

Clarke UK Limited

Report and Financial Statements

31 December 2004



Clarke UK Limited

Registered No: SCO81670

Directors

D Petrie
J Blackwood

Secretary

P Loebig

Auditors

Ernst & Young LLP
George House
50 George Square
Glasgow
G2 1RR

Solicitors

Dundas & Wilson
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EN

Bankers

The Royal Bank of Scotland plc
37 High Street
Dumbarton
G82 1LX

Registered Office

Unit 1
Grange Works
Lomond Road
Coatbridge
ML5 2NN

Directors' report

The directors present their report and financial statements for the year ended 31 December 2004.

Results and dividends

The profit for the year, after taxation, amounted to £288,955. The directors do not recommend a dividend be paid leaving a balance of £288,955 to be transferred to reserves.

Principal activity, review of the business and future developments

The company's principal activity during the year continued to be the manufacture of bespoke fire protection systems. The company is in a good position to take advantage of any opportunities that may arise in the future.

Directors and their interests

The directors during the year were as follows:

M Andreae (resigned 23 August 2004)

D Petrie

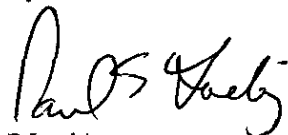
J Blackwood (appointed 23 August 2004)

No director held any shares in the company during the year.

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

10 May 2005

Statement of directors' responsibilities in respect of the financial statements

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of Clarke UK Limited

We have audited the company's financial statements for the year ended 31 December 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Glasgow

10 May 2005

Profit and loss account

for the year ended 31 December 2004

	Notes	2004 £	2003 £
Turnover	3	5,445,784	4,836,609
Cost of sales		4,165,735	3,824,351
Gross profit		1,280,049	1,012,258
Administration expenses		975,414	947,671
Operating profit before exceptional items		304,635	64,587
Foreign exchange gain on translation of group loans		116,710	209,086
Operating profit	4	421,345	273,673
Net interest receivable	5	8,571	6,386
Profit on ordinary activities before taxation		429,916	280,059
Tax charge on ordinary activities	6	140,961	103,247
Profit for the financial period	17	288,955	176,812

Statement of total recognised gains and losses

There are no recognised gains and losses other than the profit attributable to the shareholders of the company of £288,955 (2003 - £176,812).

Balance sheet

at 31 December 2004

	Notes	2004 £	2003 £
Fixed assets			
Tangible assets	8	256,223	307,750
Investments	9	6,002	6,002
		<u>262,225</u>	<u>313,752</u>
Current assets			
Stocks	10	1,280,179	1,704,242
Debtors	11	1,514,532	1,611,202
Cash at bank and in hand		473,191	167,285
		<u>3,267,902</u>	<u>3,482,729</u>
Creditors: amounts falling due within one year	12	1,990,422	2,448,514
Net current assets		<u>1,277,480</u>	<u>1,034,215</u>
		<u>1,539,705</u>	<u>1,347,967</u>
Creditors: amounts falling due after more than one year			
Loans	13	1,487,108	1,594,893
Obligations under finance leases and hire purchase contracts	15	10,866	298
		<u>1,497,974</u>	<u>1,595,191</u>
Capital and reserves			
Called up share capital	16/17	111,111	111,111
Share premium account	17	153,889	153,889
Other reserves	17	100,000	100,000
Profit and loss account	17	(323,269)	(612,224)
		<u>(62,949)</u>	<u>(351,904)</u>
Equity		<u>104,680</u>	<u>104,680</u>
Non-equity			
Shareholders' funds		<u>41,731</u>	<u>(247,224)</u>
		<u>1,539,705</u>	<u>1,347,967</u>

John G. Blackwood
J Blackwood

Diana A. Petrie
D Petrie

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)
) Directors
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10 May 2005

Statement of cash flows

for the year ended 31 December 2004

	Notes	2004 £	2003 £
Net cash inflow/(outflow) from operating activities	18(a)	319,367	(57,211)
Returns on investments and servicing of finance	18(b)	8,571	6,386
Taxation	18(b)	(1,916)	(3,327)
Capital expenditure and financial investment	18(b)	(15,165)	(22,567)
Financing	18(b)	(4,951)	(3,590)
Increase/(decrease) in cash	18(c)	<u>305,906</u>	<u>(80,309)</u>

Reconciliation of net cash flows to movement in net funds

	Notes	2004 £	2003 £
Increase/(decrease) in cash		305,906	(80,309)
Capital element of finance leases and hire purchase contracts		4,951	3,590
Change in net funds resulting from cash flows	18(c)	<u>310,857</u>	<u>(76,719)</u>
New finance leases and hire purchase contracts		(15,000)	-
Movement in net funds		<u>295,857</u>	<u>(76,719)</u>
Net funds at 1 January	18(c)	<u>163,435</u>	<u>240,154</u>
Net funds at 31 December	18(c)	<u>459,292</u>	<u>163,435</u>

Notes to the financial statements

at 31 December 2004

1. Fundamental accounting concept

The financial statements have been prepared under the going concern concept because the company is currently being supported by the ultimate parent company, Clarke Power Services Inc. Clarke Power Services Inc will continue to provide support to the company over the next 12 months to 10 May 2006 to allow it to continue to trade. As described in note 12 and note 13 the company owes amounts to its ultimate parent company and to its immediate parent company, Clarke Fire Protection Products Inc. The ultimate and immediate parent companies have agreed to subordinate their claims in favour of all other creditors of Clarke UK Limited. As such, the directors consider it appropriate to prepare the financial statements on the going concern basis.

2. Accounting policies

Accounting convention

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

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	(straight line)
Plant and equipment	-	between 12.5% and 25%	(straight line)
Hire fleet	-	12.5%	(straight line)
Motor vehicles	-	25%	(straight line)

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.

Stock

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 2004

2. Accounting policies (continued)

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.

Foreign currency translation

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.

3. Turnover

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

The analysis of turnover by geographical areas is as follows:

	2004 £	2003 £
United Kingdom	3,823,625	3,198,517
Non - UK	1,622,159	1,638,092
	<u>5,445,784</u>	<u>4,836,609</u>

4. Operating profit

This is stated after charging/(crediting):

	2004 £	2003 £
Research and development expenditure	23,667	18,726
(Gain)/loss on disposal of fixed assets	(564)	29,009
Depreciation of owned assets	81,245	82,452
Depreciation of assets held under finance leases	1,011	2,823
Auditors' remuneration - audit services	12,500	12,000
- non audit services	5,375	5,375
Operating lease rentals - plant and machinery	14,691	16,397
- land and buildings	61,664	46,163
Directors' emoluments	17,808	-
Foreign exchange gain on translation of group loans	(116,710)	(209,086)
	<u></u>	<u></u>

Notes to the financial statements

at 31 December 2004

5. Net interest receivable

	2004 £	2003 £
Bank interest received	9,044	6,697
Finance charges payable under finance lease and hire purchase contracts	(473)	(311)
	<u>8,571</u>	<u>6,386</u>

6. Taxation

	2004 £	2003 £
UK corporation tax:		
UK corporation tax on profits of the period	2,714	1,916
Adjustment in respect of prior year	-	1,252
	<u>2,714</u>	<u>3,168</u>
Deferred tax:		
Originating and reversal of timing differences	138,247	100,079
	<u>140,961</u>	<u>103,247</u>

Factors affecting the tax charge for the period:

The tax assessed on the profit on ordinary activities for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £	2003 £
Profit on ordinary activities before tax	429,916	280,059
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 - 30%)	<u>128,975</u>	<u>84,018</u>
Effect of:		
Disallowed expenses and non-taxable income	12,008	12,049
Depreciation in excess of capital allowances	(432)	23,790
Other timing differences	2,553	(8,015)
Utilisation of tax losses brought forward	(140,390)	(109,926)
Adjustment in respect of previous periods	-	1,252
	<u>2,714</u>	<u>3,168</u>

Notes to the financial statements

at 31 December 2004

6. Taxation (continued)

Factors that may affect future tax charges:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted. The directors consider that the tax losses carried forward of £321,000 at 31 December 2004 (2003 - £790,000) should be able to be utilised against future taxable profits. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse.

7. Staff costs

	2004 £	2003 £
Wages and salaries	358,256	334,531
Social security costs	56,215	51,366
Other pension costs (note 20)	22,978	21,591
	<u>437,449</u>	<u>407,488</u>

The average weekly number of employees during the year was 25 (2003 - 24), made up as follows:

	2004 No.	2003 No.
Administration	11	11
Production	14	13
	<u>25</u>	<u>24</u>

Notes to the financial statements

at 31 December 2004

8. Tangible fixed assets

	<i>Land and buildings</i> £	<i>Plant and equipment</i> £	<i>Motor vehicles</i> £	<i>Total</i> £
Cost or valuation:				
At 1 January 2004	334,529	349,012	32,793	716,334
Additions	-	30,729	-	30,729
Disposals	-	-	(21,500)	(21,500)
At 31 December 2004	334,529	379,741	11,293	725,563
Depreciation:				
At 1 January 2004	162,959	218,952	26,673	408,584
Provided during year	32,025	47,408	2,823	82,256
Disposals	-	-	(21,500)	(21,500)
At 31 December 2004	194,984	266,360	7,996	469,340
Net book value:				
At 31 December 2004	139,545	113,381	3,297	256,223
At 1 January 2004	171,570	130,060	6,120	307,750

The net book value of motor vehicles above includes an amount of £3,297 (2003 - £6,120) in respect of assets held under finance leases and hire purchase contracts.

The net book value of plant and equipment above includes an amount of £14,151 (2003 - £Nil) in respect of the assets held under finance lease and hire purchase contracts.

9. Investments

	2004 £	2003 £
Cost:		
At 1 January and at 31 December	6,002	6,002

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

10. Stocks

	2004 £	2003 £
Stock	1,280,179	1,704,242

Notes to the financial statements

at 31 December 2004

11. Debtors

	2004	2003
	£	£
Trade debtors	1,310,192	1,148,278
Amounts owed by parent company	55,147	35,183
Other debtors	500	140,095
Prepayments and accrued income	33,752	34,458
Deferred tax asset (note 14)	114,941	253,188
	<u>1,514,532</u>	<u>1,611,202</u>

12. Creditors: amounts falling due within one year

	2004	2003
	£	£
Obligations under finance leases and hire purchase contracts (note 15)	3,033	3,552
Trade creditors	346,689	1,424,428
Amounts owed to parent company	1,366,075	559,382
Corporation tax	2,713	1,916
Other taxes and social security costs	23,956	4,152
Other creditors	82,868	29,244
Accruals and deferred income	165,088	425,840
	<u>1,990,422</u>	<u>2,448,514</u>

Amounts owed to parent company, Clarke Fire Protection Products Inc, include amounts denominated in USD\$ of \$190,482 (2003 - USD\$720,012).

An amount of £149,247 (2003 - £1,331,639) included within trade creditors is secured by a bond and floating charge over the assets of the company.

13. Loans

	£
Not wholly repayable within one year:	
At 1 January 2004	1,594,893
Exchange difference on loan	107,785
	<u>1,487,108</u>
At 31 December 2004	

The US\$2,855,099 loan, non interest bearing intercompany dollar loan is repayable to the ultimate parent company Clarke Power Services Inc (formerly Clarke Detroit Diesel-Allison Inc.) outwith one year. This loan is secured by a bond and floating charge over the assets of the company.

Notes to the financial statements

at 31 December 2004

14. Deferred taxation

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

	2004 £	2003 £
Included in debtors (note 11)	114,941	253,188
<i>The deferred tax consists of:</i>		
Decelerated capital allowances	10,315	11,179
Tax losses carried forward	96,467	237,000
Other timing differences	8,159	5,009
	<u>114,941</u>	<u>253,188</u>
At 1 January		253,188
Deferred tax charge in profit & loss account (note 6)		(138,247)
At 31 December		<u>114,941</u>

15. Obligation under finance leases and hire purchase contracts

	2004 £	2003 £
Amounts payable:		
Within one year	3,603	3,863
In two to five years	13,143	324
	<u>16,746</u>	<u>4,187</u>
Less: finance charges allocated to future periods	2,847	337
	<u>13,899</u>	<u>3,850</u>
<i>Finance leases and hire purchase contracts are analysed as follows:</i>		
Current obligations (note 12)	3,033	3,552
Non-current obligations	10,866	298
	<u>13,899</u>	<u>3,850</u>

Notes to the financial statements

at 31 December 2004

16. Share capital

	<i>Authorised</i>	
	2004	2003
	£	£
1,453,201 Ordinary shares of £0.10 each	145,320	145,320
1,046,799 Preference shares of £0.10 each	104,680	104,680
	<u>250,000</u>	<u>250,000</u>
	<u><u>250,000</u></u>	<u><u>250,000</u></u>

	<i>Allotted, called up and fully paid</i>			
	2004	2003	2004	2003
	No	No	£	£
Ordinary shares of £0.10 each	64,313	64,313	6,431	6,431
Preference shares of £0.10 each	1,046,799	1,046,799	104,680	104,680
	<u>1,111,112</u>	<u>1,111,112</u>	<u>111,111</u>	<u>111,111</u>
	<u><u>1,111,112</u></u>	<u><u>1,111,112</u></u>	<u><u>111,111</u></u>	<u><u>111,111</u></u>

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 £8,374 has been waived.

17. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Share premium account</i>	<i>Capital redemption reserve</i>	<i>Profit and loss account</i>	<i>Total</i>
	£	£	£	£	£
At 31 December 2002	111,111	153,889	100,000	(789,036)	(424,036)
Profit for the year	-	-	-	176,812	176,812
At 31 December 2003	111,111	153,889	100,000	(612,224)	(247,224)
Profit for year	-	-	-	288,955	288,955
At 31 December 2004	111,111	153,889	100,000	(323,269)	41,731

Notes to the financial statements

at 31 December 2004

18. Notes to the statement of cash flows

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

	2004 £	2003 £
Operating profit	421,345	273,673
Depreciation	82,256	85,275
(Gain)/loss on disposal of fixed assets	(564)	29,009
(Increase) in debtors	(41,577)	(325,962)
Decrease/(increase) in stocks	424,063	(702,731)
(Decrease)/increase in creditors	(566,156)	583,525
Net cash inflow/(outflow) from operating activities	319,367	(57,211)

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

	2004 £	2003 £
Returns on investments and servicing of finance		
Interest received	9,044	6,697
Interest element of finance lease rental payments	(473)	(311)
	8,571	6,386

Taxation

	2004 £	2003 £
Corporation tax paid	(1,916)	(3,327)

Capital expenditure and financial investment

	2004 £	2003 £
Payment to acquire tangible fixed assets	(15,729)	(25,067)
Receipts from sales of tangible fixed assets	564	2,500
	(15,165)	(22,567)

Financing

	2004 £	2003 £
Capital element of finance lease and hire purchase obligations	(4,951)	(3,590)

Notes to the financial statements

at 31 December 2004

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

(c) Analysis of changes in net funds:

	<i>At 1 January 2004 £</i>	<i>Other changes £</i>	<i>Cash flow £</i>	<i>At 31 December 2004 £</i>
Cash at bank and in hand	167,285	-	305,906	473,191
Finance lease and hire purchase obligations	(3,850)	(15,000)	4,951	(13,899)
	<u>163,435</u>	<u>(15,000)</u>	<u>310,857</u>	<u>459,292</u>

19. Other financial commitments

At 31 December 2004 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>		<i>Other</i>	
	<i>2004 £</i>	<i>2003 £</i>	<i>2004 £</i>	<i>2003 £</i>
Operating leases which expire:				
In second to fifth years inclusive	-	-	3,603	3,300
Over five years	75,000	45,000	-	-
	<u>75,000</u>	<u>45,000</u>	<u>3,603</u>	<u>3,300</u>

20. Pension commitments

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 7) represents contributions payable by the company to the fund and amounted to £22,978 (2003 - £21,591) including contributions in respect of employees.

Notes to the financial statements

at 31 December 2004

21. Related parties

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:

	<i>Sales to related party £</i>	<i>Purchase from related party £</i>	<i>Amounts owed from related party £</i>	<i>Amounts owed to related party £</i>
Related party:				
Clarke Fire Protection Products Inc. Parent company				
2004	313,356	818,471	55,147	1,364,931
2003	123,701	475,922	35,183	559,382
Clarke Power Services Inc (formerly Clarke Detroit Diesel-Allison Inc.) Ultimate parent company				
2004	-	17,291	-	1,144
2003	-	20,261	-	-

22. Ultimate parent undertaking

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 company.