Clarke UK Limited

Report and Financial Statements

31 December 2009

Directors
D Petrie
J Blackwood

Secretary
P Loebig

Auditors
Ernst & Young LLP
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Glasgow G2 1RR

Solicitors
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Bankers
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Directors' report

The directors present their report and financial statements for the year ended 31 December 2009.

Results and dividends

The profit for the year, after taxation, amounted to £951,673 (2008: £1,101,469). An ordinary dividend of £29.43 per ordinary share amounting to £1,892,672 was paid in the year (2008: £nil). Preference dividends of £7,328 (2008: £16,749) were also paid during the year.

Principal activities and review of the business

The principal activities of the company throughout the year were to provide diesel engines to the industrial sprinkler and commercial sectors.

The company approached 2009 with apprehension due to the recessive times and the goal was to retain enough market share to allow us to keep all our valued workforce in employment.

Unfortunately this did not work out as hoped and we had to lose some of our people due to the decline in business with further cost cutting measures implemented mid year with staff in an effort to keep costs in check.

However our 2009 results confirm that although our turnover was down £700k from the previous year we had managed to see out what was a tough year in our industry and still return a profit which was well received by the Board of Directors.

It has always been the case that we strive to grow the business every year but with the Global recession having an effect on established as well as new markets we feel that 2010 will be a year for consolidating what we have while still looking to target a few new opportunities that may come our way. Mindful of the fact that any business in the market is being aggressively targeted by our competition with margins being eroded as a result and currency fluctuation still prevalent, we may have to sacrifice profit in some instances to keep the volume going through our factory.

Principal risks and uncertainties

Financial risk management

The company's financial risk management policies are determined by the company's ultimate parent undertaking Clarke Power Services Inc. The company's principal financial instruments comprise cash, short term deposits and/or borrowings, the main purpose of which is to provide finance for its normal trading operations. The company has various other financial instruments such as trade debtors and creditors that arise directly from its trading operations.

The main risks arising from the company's financial instruments are liquidity and foreign currency risks. The company has clear policies for managing each of these risks.

Competitive risks

The company is at risk from aggressive pricing and goods delivery strategies from its competitors. The company is focused on cost control and the delivery of high quality products to minimise the impact of this competition.

Legislative risks

The company is required to comply with all relevant legislation, but in particular covering activities such as standards of health & safety of employees and employment legislation.

Qualifying third party indemnity provisions for directors

The ultimate parent undertaking of the company maintains liability and indemnity insurance for its directors and officers and for those of its subsidiaries. The provision has been in place throughout the year.

Directors' report

Directors

The directors who served during the year were as below:

D Petrie
J Blackwood

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, the directors have taken all the steps that they are obliged to take as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

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

By order of the Board

P Loebig
Secretary

26/8 2010

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these 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;
- 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 that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 Clarke UK Limited

We have audited the financial statements of Clarke UK Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Ernst & Young

Independent auditors' report

to the members of Clarke UK Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Walter Campbell (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Glasgow 27\8\2010.

Profit and loss account

for the year ended 31 December 2009

	Notes	2009 £	2008 £
Turnover	2	12,839,266	13,554,967
Cost of sales		9,730,145	9,805,954
Gross profit		3,109,121	3,749,013
Administration expenses		1,753,050	2,195,801
Operating profit	3	1,356,071	1,553,212
Net interest payable	5	5,977	3,148
Profit on ordinary activities before taxation		1,350,094	1,550,064
Tax charge on ordinary activities	6	398,421	448,595
Profit for the financial year	15	951,673	1,101,469

Statement of total recognised gains and losses

for the year ended 31 December 2009

There are no recognised gains or losses other than the profit for the year, attributable to the shareholders of the company of £951,673 in the year ended 31 December 2009 (2008: £1,101,469).

Balance sheet

at 31 December 2009

	Notes	2009 £	2008 £
Fixed assets			
Tangible assets	7	95,910	91,781
Investments	8	6,002	6,002
		101,912	97,783
Current assets			
Stocks	9	1,676,514	2,299,021
Debtors	10	2,873,006	2,914,000
Cash at bank and in hand		630,625	643,242
		5,180,145	5,856,263
Creditors: amounts falling due within one year	11	2,632,058	2,363,712
Net current assets		2,548,087	3,492,551
		2,649,999	3,590,334
Creditors: amounts falling due after more than one year			
Preference shares	12	104,680	104,680
Provisions for liabilities	13	664	-
		105,344	104,680
Capital and reserves			
Called up share capital	14	6,431	6,431
Share premium account	15	153,889	153,889
Other reserves	15	100,000	100,000
Profit and loss account	15	2,284,335	3,225,334
Equity Shareholders' funds	15	2,544,655	3,485,654
		2,649,999	3,590,334

J Blackwood
Director
20/8 2010

John G. Blackwood

Statement of cash flows

for the year ended 31 December 2009

	Notes	2009 £	2008 £
Net cash inflow from operating activities	16(a)	2,236,592	1,036,754
Returns on investments and servicing of finance	16(b)	(5,977)	(3,148)
Taxation	16(b)	(292,858)	(720,107)
Capital expenditure and financial investment	16(b)	(55,362)	(35,278)
Equity dividends paid	16(b)	(1,892,672)	-
Financing	16(b)	(2,340)	(6,635)
(Decrease) / increase in cash	16(c)	(12,617)	271,586

Reconciliation of net cash flows to movement in net funds

	Notes	2009 £	2008 £
(Decrease) / increase in cash		(12,617)	271,586
Capital element of finance leases and hire purchase contracts		2,340	6,635
Change in net funds resulting from cash flows	16(c)	(10,277)	278,221
Net funds at 1 January	16(c)	640,902	362,681
Net funds at 31 December	16(c)	630,625	640,902

Notes to the financial statements

at 31 December 2009

1. Accounting policies

Basis of preparation

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

Group financial statements

The company is exempt from the requirement to prepare group financial statements by virtue of section 400 of the Companies Act 2006, and accordingly the financial statements present information about the company as an individual undertaking and not about its group.

Going concern

The company's business activities, a review of the business and a description of the principal risks and uncertainties, together with the company's financial risk management processes and narrative regarding its exposure to key financial risks are outlined in the Director's Report.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to meet its liabilities as they fall due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Tangible fixed assets

Depreciation is provided on all tangible fixed assets at rates calculated to write-off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Tenants improvements	–	over the lease term
Plant and equipment	–	between 12.5% and 25%
Motor vehicles	–	3 years

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is computed on a first in-first out basis.

Net realisable value is based on estimated selling price less the estimated cost of disposal.

Research and development

Research and development expenditure is written off to the profit and loss account as incurred.

Notes to the financial statements

at 31 December 2009

1. Accounting policies (continued)

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 exception:

- 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.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing commitments

Assets obtained under finance leases are capitalised in the balance sheet and are depreciated over their estimated useful life. The interest element of the rental obligations is charged to profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

Pensions

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

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to one continuing activity of manufacture of bespoke fire protection systems, as stated in the directors' report.

An analysis of turnover by geographical market is given below:

	2009	*2008*
	£	*£*
United Kingdom	3,268,291	4,066,249
Rest of World	9,570,975	9,488,718
	12,839,266	13,554,967

Notes to the financial statements

at 31 December 2009

3. Operating profit

This is stated after charging/(crediting):

		2009	2008
		£	£
Depreciation of owned assets		51,233	68,877
Depreciation of assets held under finance leases		-	5,842
Auditors' remuneration	– audit services	14,625	14,350
	– non-audit services	10,525	8,525
Operating lease rentals	– plant and machinery	7,752	8,595
	– land and buildings	93,334	70,000
Rental income		(10,224)	(10,224)
Directors' emoluments		75,480	82,686
Directors' pension		3,647	3,726
Research and development expenditure		878	9,634
Net exchange (gain) / loss on normal trading activities		(75,362)	16,723

4. Staff costs

	2009	2008
	£	£
Wages and salaries	729,499	875,871
Social security costs	74,983	94,563
Other pension costs (note 17)	16,811	18,429
	821,293	988,863

Retirement benefits are accruing to 1 (2008: 1) director under a defined contribution scheme.

The average monthly number of employees during the year was made up as follows:

	2009	2008
	No.	No.
Administration	12	13
Production	20	26
	32	39

5. Net interest payable

	2009	2008
	£	£
Bank interest received	(1,401)	(14,079)
Finance charges payable under finance lease and hire purchase contracts	50	478
3% preference dividend (note 12)	7,328	16,749
	5,977	3,148

Notes to the financial statements

at 31 December 2009

6. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2009	2008
	£	£
Current tax:		
UK corporation tax on the profit for the year	377,659	454,704
Adjustments in respect of previous periods	13,596	(11,070)
Total current tax	391,255	443,634
Deferred tax:		
Origination and reversal of timing differences	7,166	5,164
Effect of changes in tax rate on opening liability	-	(203)
Total deferred tax	7,166	4,961
Tax on profit on ordinary activities	398,421	448,595

(b) Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2008: 28.5%). The differences are explained below:

	2009	2008
	£	£
Profit on ordinary activities before tax	1,350,094	1,550,064
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 28.5%)	378,026	441,768
Effects of:		
Expenses not deductible for tax purposes	9,774	17,888
Capital allowances in excess of depreciation	(10,143)	(4,795)
Other timing differences	2	(157)
Adjustments in respect of previous periods	13,596	(11,070)
Current tax for the year	391,255	443,634

There are no significant factors that may affect future tax charges.

Notes to the financial statements

at 31 December 2009

7. Tangible fixed assets

	Tenants improvements £	*Plant and equipment* £	*Motor vehicles* £	*Total* £
Cost or valuation:				
At 1 January 2009	364,637	471,211	9,275	845,123
Additions	1,709	53,653	-	55,362
At 31 December 2009	366,346	524,864	9,275	900,485
Depreciation:				
At 1 January 2009	333,167	410,900	9,275	753,342
Provided during the year	17,366	33,867	-	51,233
At 31 December 2009	350,533	444,767	9,275	804,575
Net book value:				
At 31 December 2009	15,813	80,097	-	95,910
At 31 December 2008	31,470	60,311	–	91,781

The net book value of plant and equipment above includes an amount of £nil (2008 – £1,866) in respect of the assets held under finance lease and hire purchase contracts.

8. Investments

	2009 £	*2008* £
At 1 January and at 31 December	6,002	6,002

The company owns 100% of the ordinary share capital of Firedriver Diesel Engines Limited. Firedriver Diesel Engines Limited is a dormant company registered in Scotland.

9. Stocks

	2009 £	*2008* £
Raw materials	1,516,283	2,184,488
Work in progress	160,231	114,533
	1,676,514	2,299,021

Notes to the financial statements
at 31 December 2009

10. Debtors

	2009	*2008*
	£	*£*
Trade debtors	2,710,063	2,616,712
Other debtors	101,576	230,297
Prepayments and accrued income	61,367	60,489
Deferred tax asset (note 13)	-	6,502
	2,873,006	2,914,000

11. Creditors: amounts falling due within one year

	2009	*2008*
	£	*£*
Trade creditors	1,816,517	1,586,288
Amounts owed to parent undertaking	426,726	447,416
Corporation tax	171,702	73,305
Other taxes and social security costs	10,608	47,050
Obligations under finance leases and hire purchase contracts	-	2,340
Other creditors	46,170	59,773
Accruals and deferred income	160,335	147,540
	2,632,058	2,363,712

12. Preference shares

	2009	*2008*	*2009*	*2008*
Allotted, called up and fully paid	*No*	*No*	*£*	*£*
Non-equity share capital:				
Preference shares of £0.10 each	1,046,799	1,046,799	104,680	104,680

The preference shares, which were issued at par, carry a final dividend of 3% above base rate per annum, payable half yearly in arrears on 30 June and 31 December. The dividend rights are cumulative.

The preference shares carry no votes at general meetings unless the dividend thereon is three months or more in arrears, in which event each holder will be entitled to ten votes per 10p share on a poll.

On a winding up of the company, the preference shareholders have a right to receive, in preference to any payments to the ordinary shareholders, 10p per share plus any arrears, deficiency or accruals of fixed dividend.

The preference dividend of £7,328 (2008: £16,749) was paid in the year.

Notes to the financial statements

at 31 December 2009

13. Provisions for liabilities

Deferred taxation

The deferred tax included in the balance sheet is as follows:

	2009 £	2008 £
Included in provisions for liabilities	(664)	-
Included in debtors (note 10)	-	6,502
	(664)	6,502
(Accelerated) / decelerated capital allowances	(690)	6,477
Other timing differences	26	25
	(664)	6,502

	£
Asset at 1 January 2009	6,502
Profit and loss account	(10,142)
Adjustments in respect of prior years	2,976
Liability at 31 December 2009	(664)

14. Issued share capital

Allotted, called up and fully paid	2009 No.	2009 £	2008 No.	2008 £
Ordinary shares of £0.10 each	64,313	6,431	64,313	6,431

15. Reconciliation of shareholders' funds and movement on reserves

	Share capital £	Share premium account £	Capital redemption reserve £	Profit and loss account £	Total share-holders' funds £
At 1 January 2008	6,431	153,889	100,000	2,123,865	2,384,185
Profit for year	-	-	-	1,101,469	1,101,469
At 31 December 2008	6,431	153,889	100,000	3,225,334	3,485,654
Profit for the year	-	-	-	951,673	951,673
Dividends	-	-	-	(1,892,672)	(1,892,672)
At 31 December 2009	6,431	153,889	100,000	2,284,335	2,544,655

Notes to the financial statements

at 31 December 2009

16. Notes to the statement of cash flows

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

	2009	2008
	£	£
Operating profit	1,356,071	1,553,212
Depreciation	51,233	74,719
Decrease / (increase) in debtors	34,492	(618,704)
Decrease / (increase) in stocks	622,507	(795,339)
Increase in creditors	172,289	822,866
Net cash inflow from operating activities	2,236,592	1,036,754

(b) Analysis of cash flows for headings netted in the statement of cash flows

	2009	2008
	£	£
Returns on investments and servicing of finance:		
Interest received	1,401	14,079
Interest element of finance lease rental payments	(50)	(478)
3% preference dividends	(7,328)	(16,749)
	(5,977)	(3,148)
Taxation:		
Corporation tax paid	(292,858)	(720,107)
Capital expenditure and financial investment:		
Payment to acquire tangible fixed assets	(55,362)	(35,278)
Equity dividends paid	(1,892,672)	-
Financing:		
Capital element of finance lease and hire purchase obligations	(2,340)	(6,635)

Notes to the financial statements

at 31 December 2009

16. Notes to the statement of cash flows (continued)

(c) Analysis of changes in net funds

	At 1 January 2009	*Cash flow*	*At 31 December 2009*
	£	£	£
Cash at bank and in hand	643,242	(12,617)	630,625
Finance lease and hire purchase obligations	(2,340)	2,340	-
	640,902	(10,277)	630,625

17. Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pensions cost charge (note 4) represents contributions payable by the company to the fund and amounted to £16,811 (2008: £18,429). The unpaid contributions outstanding at the year end were £2,551 (2008: £2,718).

18. Other financial commitments

At 31 December 2009 the company had annual commitments under non-cancellable operating leases as set out below:

		2009		*2008*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£	£	£	£
Operating leases which expire:				
Within one year	-	5,254	–	6,042
Within two to five years inclusive	105,000	2,500	93,333	2,553
	105,000	7,754	93,333	8,595

Notes to the financial statements

at 31 December 2009

19. Related party transactions

During the year the company entered into transactions, in the ordinary course of business, with other related parties. Transaction entered into, and trading balances outstanding at 31 December, are as follows:

Related party	*Sales to related party* £	*Purchase from related party* £	*Amounts owed from related party* £	*Amounts owed to related party* £
Clarke Fire Protection Products Inc.				
Parent undertaking				
2009	21,738	2,095,906	-	426,726
2008	27,417	2,148,151	-	443,223
Clarke Power Services Inc (formerly Clarke Detroit Diesel-Allison Inc.)				
Ultimate parent undertaking 2009	-	32,088	-	-
2008	-	32,115	-	4,193

20. Ultimate parent undertaking and controlling party

The company is a wholly owned subsidiary of Clarke Fire Protection Products Inc. which is in turn wholly owned by Clarke Power Services Inc (formerly Clarke Detroit Diesel-Allison Inc.), both companies being incorporated in the United States of America. In the opinion of the directors, Clarke Power Services Inc. is the company's ultimate parent undertaking.