,047</u>

19. SHARE PREMIUM ACCOUNT

	Group £	Company £
At 1 April 1999 and 31 March 2000	<u>71,645</u>	<u>71,645</u>

NOTES TO THE ACCOUNTS
Year ended 31 March 2000

20. OTHER RESERVE

	2000		1999	
	Group £	Company £	Group £	Company £
At 1 April 1999	73,976	73,976	54,560	54,560
Appropriation	10,235	10,235	19,416	19,416
At 31 March 2000	<u>84,211</u>	<u>84,211</u>	<u>73,976</u>	<u>73,976</u>

This reserve represents the accumulated appropriations in respect of non-equity shares.

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000		1999	
	Group £	Company £	Group £	Company £
(Loss)/profit for the year	(776,159)	146,373	258,805	228,997
Less: dividends payable	<u>(135,000)</u>	<u>(135,000)</u>	<u>(155,273)</u>	<u>(155,273)</u>
Net movement in shareholders' funds	(911,159)	11,373	103,532	73,724
Opening shareholders' funds	<u>3,211,141</u>	<u>2,387,530</u>	<u>3,107,609</u>	<u>2,313,806</u>
Closing shareholders' funds	<u>2,299,982</u>	<u>2,398,903</u>	<u>3,211,141</u>	<u>2,387,530</u>

22. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Financial commitments under non-cancellable operating leases will result in the following payments falling due in the year to 31 March 2001:

	2000		1999	
	Land and buildings £	Plant and other £	Land and buildings £	Plant and other £
Expiring:				
Within 1 year	-	42,043	-	-
Between 2 and 5 years	63,056	40,116	48,000	13,417
Outwith 5 years	<u>81,667</u>	<u>-</u>	<u>142,000</u>	<u>62,700</u>
	<u>144,723</u>	<u>82,159</u>	<u>190,000</u>	<u>76,117</u>

NOTES TO THE ACCOUNTS

Year ended 31 March 2000

23. CONTINGENT LIABILITIES

Group	2000 £	1999 £
Performance bonds and guarantees issued in the normal course of business	651,801	516,050

Post year end the group has received a claim for damages under a contract for \$3 million (£1,898,494), as disclosed in note 14. The directors are of the opinion that no material sum will be payable in respect of this claim.

24. PENSION COSTS

The pension charge of the group for the year was £233,119 (1999 - £222,637), made up of a regular cost of £179,953 (1999 - £172,016) and resulting in a variation from regular cost of £53,166 (1999 - £50,621).

The pension cost is assessed in accordance with the advice of a professionally qualified actuary. The latest actuarial valuation was at 1 October 1998, and used the Projected Unit Method. The main actuarial assumptions were that (a) salaries would increase by an average of 3.5% per annum and (b) the annual rate of interest would be 6.5% per annum pre-retirement and 5.0% per annum post-retirement. No allowance has been made in the valuation for possible discretionary increases being awarded to pensions in payment.

At the date of the latest actuarial valuation, the market value of the assets of the scheme was £2,569,000 and the actuarial value of the assets covered 85% of the benefits that had accrued to members after allowing for expected future increases in earnings.

The estimated deficit of the scheme at 1 October 1998 was £471,000. In accordance with SSAP 24, the company chose to account for the deficit by amortising the pension deficit over the average expected remaining service lives of the current employees in the scheme after making suitable allowances for future withdrawals. This has been estimated at ten years.

Had the scheme been wound up on 1 October 1998, the statutory debt on the company to make good the Minimum Funding Requirement (MFR) deficit would have amounted to £376,000. The MFR deficit is being eliminated by the payment of an additional contribution rate of 4.3% over the period to April 2002.

An accrual of £90,694 (1999 - £83,434) is included within creditors falling due after more than one year, being the excess of the pension charge over contributions paid by the company.

25. POST BALANCE SHEET EVENT

On 8 December 2000, the trade and assets of Norson Engineering Limited, a subsidiary of the company were sold.