Clarke UK Limited

Report and Financial Statements

31 December 2010

Directors
D Petrie
J Blackwood

Secretary
P Loebig

Auditors
Ernst & Young LLP
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Directors' report

The directors present their report and financial statements for the year ended 31 December 2010.

Results and dividends

The profit for the year, after taxation, amounted to £830,804 (2009: £951,673). An ordinary dividend of £15.55 per ordinary share amounting to £1,000,000 was paid in the year (2009: £1,892,672). Preference dividends of £7,328 (2009: £7,328) 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.

We approached 2010 with more optimism and determination to ensure we increased our Global Market Share after coming through a very difficult year. Just as importantly enabling us hopefully to re-employ members of the workforce we had lost in 2009.

This positive approach gave us the results hoped for and you will see from the 2010 financial figures that our turnover was up £559k from the previous year. We also managed to re employ some of our valued workforce and return a profit which was well received by the Board of Directors.

We strive to grow our business every year looking for new markets and opportunities but, as is the case in any business, the competition is looking to do likewise.

Margins are not good in certain markets and still not helped with the currency situation. However, we will sacrifice profit in some instances to keep the volume going through our factory.

Principal risks and uncertainties

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.

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.

Directors' report

Directors

The directors who served during the year were as follows:

D Petrie
J Blackwood

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.

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

John J. Blackwood

J Blackwood
Director
30/3/2011

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 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows, and the related notes 1 to 21. 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 and express an opinion on 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 the 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 2010 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

30/3/ 2011

Profit and loss account

for the year ended 31 December 2010

	Notes	*2010* £	*2009* £
Turnover	2	13,398,142	12,839,266
Cost of sales		10,156,904	9,730,145
Gross Profit		3,241,238	3,109,121
Administration expenses		2,068,916	1,753,050
Operating Profit	3	1,172,322	1,356,071
Net interest payable	5	6,848	5,977
Profit on ordinary activities before taxation		1,165,474	1,350,094
Tax	6	334,670	398,421
Profit for the financial year	16	830,804	951,673

Statement of total recognised gains and losses

for the year ended 31 December 2010

There are no recognised gains or losses, other than the profit for the year, attributable to the shareholders of the company of £830,804 in the year ended 31 December 2010 (2009: £951,673).

Balance sheet

at 31 December 2010

	Notes	2010 £	2009 £
Fixed assets			
Tangible assets	7	122,736	95,910
Investments	8	2	2
		122,738	95,912
Current assets			
Stocks	9	2,455,734	1,676,514
Debtors	10	2,618,273	2,879,006
Cash at bank and in hand		413,574	630,625
		5,487,581	5,186,145
Creditors: amounts falling due within one year	11	3,114,005	2,632,058
Net current assets		2,373,576	2,554,087
Total assets less current liabilities		2,496,314	2,649,999
Creditors: amounts falling due after more than one year			
Obligations under finance leases and hire purchase contracts	12	(3,042)	–
Preference shares	13	(104,680)	(104,680)
Provisions for liabilities	14	(13,133)	(664)
		2,375,459	2,544,655
Capital and reserves			
Called up share capital	15	6,431	6,431
Share premium account	16	153,889	153,889
Other reserves	16	100,000	100,000
Profit and loss account	16	2,115,139	2,284,335
Shareholders' funds	16	2,375,459	2,544,655

John J. Blackwood

J Blackwood
Director
30/3/2011

Statement of cash flows

for the year ended 31 December 2010

	Notes	2010 £	2009 £
Net cash inflow from operating activities	17(a)	1,228,340	2,236,592
Returns on investments and servicing of finance	17(b)	(6,848)	(5,977)
Taxation	17(b)	(374,630)	(292,858)
Capital expenditure and financial investment	17(b)	(62,854)	(55,362)
Equity dividends paid	17(b)	(1,000,000)	(1,892,672)
Financing	17(b)	(1,059)	(2,340)
(Decrease)/Increase in cash	17(c)	(217,051)	(12,617)

Reconciliation of net cash flow to movement in net funds

	Notes	2010 £	2009 £
(Decrease)/Increase in cash		(217,051)	(12,617)
Capital element of finance leases and hire purchase contracts		1,059	2,340
Change in net funds resulting from cash flows	17(c)	(215,992)	(10,277)
New finance leases and hire purchase contracts	17(c)	(5,000)	–
Net funds at 1 January	17(c)	630,625	640,902
Net funds at 31 December	17(c)	409,633	630,625

Notes to the financial statements

at 31 December 2010

1. Accounting policies

Basis of preparation

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

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 financial statements.

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.

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

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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.

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.

Notes to the financial statements

at 31 December 2010

1. Accounting policies (continued)

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 and hire purchase 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:

	2010	*2009*
	£	*£*
United Kingdom	3,612,744	3,268,291
Rest of World	9,785,398	9,570,975
	13,398,142	12,839,266

Notes to the financial statements

at 31 December 2010

3. Operating Profit

This is stated after charging/(crediting):

	2010	2009
	£	£
Auditors' remuneration – audit services	13,000	14,625
– non-audit services	10,530	10,525
Depreciation of owned assets	41,028	51,233
Operating lease rentals – plant and machinery	7,369	7,752
– land and buildings	105,000	93,334
Rental income	(10,224)	(10,224)
Research and development expenditure	400	878
Net exchange loss/(gain) on normal trading activities	78,983	(75,362)

4. Staff costs

(a) Staff costs

	2010	2009
	£	£
Wages and salaries	899,230	729,499
Social security costs	94,566	74,983
Other pension costs (note 18)	20,756	16,811
	1,014,552	821,293

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

	2010	2009
	No.	No.
Administration	13	12
Production	21	20
	34	32

(b) Directors' emoluments

	2010	2009
	£	£
Directors' emoluments	131,606	75,480
Directors' pension	6,210	3,647
	137,816	79,127

Retirement benefits are accruing to 1 (2009: 1) director under a defined contribution scheme.

Notes to the financial statements

at 31 December 2010

5. Net interest payable

	2010	2009
	£	£
Bank interest received	(849)	(1,401)
Finance charges payable under finance lease and hire purchase contracts	369	50
3% preference dividend (note 13)	7,328	7,328
	6,848	5,977

6. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2010	2009
	£	£
Current tax:		
UK corporation tax on the profit for the year	322,201	377,659
Adjustments in respect of previous periods	–	13,596
Total current tax (note 6(b))	322,201	391,255
Deferred tax:		
Origination and reversal of timing differences (note 14)	12,469	7,166
Tax on profit on ordinary activities	334,670	398,421

(b) Factors affecting the current tax charge for the year

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

	2010	2009
	£	£
Profit on ordinary activities before tax	1,165,474	1,350,094
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28 %	326,333	378,026
Effects of:		
Expenses not deductible for tax purposes	8,824	9,774
Capital allowances in excess of depreciation	(13,412)	(10,143)
Other timing differences	456	2
Adjustments in respect of previous periods	-	13,596
Current tax for the year (note 6(a))	322,201	391,255

Notes to the financial statements

at 31 December 2010

6. Tax (continued)

(c) Factors affecting future tax charges

In his budget of 22 June 2010, the Chancellor of the Exchequer announced a decrease in the rate of UK corporation tax from 28% to 24% by 1% each year, from April 2011, which will be enacted annually. The rate substantively enacted at the balance sheet date was 27%.

7. Tangible fixed assets

	Tenants improvements £	*Plant and equipment* £	*Motor vehicles* £	*Total* £
Cost or valuation:				
At 1 January 2010	366,346	524,864	9,275	900,485
Additions	-	67,854	-	67,854
At 31 December 2010	366,346	592,718	9,275	968,339
Depreciation:				
At 1 January 2010	350,533	444,767	9,275	804,575
Provided during the year	5,791	35,237	-	41,028
At 31 December 2010	356,324	480,004	9,275	845,603
Net book value:				
At 31 December 2010	10,022	112,714	-	122,736
At 31 December 2009	15,813	80,097	–	95,910

The net book value of plant and equipment includes an amount of £4,667 (2009: £nil) in respect of assets held under finance lease and hire purchase contracts.

8. Investments

	Subsidiary Undertaking 2010 £	2009 £
At 1 January 2010 and at 31 December 2010	2	2

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.

Notes to the financial statements

at 31 December 2010

9. Stocks

	2010	2009
	£	£
Raw materials	2,135,215	1,516,283
Work in progress	320,519	160,231
	2,455,734	1,676,514

10. Debtors

	2010	2009
	£	£
Trade debtors	2,362,023	2,710,063
Other debtors	193,465	107,576
Prepayments and accrued income	62,785	61,367
	2,618,273	2,879,006

11. Creditors: amounts falling due within one year

	2010	2009
	£	£
Trade creditors	1,894,100	1,816,517
Amounts owed to parent undertaking	529,410	426,726
Corporation tax	119,273	171,702
Other taxes and social security costs	46,219	10,608
Other creditors	61,018	46,170
Obligations under finance leases and hire purchase contracts (note 12)	899	-
Accruals and deferred income	463,086	160,335
	3,114,005	2,632,058

Notes to the financial statements

at 31 December 2010

12. Obligations under finances leases and hire purchase contracts

	2010 £	2009 £
Amounts payable:		
Within one year	1,224	–
In two to five years	3,468	–
	4,692	–
Less: finance charges allocated to future periods	751	–
	3,941	–
Finance leases and hire purchase contracts are analysed as follows:		
Current obligations (note 11)	899	–
Non-current obligations	3,042	–
	3,941	–

13. Preference shares

	2010		2009	
Allotted, called up and fully paid	*No.*	*£*	*No.*	*£*
Non-equity share capital:				
Preference shares of £0.10 each	1,046,799	104,680	1,046,799	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 (2009: £7,328) was paid in the year.

Notes to the financial statements

at 31 December 2010

14. Deferred taxation

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

	2010	*2009*
	£	*£*
Included in provisions for liabilities	(13,133)	(664)
Accelerated capital allowances	(13,598)	(690)
Other timing differences	465	26
	(13,133)	(664)

Liability at 1 January 2010	(664)
Profit and loss account	(12,469)
Liability at 31 December 2010	(13,133)

15. Issued share capital

		2010		*2009*
Allotted, called up and fully paid	*No.*	*£*	*No.*	*£*
Ordinary shares of £0.10 each	64,313	6,431	64,313	6,431

Notes to the financial statements

at 31 December 2010

16. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Shares premium account*	*Capital redemption reserve*	*Profit and loss account*	*Total share-holders' funds*
	£	*£*	*£*	*£*	*£*
At 1 January 2009	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 1 Janurary 2010	6,431	153,889	100,000	2,284,335	2,544,655
Profit for the year	–	–	–	830,804	830,804
Dividends	–	–	–	(1,000,000)	(1,000,000)
At 31 December 2010	6,431	153,889	100,000	2,115,139	2,375,459

17. Notes to the statement of cash flows

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

	2010	*2009*
	£	*£*
Operating profit	1,172,322	1,356,071
Depreciation	41,028	51,233
Decrease/(increase) in debtors	260,733	34,492
Decrease/(increase) in stocks	(779,220)	622,507
Increase/(decrease) in creditors	533,477	172,289
Net cash inflow from operating activities	1,228,340	2,236,592

Notes to the financial statements

at 31 December 2010

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

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

	2010	2009
	£	£
Returns on investments and servicing of finance:		
Interest received	849	1,401
Interest element of finance lease rental payments	(369)	(50)
3% preference dividends	(7,328)	(7,328)
	(6,848)	(5,977)
Taxation:		
Corporation tax paid	(374,630)	(292,858)
Capital expenditure and financial investment:		
Payment to acquire tangible fixed assets	(62,854)	(55,362)
Equity dividends paid	(1,000,000)	(1,892,672)
Financing:		
Capital element of finance lease and hire purchase obligations	(1,059)	(2,340)

(c) Analysis of changes in net funds

	At 1 January 2010	Cash flow	Other Non Cash Changes	At 31 December 2010
	£	£	£	£
Cash at bank and in hand	630,625	(217,051)	–	413,574
Finance lease and hire purchase contracts	–	1,059	(5,000)	(3,941)
	630,625	(215,992)	(5,000)	409,633

18. 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 £20,756 (2009: £16,811). The unpaid contributions outstanding at the year end were £3,062 (2009: £2,551).

Notes to the financial statements

at 31 December 2010

19. Other financial commitments

At 31 December 2010 the company had annual commitments under non-cancellable operating leases as set out below:

		2010		*2009*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£	£	£	£
Operating leases which expire:				
Within one year	–	1,963	–	5,254
Within two to five years inclusive	105,000	4,319	105,000	2,500
	105,000	6,282	105,000	7,754

20. 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* £	*Purchases from related party* £	*Amounts owed from related party* £	*Amounts owed to related party* £
Clarke Fire Protection Products Inc.				
Parent undertaking				
2010	53,186	1,946,712	2,560	284,640
2009	21,738	2,095,906	–	426,726
Clarke Power Services Inc.				
Ultimate parent undertaking				
2010	–	41,316	–	–
2009	–	32,088	–	–

21. 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, 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.