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Year's Highlights

- October 1995: Establishment of Singapore subsidiary
- October 1995: Establishment of permanent staff in Japan
- November 1995: Acquisition of En Engineering, Milan
- November 1995: Launch of Micro D product by Elcon
- November 1995: Launch of 2046 Automatic Tank Gauge by Whessoe Varec
- February 1996: Sale of Whessoe Computing Systems
- May 1996: Opening of office in Houston, Texas
- July 1996: Acquisition of A G Marvac, Warrington
- August 1996: Award of FuelsManager software contract by United States Department of Defense
- November 1996: Acquisition of CGAI, Milan
- November 1996: Launch of Micro Z and Hi D1 products by Elcon
- November 1996: Launch of 770 Servo and 7500 Radar Level Gauges by Whessoe Varec

Group Structure & Advisers

FIRE SECURITY AND MARINE INSTRUMENTATION

AUTRONICA Stein Erik Aagard

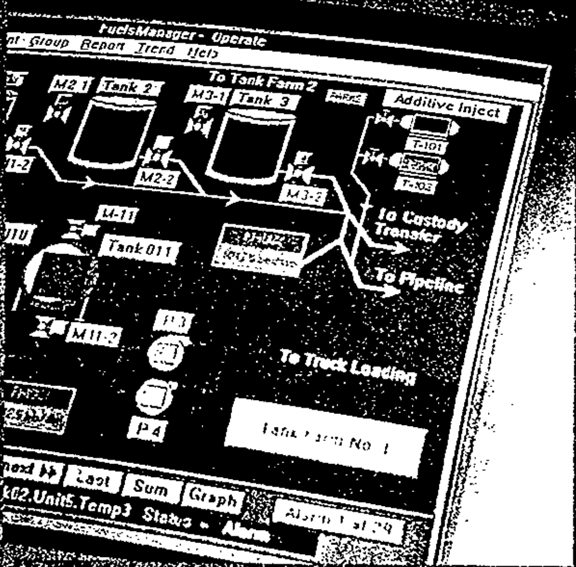
ELCON INSTRUMENTS Gerald Watson

LIQUID MEASUREMENT AND CONTROL

WHESSOE VAREC Mike Zaldivar

COGGINS SYSTEMS Keith Coggins

A G MARVAC Greg Horan



GARY J COPELAND
Company Secretary

REGISTERED OFFICE
Heighington Lane,
Newton Aycliffe,
Co. Durham, DL5 6XZ
Company Registration
Number 166242.

AUDITORS
KPMG,
Quayside House, 110 Quayside,
Newcastle upon Tyne, NE1 3DX

PRINCIPAL BANKERS
Barclays Bank Plc,
High Row, Darlington,
Co. Durham, DL3 7QS.

NationsBank of Georgia NA,
Peachtree Street, Atlanta,
Georgia, 30308 USA.

Christiania Bank
og Kreditkasse,
Middelthuns gt 17,
0107 Oslo, Norway.

FINANCIAL ADVISERS
J. Henry Schroder Wagg
& Co. Limited, 120 Cheapside,
London, EC2V 6DS.

BROKERS
ABN Amro Hoare Govett Limited,
4 Broadgate, London, EC2M 7LE.

SOLICITORS
Slaughter and May,
35 Basinghall Street,
London, EC2V 5DB.

REGISTRARS
Independent Registrars Group Limited,
Bourne House,
34 Beckenham Road,
Beckenham, Kent, BR6 4TU.

Directors

GEORGE DUNCAN

Appointed a non-executive director in May 1986, and Chairman in May 1987. Currently Chairman of Laporte PLC, ASW Holdings PLC and Higgs & Hill PLC. He is also a non-executive director of several other public and private companies. Age 63.

CHRIS FLEETWOOD

Appointed Group Financial Director in April 1988 and Group Chief Executive in January 1989. Currently also non-executive director of the Darlington Building Society. Age 45.

MALCOLM BAGGOTT

Appointed a non-executive director in March 1996. Currently Chief Executive of Vitec Group PLC. Age 52.

SIR MICHAEL FRANKLIN

A non-executive director since January 1988. Formerly Permanent Secretary to the Department of Trade and to the Ministry of Agriculture, Fisheries and Food. A non-executive director of Whitbread PLC. Age 69.

GENE GERACI

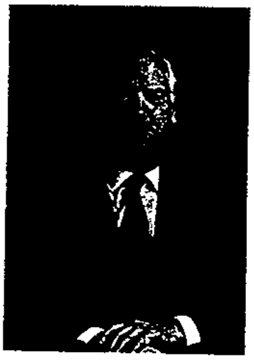
Appointed in July 1994 as Managing Director of the Instrumentation & Control division. Age 53.

BARBARA RICHMOND

Joined the Group in November 1992 and appointed Group Financial Director in February 1994. Age 36.

PETER SIMONIS

A non-executive director since March 1988. Currently Chairman of Inspectorate PLC and British American Offshore Limited. Also a non-executive director of Haden MacLellan Holdings PLC, Holt Lloyd Limited and Rowan Companies Inc. Age 70.



Chairman's Statement

The last year was the first in which the Group traded throughout almost exclusively as a specialist Instrumentation and Control company. It was disappointing therefore that the profit before tax and exceptional items at £1.5m was well below that of the previous year (1995: £4.0m). Earnings per share, excluding exceptional items, were 3.5p (1995: 9.2p) and your Board is recommending a final dividend of 1.4p, making 2.5p for the year.

There are four reasons for the shortfall in profits: adverse trading conditions in some of our areas of activity, delays in the placing of orders with Coggins by the United States Department of Defense, expenditures incurred in extending the international sales and marketing network, and the cost of developing new products. An appreciation of the impact of these factors on our results is necessary for an understanding of the Group's current and future performance and they merit, therefore, a more detailed review.

During the first six months, Autronica experienced strong competition in both its marine and fire alarm businesses. Later in the year the shortfall in orders was reversed, but the increase in business was to some extent achieved at the expense of margins which have continued to be under pressure. It is expected that this situation will persist until the launch, in the new year, of several major products, both in the fire security and marine divisions.

At Coggins, considerable expenditure was incurred during the year on the redevelopment of our systems for the measurement and control of large petroleum product inventories (FuelsManager) to meet the requirements of the United States Department of Defense. Although almost $8m of orders for the systems were received in the year, the bulk of them were placed in August and, therefore, contributed little profit to offset the significant costs incurred. The current year will, however, benefit from the orders received and further substantial orders are expected in 1997 and subsequent years.

Efforts to extend our international sales network continued and new operations were established in Houston, Singapore and Japan. This geographical expansion is beginning to produce results, contributing to the increase in turnover, which was 17% higher than in the previous year, and to the building of an order book at the year end of £28m compared to £23m in 1995. The initial costs of extending international coverage are high, however, and the immediate benefits have not been sufficient to compensate for them.

New product development also involved costs which will improve performance in the longer term, but which adversely affected our results in the year. Whessoe Varec launched an important addition to its range of gauges and the remaining gaps in its product range will be filled during the current financial year. These additions will significantly strengthen the company's market position.

In Norway, the new fire detection and cargo monitoring products mentioned earlier will also enhance Autronica's product range in these areas. Also in November 1995, Elcon launched an extension to its range of intrinsically safe barriers.

In order to extend the product range more quickly two acquisitions were made during the year. In November 1995, En Engineering, based in Milan, was acquired for £0.5m adding several other safety control devices to Elcon's intrinsic safety range. In July, A G Marvac was purchased at a cost of up to £2.8m in order to extend our customer base for liquid measurement and control devices into the chemical industry and also add to the number of vapour control products we offer.

Attention also continues to be given to the level of the cost base in all of its activities. The reduction of costs is essential if the margin improvement being sought is to be achieved. Several initiatives aimed at securing this objective are being actively pursued throughout the Group and all our businesses are focusing on working capital reduction.

I have set out in some detail the main factors which have contributed to the poor performance of the Group in the past year. From the analysis, it should be clear that it was attributable in part to trading circumstances which we shall seek to avoid or combat more effectively in the future. It was due also, however, to heavy expenditures which were directed toward strengthening the Group's competitive position. These initiatives, together with the actions being taken to improve the cost base, are expected to improve its future performance.

Since the end of the financial year both Elcon and Whessoe Varec have launched new products enabling them to compete more effectively in their respective markets. We have also obtained, through the acquisition of CGAI in Milan, a low cost servo type level gauge, a product which is of strategic importance to the Group's future strength in the tank gauging market.

This year Mr Peter Simonis has his seventieth birthday and will not be seeking re-election at the forthcoming Annual General Meeting. Peter has been a non-executive director of Whessoe for nine years and during this time he has made a most valuable contribution to the work of the Board. We shall miss his wise counsel and wish him well in the future.

It is clear that Whessoe faces both challenges and opportunities, our success in coping with both depends on the efforts of all its employees. To them all we offer thanks for their loyalty and support.

George Duncan

GEORGE DUNCAN CHAIRMAN, WHESSOE PLC, 9 DECEMBER 1996

Operational review

CHRIS FLEETWOOD
GROUP CHIEF
EXECUTIVE

Our primary objective in the year was to lay the foundation for future growth. To this end we expanded and developed marketing and distribution, increased expenditure on new product development and made two small but strategic acquisitions.

Excluding the acquisitions, the incremental amount spent on marketing and R&D relative to the previous year amounted to more than £3m. We did not expect to reap much, if any, benefit in 1996 from this expenditure but we had hoped to fund these initiatives out of improving profits. In the event we were unable to do so, primarily for two reasons. Firstly, the Marine business of Autronica suffered a downturn and to maintain our market position we had to price aggressively. Secondly, in spite of very strong indications, sales associated with FuelsManager, further developed for the US Department of Defense (DOD), did not materialise at the time anticipated. We therefore incurred heavy front end costs but had little revenue benefit. We did however at the end of August 1996 win a large order from the DOD for $5m, giving a total for the year of just under $8m. Whilst the timing of these orders did not enable them to contribute to our 1996 results to the extent we had anticipated, the orders were larger than originally expected.
The improvement in profit at both Whessoe Varec and Elcon, though significant at business unit level, was insufficient to compensate for the above factors.

It would have been possible to improve profitability by reducing marketing spend and new product development, but to have done so would have been short sighted. We believe that the strategy of pursuing organic growth remains essential for the long term success of the Group. Our business units are capable of supporting higher turnover without a proportionate increase in fixed costs. The extensive new product development programmes will provide new market opportunities thereby fuelling growth. Lower product costs will also result, thus improving margins. A further benefit is product rationalisation which will reduce complexity, and our cost base accordingly. We shall not see a full year's benefits from our actions until 1998. In the current year however we intend to produce a financial performance substantially better than in 1996.

Operational review

FIRE SECURITY This segment grew quite strongly in terms of sales, performing broadly in line with expectations. A number of significant orders were won by Autronica including a fire alarm system for the new Norwegian National Hospital in Oslo.

In Norway our market share increased to 37%. Elcon in Italy, following the acquisition of En Engineering in November 1995, experienced strong growth in both sales and profitability. The En products have broadened the size of the hazardous area market available to Elcon by adding many additional safety control methods to Elcon's intrinsic safety range. En products and staff have been smoothly integrated into the company and high calibre staff added to strengthen R&D, manufacturing and international sales activities.

Within Autronica's Fire and Security division, the focus during the year was on market penetration and new product development and in both good progress was made. Major development projects which have involved many man years of effort are now at an advanced stage. Accordingly, the company expects to commence launching an array of new products and systems in the first half of 1997.

During the year, Elcon introduced Micro D, a new range of intrinsically safe barriers, which extend the company's capability in both the project and factory automation markets. Micro D is the first result of a heavy new product development programme which will broaden and re-vitalise the company's range of intrinsic safety products over the coming twelve months. The key product offerings will be High D's, a replacement for the successful Series 1000 range, and Micro Z, a family of Zener barriers which will open new market opportunities. Autronica has recently formed a new strategic business unit to address the petroleum, offshore and gas markets. The organisation will build upon the success that the company has had in fire and gas systems, particularly in the Norwegian sector of the North Sea both for offshore platforms and the increasing number of floating production storage and off-loading (FPSO) vessels. Order intake increased during the year by more than 25%. More than £3m worth of systems have been delivered to FPSOs, including "Norne", the largest such vessel so far built.

Just after the year end Autronica won the first of what we hope will be a number of orders in connection with an FPSO for the Asgaard field. Autronica is well positioned in this growing market with fire and gas, cargo monitoring and related marine instrumentation. The signs for the current year are encouraging.

Operational review

MARINE The marine market is inherently uneven and, contrary to expectation, we experienced a downturn in business which became evident at the half year and our margins reduced in response to strong competitive pressures. Nonetheless, a number of notable orders were won.

In the last quarter bidding activity improved noticeably, order intake increased and sales in September were strong.

Development however continued at a high rate in parallel with a time consuming and expensive process to ensure that the majority of the existing range passed the tests necessary to comply with the European Union CE legislation. In the current financial year, the Marine division will benefit from the introduction of a new cargo management system, Autrocargo, which includes a new radar measurement system with an improved price to performance ratio. Amongst the other new products to be released during 1997 are an engine monitoring system, a pressure sensor and a radar based berthing aid system.

LIQUID MEASUREMENT AND CONTROL Whessoe Varec improved its performance over the previous year in spite of quite difficult market conditions. Vapour control activities were strong helped by improved marketing and increased customer service levels. Biogas business continued to strengthen and we had particular success with orders worth more than £1.3m in the Far East and the United States. In July we acquired A G Marvac, an acquisition which has expanded our market customer base and strengthened our product range. One example is the addition, following a three year development and test programme, of a new range of pilot operated relief valves. Sales have already been made to some of the world's leading chemical companies which see in the product a way of both protecting the environment and reducing costs through lower product emission losses.

Our tank gauging strategy was reviewed during the year. Whessoe Varec continues to perform well in the float gauge and marine sector of the market. We have been unable however to extend our success in the mid range servo gauge segment of the market. It is therefore our intention to introduce a new range of products to address this sector. The acquisition of CGAI completed in November 1996 adds a competitive advanced servo gauge which will be sold world-wide. In addition, we have recently introduced a new displacer instrument, the 2046 level gauge, for which orders have been won in Nigeria and China. The combination of these two product families puts us in a stronger position in a growth sector of the market and allows us to rationalise our range of tank gauges.

In 1997 Whessoe Varec will introduce a range of instruments associated with tank gauging which will simplify our product offering, add increased functionality and improve the price to performance relationship. Included in the new releases will be a radar gauge for land-based applications using Autronica's proven technology.

A further new product released at the end of the year arising from a strategic alliance with Fibrechem International is "Petrosense". This advanced leak detection device, when linked to our other instrumentation systems, will allow us to provide customers with a total tank solution in one instrument package.

Throughout the year Coggins Systems focused upon a fuels management project in conjunction with the US Department of Defense. The company further developed its systems product, FuelsManager, in response to this opportunity and, although it was a costly project, we were successful in winning at the year end a large order for the installation of FuelsManager at 100 air-force bases. The Defense Fuels Supply Center (DFSC) has declared its intent to introduce new systems throughout all of the 600 bases where bulk fuels are stored and has defined FuelsManager as the "base level system". We believe that further orders will be won in the current year.

FuelsManager will be promoted by Whessoe Varec for tank farm automation, strengthening their capability in this area whilst simplifying the product range. Coggins Systems introduced an advanced remote terminal unit to interface between computer systems running FuelsManager software and field instruments. The remote terminal unit, which has the ability to link to the gauging systems of other manufacturers will also be sold by Whessoe Varec replacing in the process a number of older products.

Management has been strengthened in all of our business units. Both Autronica and Whessoe Varec have introduced Strategic Business Units to improve focus whilst increasing accountability and responsibility. There is also a high level of awareness of the need for continuous improvement to raise our standards of performance in all aspects of the business.

We expect our turnover to continue to grow in the current year fuelled primarily by marketing initiatives undertaken last year and the introduction of new products which have been developed over the last two years and which will continue to be developed in the current year. The benefits of these activities will become particularly evident in the final quarter of the current year and will help increase orders. We will reap the full benefits in the following year.

Financial review

BARBARA RICHMOND
GROUP FINANCE
DIRECTOR

Operating Profit

Turnover on continuing operations grew strongly again in 1996, primarily through organic growth following considerable expenditure on the geographical expansion of our sales network.

Margins however came under pressure in 1996. This situation is only likely to improve significantly following the launch, in 1997, of a number of new products from all our businesses which have been developed over the last two to three years. The level of development expenditure which has had a negative impact on results in the short term can be seen on the graph below. Whilst development expenditure was high in 1996 at 5% of turnover, we do expect it to average around 4% of sales in the short term, as we continue to launch new products. These costs will however be funded out of higher margins as the average age of our product range reduces.

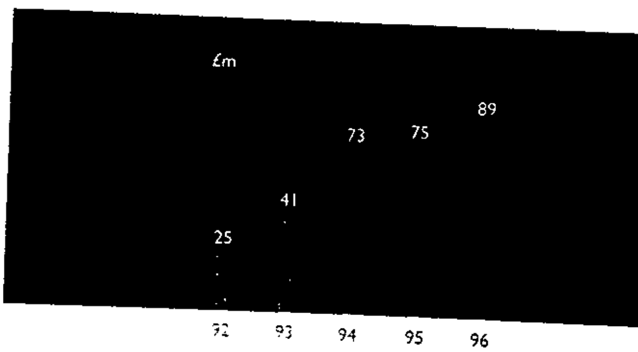
Exceptional Items

The exceptional items relate to the sale of a non-core business, Whessoe Computing Systems and the sale of the former head office of the Group in Darlington, County Durham, following the transfer of head office to our Newton Aycliffe site.

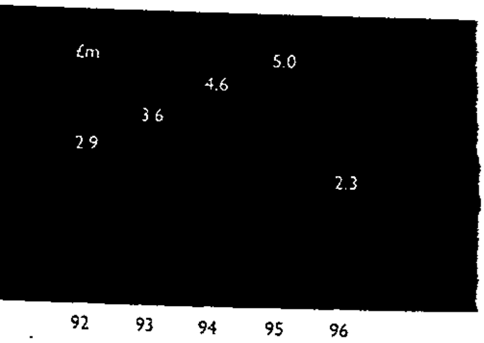
Although there was a loss on disposal of Whessoe Computing of £0.8m, the majority of this comprised the write-off through the profit and loss account of goodwill previously charged against reserves.

Taxation

As in 1995, the tax charge is a high percentage of pre tax profit because the two exceptional items and the trading loss on the discontinued operations are not tax deductible against our mainstream corporation tax. If these three items were eliminated, the tax rate would be approximately 31%.



TURNOVER ON CONTINUING OPERATIONS



OPERATING PROFIT
ON CONTINUING OPERATIONS

In the absence of any change in the structure of the Group and the overseas source of most of its earnings, an under recovery of UK Advance Corporation Tax (ACT) on dividends paid to shareholders will become increasingly likely with a consequent increase in the tax charge.

Treasury

At 30 September 1996, our level of gearing was 37%. Given the growth in turnover and acquisition of A G Marvac and En Engineering in the year, this level is reasonable, although we continue to focus on reducing our working capital needs as a percentage of sales.

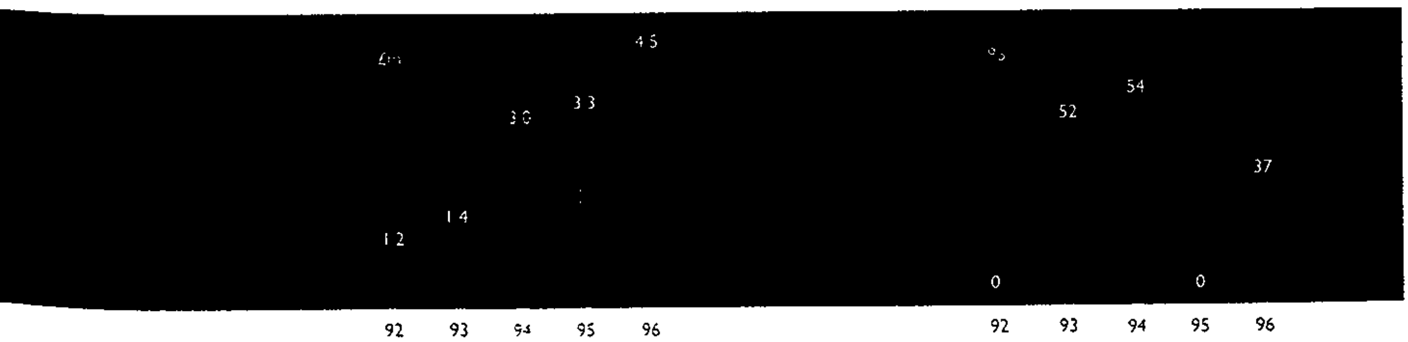
The Group aims to reduce its balance sheet exposure to significant movements in exchange rates by borrowing in foreign currencies to hedge the overseas assets in a cost effective manner. The borrowing is long term in nature and in the principal currencies of the Group's assets, which are Norwegian Kroner, US Dollars and Italian Lira.

In order to provide readers of the accounts with a better understanding of the movement in our net cash over the year, we have decided to adopt Financial Reporting Standard number 1 (Revised 1996) earlier than required, in preparing the Cash Flow Statement on page 41.

Dividends

Due to the difficulties experienced by the Group, your Board decided to reduce the level of dividend in 1996. A final dividend of 1.4p is proposed, making 2.5p for the year (1995:4.5p). The dividend is covered 1.4 times on the basis of adjusted earnings per share.

BARBARA RICHMOND GROUP FINANCE DIRECTOR



DEVELOPMENT EXPENDITURE

GEARING

AUDITORS Our auditors, KPMG, have indicated to the directors that a limited liability company, KPMG Audit Plc, is to undertake part of their audit business. Accordingly, they have indicated their intention to resign and the directors intend to appoint KPMG Audit Plc as auditors.

CORPORATE GOVERNANCE The Group has complied throughout the accounting period with all the recommendations of the Code of Best Practice issued by the Committee on the Financial Aspects of Corporate Governance.

GENE GERACI
MANAGING DIRECTOR
OF THE INSTRUMENTATION
& CONTROL DIVISION

The Board, which includes at least three non-executive directors, meets periodically throughout the year. There is a formal schedule of matters specifically reserved to the Board for decision and this includes the determination of overall strategy, the approval of acquisitions, disposals, major capital expenditure and other significant matters. It reviews the annual budgets of the Group's operations and monitors progress against them at each meeting.

A number of issues are dealt with through committees of the Board as described below. The minutes of the meetings of these committees are circulated to all Board members.

The remuneration and nomination committee comprises the non-executive directors of the Board and meets at least once a year. It reviews and recommends to the Board, the remuneration, terms and conditions of the executive directors and proposes to the Board any new appointments whether of executive or non-executive directors. The committee is also responsible for the approval of those targets used as a basis for the annual bonus scheme applicable to senior executives within the Group and the award of shares under the Group's Restricted Share Scheme.

The audit committee comprises the non-executive directors of the Board and normally meets three times a year with other meetings as may be required. Its terms of reference allow it to consider any matter relating to the financial affairs of the Group and include the monitoring of financial reporting and accounting policies, matters relating to the auditors and the adequacy of the Group's internal financial controls.

The directors are responsible for the Company's system of internal financial control. Although no such system can provide absolute protection against material misstatement or loss, it is designed to provide the directors with reasonable assurance that problems should be identified on a timely basis and dealt with appropriately.

Directors Report

DIRECTORS The names of the directors at the end of the financial year are given on page 3. Mr M.A.W. Baggott was appointed a director on 26 March 1996. Mr E.E. Geraci retires by rotation and offers himself for re-election. He has a service agreement with the Company with an unexpired term of two years. Mr Baggott, having been initially appointed to the Board during the year, also offers himself for re-election. No notice period is specified in Mr Baggott's letter of appointment.

DIRECTORS' INTERESTS The interests of the directors in the share capital of the Company are shown in note 11 to the accounts. No director has a beneficial interest in any shares of any subsidiary company. During the year no director had a material interest in any contract of significance in relation to the business of the Company or its subsidiaries.

RESEARCH AND DEVELOPMENT The Group is devoting resources to research and development where it is believed this will contribute to the profitable growth of the Group. During the year the Group expended £4.5m (1995:£3.3m) on research and development.

CHARITABLE CONTRIBUTIONS Contributions to charitable organisations amounted to £250.

SUBSTANTIAL SHAREHOLDERS At 9 December 1996 the Company had been notified of the following interests of 3% or more in its issued share capital:

	Issued Share Capital %
PDFM Limited	18.08
M&G Investment Management Ltd	13.83
Baring Asset Management	6.63
Framlington Group Plc	5.43
Aberforth Partners	4.42
Royal London Mutual	3.17

CLOSE COMPANY STATUS The close company provisions of the Income and Corporation Taxes Act 1988 do not apply.

PAYMENT OF CREDITORS Each group company sets its terms of payment in accordance with its conditions of order. All suppliers fulfilling those conditions of order will be paid in accordance with the terms of payment agreed. Other suppliers will be paid in accordance with contractual terms as agreed from time to time in the absence of a formal order.

Key procedures that have been established can be described under the following headings:

Organisational structure – the Group has a management structure designed to ensure the shortest possible lines of communication consistent with the commercial demands of a decentralised organisation.

Financial reporting – the Group has a comprehensive system for reporting and monitoring the performance of each operating unit on a monthly basis against budget and prior year. Budgets are prepared at the individual operating unit and following central review are adopted by the Board. The system also includes regularly updated forecasts. These are routinely reported at each Board meeting.

Operating unit controls – the Group has internal financial controls and approval procedures with which individual units are obliged to comply. Key controls over major business risks include defined levels of authority and a detailed development expenditure review process.

Other key functions – a number of the Group's key functions including finance, treasury, taxation, insurance, secretarial and legal are dealt with centrally.

The Board has reviewed the effectiveness of the system of internal financial control for the financial year and the period to the date of approval of the financial statements.

After making due inquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The auditors, KPMG, have confirmed that in their opinion: with respect to the directors' statements on internal financial controls and going concern above, the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which they are aware from their audit work on the accounts; and that the directors' statement above appropriately reflects the Company's compliance with the other paragraphs of the Code specified by the Listing Rules for their review. They have carried out their review in accordance with the relevant Bulletin issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of either the Company's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

Gary 7Copeland

By order of the Board

G. DUNCAN ~~CHAIRMAN~~, G.J. COPELAND COMPANY SECRETARY

COMPANY SECRETARY

Report of the Remuneration and Nomination Committee

The remuneration and nomination committee is chaired by George Duncan. Its other members are Malcolm Baggott, Sir Michael Franklin and Peter Simonis. All members of the committee are non-executive directors. The committee determines an overall remuneration package for executive directors in order to attract and retain high quality executive directors capable of achieving the Group's objectives. The committee pays particular attention to the issue of comparability and performance within market sectors in which the Company operates, and may take advice from external executive remuneration consultants as appropriate. The committee has complied with Section A and given full consideration to Section B of the best practices provisions annexed to the Stock Exchange Listing Rules. The individual components of the remuneration package are discussed below:

BASIC SALARY Each executive director's salary is reviewed annually based on performance during the year, achievement of objectives and comparative salary.

BENEFITS Benefits provided include the provision of a company car (or cash equivalent), private fuel and medical insurance.

ANNUAL BONUSES These are calculated based on a fixed formula which is determined at the beginning of each financial year by the committee. Bonuses are paid for achieving or exceeding a financial target. The financial target used is growth in adjusted earnings per share.

PENSIONS Executive directors are entitled to join the Whessoe Group Final Salary Pension Scheme. Under this scheme executive directors contribute 5% of their salary and the Company makes further contributions as necessary to meet the obligations of the scheme. The current Company contribution is 10% of salary. Alternatively, an executive director may join a money purchase scheme to which the Company will pay a contribution of 5% of salary.

SHARE OPTIONS / RESTRICTED SHARES The Whessoe Senior Executive Share Option Scheme terminated in January 1996 and has been replaced by the Whessoe Restricted Share Scheme. Under the terms of the Scheme, each year, the committee may award restricted shares in the Company to senior managers, including executive directors, normally to a value not to exceed 40% of basic salary. The vesting of restricted shares is subject to achieving or exceeding predetermined performance targets. The measure of performance is total shareholders' return over a three year period. The earliest date, therefore, that the awards can become unconditional is the third anniversary of the awards. If the targets are not achieved by the fifth anniversary, the awards lapse.

NON-EXECUTIVE FEES The fees of the non-executive directors are determined by the Board within the limits stipulated in the Articles of Association. Non-executive directors are not involved in any decisions about their own remuneration.

DIRECTORS' REMUNERATION AND INTERESTS Details are set out in note 11.

SERVICE CONTRACTS George Duncan, Chris Fleetwood and Gene Geraci have service contracts which are terminable on two years notice. The remuneration and nomination committee has concluded these periods of notice are appropriate in view of the competitive nature of the market in which the Company operates.

RE-ELECTION Malcolm Baggott and Gene Geraci will offer themselves for re-election at the forthcoming AGM. There is no period specified in Malcolm Baggott's letter of appointment, therefore there is no unexpired term. The unexpired term of the contract of Gene Geraci is two years.

On behalf of the Remuneration and Nomination Committee GEORGE DUNCAN CHAIRMAN, 9 DECEMBER 1996

Financial Statements

Contents

Statement of Directors' Responsibilities
Auditors Report

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by law to prepare accounts which give a true and fair view of the state of affairs of the Company and of the Group as at the end of the financial year and of the profit or loss for that year. The accounts are required to be prepared on a going concern basis unless it is inappropriate to do so. The directors are also responsible for ensuring that proper and adequate accounting records have been kept and that appropriate procedures have been followed for safeguarding the assets of the Group and the prevention and detection of fraud and other irregularities. It is the view of the directors that appropriate accounting policies which are in accordance with applicable Accounting Standards have been applied consistently in the preparation of the accounts and where necessary reasonable and prudent judgements and estimates have been made.

AUDITORS REPORT TO THE MEMBERS OF WHESSOE PLC

We have audited the financial statements on pages 23 to 43.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described above the Company's directors are responsible for the preparation of financial statements. 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 Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG

Chartered Accountants, Registered Auditors, Newcastle upon Tyne.

9 December 1996

Statement of Accounting Policies

ACCOUNTING CONVENTION The accounts are prepared under the historical cost convention, modified by the revaluation of certain freehold properties and are in accordance with applicable Accounting Standards. The Consolidated Cashflow Statement has been prepared in accordance with Financial Reporting Standard number 1 (revised 1996).

CONSOLIDATION The Group accounts comprise the results of the parent company and its subsidiary undertakings. The accounting dates of all undertakings in the Group are coterminous. The results include, from the date of acquisition or to the date of disposal, the results of subsidiary undertakings acquired or disposed of during the year.

GOODWILL The difference between the cost of acquisition and the fair value of the net assets acquired is written off against reserves.

FOREIGN CURRENCIES The assets and liabilities of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the balance sheet date. The income and cash flow statements of overseas subsidiary undertakings are translated at the average rates of exchange for the relevant accounting periods. Exchange differences arising from both the retranslation of the opening overseas net assets and applying the average rate compared with the closing rate to the income statement, are accounted for as a movement on reserves. Other foreign exchange differences are taken to the profit and loss account.

TURNOVER Turnover comprises the invoiced value of goods supplied and services provided to third parties exclusive of VAT. In respect of long term contracts it comprises the value of work performed.

RESEARCH AND DEVELOPMENT Expenditure on research and development is written off as incurred.

DEPRECIATION Depreciation is provided on tangible fixed assets other than freehold land. It is calculated in accordance with the methods and rates referred to in note 13.

DEFERRED TAXATION Provision is made in respect of capital allowances and other timing differences to the extent that it is reasonably probable that such liabilities will become payable in the foreseeable future. Deferred taxation is held in the balance sheet as an asset only where its recovery can be foreseen with reasonable certainty.

STOCKS AND WORK-IN-PROGRESS Stocks and work-in-progress are valued at the lower of net realisable value and cost including attributable overheads where appropriate.

LONG TERM CONTRACT WORK-IN-PROGRESS Where turnover on long term contract work-in-progress differs from invoiced progress payments, the balance is included in debtors or creditors as appropriate.

RETIREMENT BENEFITS Retirement benefits are funded by contributions made by the Group and its employees which are held in trustee administered funds. For defined benefit schemes contribution rates are calculated periodically by actuaries and the cost charged against profits over the employees' estimated working lives. For defined contribution schemes, pension contributions are charged to the profit and loss account as they fall due.

LEASED ASSETS Assets funded by means of finance leases are included in the balance sheet at cost and depreciated at rates appropriate for the class of asset concerned. The finance element of rentals payable is charged to the profit and loss account. Rental payments of operating leases are expensed as incurred.

Consolidated Profit and Loss Account

For the year ended 30 September 1996

	Notes	1996 £000	1995 £000
TURNOVER	1		
Continuing operations		87,980	75,390
Acquisitions		598	-
		88,578	75,390
Discontinued operations		151	10,522
		88,729	85,912
Cost of sales	2	(55,781)	(54,869)
Gross profit		32,948	31,043
Net operating expenses	2	(30,696)	(26,343)
OPERATING PROFIT	1, 3		
Continuing operations		2,194	5,047
Acquisitions		98	-
		2,292	5,047
Discontinued operations		(40)	(347)
		2,252	4,700
Loss on sale of discontinued operations	4	(800)	(2,446)
Loss on sale of head office		(151)	-
Fundamental restructuring	5	-	(246)
Profit on ordinary activities before interest		1,301	2,008
Net interest	6	(741)	(697)
Profit on ordinary activities before taxation		560	1,311
Taxation	7	(488)	(1,759)
Profit/(loss) on ordinary activities after taxation		72	(448)
Minority interest		-	(35)
Profit/(loss) for the year		72	(483)
Dividends	8	(737)	(1,331)
Retained loss for the financial year		(665)	(1,814)
Earnings/(loss) per share	9	0.24p	(1.64)p
Adjusted earnings per share	9	3.46p	9.20 p

Balance Sheets

At 30 September 1996

	Notes	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
FIXED ASSETS					
Tangible assets	13	14,135	15,418	1,474	3,016
Investments	14	256	134	31,254	30,857
		14,391	15,552	32,728	33,873
CURRENT ASSETS					
Stocks	15	13,029	10,754	-	-
Debtors	16	29,267	22,840	26,673	19,446
Cash at bank and in hand		6,480	9,570	76	6,555
		48,776	43,164	26,749	26,001
CREDITORS: due within one year	17	(27,041)	(23,868)	(3,749)	(4,208)
NET CURRENT ASSETS		21,735	19,296	23,000	21,793
TOTAL ASSETS LESS CURRENT LIABILITIES		36,126	34,848	55,728	55,66
CREDITORS: due after more than one year	18	(12,489)	(7,711)	(27)	-
PROVISION FOR LIABILITIES AND CHARGES	20	(189)	(246)	-	98
Net assets		23,448	26,891	55,701	55,764
CAPITAL AND RESERVES					
Called up share capital	21	7,407	7,395	7,407	7,395
Share premium account	22	20,621	20,579	20,621	20,579
Revaluation reserve	22	215	1,105	-	782
Other reserves	22	(14,919)	(11,541)	(315)	(415)
Profit and loss account	22	10,124	9,353	27,988	27,423
Equity shareholders' funds		23,448	26,891	55,701	55,764

The accounts on pages 23 to 43 were approved by the Board on 9 December 1996 and were signed on its behalf by:

G. Duncan, Chairman — George Duncan — DIRECTOR

C.J. Fleetwood, Group Chief Executive — DIRECTOR

Statement of Total Recognised Gains and Losses
Reconciliation of Movements in Shareholders' Funds

For the year ended 30 September 1996

	Group	
	1996	1995
	£000	£000
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES		
Profit/(loss) for the financial year	72	(483)
Unrealised deficit on revaluation of land and buildings	(42)	(754)
Currency translation differences	(140)	766
Total recognised gains and losses for the year	(110)	(471)
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS		
Total recognised gains and losses for the year	(110)	(471)
Dividends	(737)	(1,331)
New share capital subscribed	54	174
Goodwill (written off)/credited	(2,650)	4,197
(Diminution in)/net addition to shareholders' funds	(3,443)	2,569
Shareholders' funds at beginning of year	26,891	24,322
Shareholders' funds at end of year	23,448	26,891

Note on historical cost profits and losses

There is no material difference between the reported profits and losses and the historical cost profits and losses for 1996 and 1995.

Notes to the Accounts

	Turnover		Operating profit/(loss)		Capital employed	
	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000
1 SEGMENTAL INFORMATION						
Business segment						
Fire Security and Marine Instrumentation	60,276	50,200	2,998	3,944	19,224	19,104
Liquid Measurement and Control	28,302	25,190	(706)	1,103	6,094	9,759
Continuing operations	88,578	75,390	2,292	5,047	25,318	28,863
Discontinued operations						
Piping Systems	-	4,521	-	(497)	-	-
Fire Security and Marine Instrumentation	151	6,001	(40)	150	-	-
Segmental results	88,729	85,912	2,252	4,700	25,318	28,863
Unallocated liabilities	-	-	-	-	(1,870)	(1,972)
Group total	88,729	85,912	2,252	4,700	23,448	26,891
Geographical region of operation						
Continental Europe	59,693	56,145	3,193	3,922	20,468	19,615
United States of America	20,089	17,534	(926)	411	5,856	6,514
United Kingdom	8,947	12,233	(15)	367	(1,006)	2,734
Segmental results	88,729	85,912	2,252	4,700	25,318	28,863
Unallocated liabilities	-	-	-	-	(1,870)	(1,972)
Group total	88,729	85,912	2,252	4,700	23,448	26,891
Turnover by destination						
Continental Europe	51,506	50,579				
United States of America	16,840	14,929				
United Kingdom	8,305	8,129				
Asia and Far East	8,532	7,728				
Rest of World	3,546	4,547				
Group total	88,729	85,912				

Notes to the Accounts

2 ANALYSIS OF EXPENSES

	1996 £000	1995 £000
COST OF SALES		
Continuing operations	55,768	46,430
Discontinued operations	13	8,439
	55,781	54,869
NET OPERATING EXPENSES		
Continuing operations	30,518	23,913
Discontinued operations	178	2,430
	30,696	26,343

3 OPERATING PROFIT

	1996 £000	1995 £000
Operating profit is stated after charging/(crediting):		
Audit fees	85	85
Fees to auditors for non-audit services	46	148
Operating lease rentals – land and buildings	1,123	853
Operating lease rentals – plant and machinery	223	565
Hire of plant and machinery	10	58
Development expenditure	4,501	3,341
Depreciation of owned assets	1,916	1,831
Depreciation of leased assets	7	6
Amortisation of awards under the Whessoe Restricted Share Scheme	27	-
Rental income	(271)	(332)

4 LOSS ON SALE OF DISCONTINUED OPERATIONS

	1996 £000	1995 £000
(Deficit)/surplus of sale proceeds over net assets	(212)	1,819
Goodwill written off	(588)	(4,265)
	(800)	(2,446)

The loss on sale in 1996 arose on the disposal of the Whessoe Computing Systems business on 14 February 1996.

The loss on sale in 1995 represents the loss on sale of the Piping Division of £4,066,000 and a net profit on the sale of non-core Autronica activities of £1,620,000.

Notes to the Accounts

5 FUNDAMENTAL RESTRUCTURING

The fundamental restructuring in 1995 represents the net cost of Coggins Systems' withdrawal from the systems integration business in order to focus entirely on the FuelsManager product.

6 NET INTEREST

	1996 £000	1995 £000
Interest payable on bank loans, overdrafts and other loans:		
Wholly repayable within five years:		
by instalments	38	26
not by instalments	614	285
Not wholly repayable within five years	946	1,314
	1,598	1,625
Interest receivable	(857)	(928)
Net interest payable	741	697

7 TAXATION

	1996 £000	1995 £000
The charge for taxation on the profit for the year comprises:		
United Kingdom corporation tax at 33%	-	215
Overseas taxation	722	1,417
Current taxation	722	1,632
Deferred taxation	(107)	500
Prior year adjustments:		
Current taxation	(212)	(452)
Deferred taxation	85	79
Total taxation	488	1,759

Notes to the Accounts

8 DIVIDENDS PAID AND PROPOSED

	1996 £000	1995 £000
Interim (paid): 1.1p (1995: 1.5p)	325	443
Final (proposed): 1.4p (1995: 3.0p)	412	888
	737	1,331

9 EARNINGS PER SHARE

Earnings per share has been calculated in accordance with Financial Reporting Standard number 3 (FRS 3). The adjusted earnings per share has been calculated by using those profits attributable to shareholders, adjusted to exclude operating and non-operating exceptional items where applicable. The reconciliation between the two figures is as follows:

	1996 p	1995 p
Profit/(loss) per share (FRS 3)	0.24	(1.64)
Total exceptional items	3.22	9.12
Tax effect of above	-	1.72
Adjusted earnings per share	3.46	9.20

The FRS 3 calculations are based on profits of £72,000 (1995: losses of £483,000) and on ordinary shares of 29,556,319 (1995: 29,509,990) being the weighted average number of shares in issue and qualifying for dividend. The fully diluted earnings per share is not materially different.

10 STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including directors) during the year was as follows:

	1996	1995
Fire Security and Marine Instrumentation	547	629
Liquid Measurement and Control	297	304
Piping Systems	-	36
	844	969

The aggregate payroll costs of these persons were as follows:

	1996 £000	1995 £000
Wages and salaries	24,071	24,637
Social security costs	4,026	4,226
Other pension costs	1,442	1,130
	29,539	29,993

11 DIRECTORS' REMUNERATION AND INTERESTS

The remuneration of the directors was as follows:

	Basic Salary £	Fees £	Benefits £	Annual Bonus £	Other Payments £	Sub-Total £	Pension Contrib. £	1996 Total £	1995 Total £
Executive:									
C.J. Fleetwood	104,250	-	6,446	-	-	110,696	10,400	121,096	140,831
Highest Paid Director									
E.E. Geraci	91,458	-	5,390	-	-	96,848	8,040	104,888	126,179
B.M. Richmond	73,833	-	9,331	-	-	83,164	3,658	86,822	97,024
C. Dennis	-	-	-	-	-	-	-	-	106,780
D.C. Wood	-	-	-	-	-	-	-	-	3,978
Non-executive:									
G. Duncan	-	50,000	-	-	-	50,000	-	50,000	50,000
Chairman									
M.A.W. Baggott	-	7,182	-	-	-	7,182	-	7,182	-
Sir Michael Franklin	-	14,000	-	-	-	14,000	-	14,000	14,000
P.G. Simonis	-	14,000	-	-	-	14,000	-	14,000	14,000
1996 Total	269,541	85,182	21,167	-	-	375,890	22,098	397,988	552,792
1995 Total	280,928	78,000	25,190	66,050	80,000	530,168	22,624	552,792	

Non-executive directors are not entitled to performance related pay nor does the Company make any pension contributions on their behalf.

The highest paid director's 1995 emoluments includes £25,675 performance related pay and £9,875 pension contribution.

The 1995 other payment was compensation for loss of office paid to C. Dennis.

Performance related pay is based on the achievement of targets set for each financial year by the remuneration and nomination committee.

In accordance with the Greenbury Code of Best Practice on Directors' Remuneration, performance related pay awards to executive directors are approved by the remuneration and nomination committee before the Annual Report and Accounts are signed and are accrued in the year to which they relate. This represents a change from previous practice when performance related pay awards were made in the following year. Accordingly the 1995 comparatives have been restated to include the 1995 awards. No performance related pay awards have been made in 1996.

The remuneration of the directors, excluding pension contributions, were within the following ranges:

	1996	1995
£0 to £5,000	-	1
£5,001 to £10,000	1	-
£10,001 to £15,000	2	2
£45,001 to £50,000	1	1
£80,001 to £85,000	1	-
£95,001 to £100,000	1	1
£100,001 to £105,000	-	1
£110,001 to £115,000	1	-
£115,001 to £120,000	-	1
£130,001 to £135,000	-	1
	7	8

Notes to the Accounts

NOTE 11 CONTINUED

The directors at 30 September 1996 and their beneficial interests in the share capital of the Company were:

NUMBER OF ORDINARY SHARES OF 25P	1996	1995
G. Duncan	7,812	7,812
C.J. Fleetwood	24,835	21,835
M.A.W. Baggott	2,065	-
Sir Michael Franklin	3,125	3,125
E.E. Geraci	9,405	5,000
B.M. Richmond	2,500	2,500
P.G. Simonis	3,125	3,125

The executive directors also have a deemed interest in the shares which have been conditionally awarded to them under the Whessoe Restricted Share Scheme. These interests are described below.

The following share rights were awarded to directors on 15 July 1996 and held at 30 September 1996 under the new Group Restricted Share Scheme. The award was based on the published share price of £1.26 on the date of the award.

	No. of shares	Value £
C.J. Fleetwood	33,492	42,200
E.E. Geraci	29,365	37,000
B.M. Richmond	17,976	22,650

These shares will vest in the directors between 15 July 1999 and 15 July 2001, subject to the Company achieving predetermined performance targets. If the targets have not been achieved by the latter date, the share rights lapse.

Share options held by directors at 30 September 1996 and movements during the year were as follows:

	As at 30 Sept 1995	Exercised during the Period	As at 30 Sept 1996	Option Price (pence)	Exercise Price (pence)	Exercise Date	Date from which Exercisable	Expiry Date
Executive share option scheme								
C.J. Fleetwood	20,000	-	20,000	118	-	-	18.12.93	18.12.00
	36,106	-	36,106	290	-	-	18.01.96	18.01.03
	65,000	-	65,000	99	-	-	14.01.98	14.01.05
E.E. Geraci	100,000	-	100,000	99	-	-	14.01.98	14.01.05
B.M. Richmond	15,000	-	15,000	346	-	-	07.06.96	07.06.03
	50,000	-	50,000	185	-	-	19.05.97	19.05.04
	35,000	-	35,000	99	-	-	14.01.98	14.01.05
Savings related share option scheme								
C.J. Fleetwood	10,286	-	10,286	109	-	-	26.10.96	-
	2,346	-	2,346	294	-	-	27.02.99	-

12 PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985. The (loss)/profit dealt with in the accounts of the Company was (£217,000) (1995: £4,098,000).

13 TANGIBLE FIXED ASSETS

	Group			Company		
	Land and Buildings	Plant and Machinery	Total	Land and Buildings	Plant and Machinery	Total
Cost or valuation	£000	£000	£000	£000	£000	£000
At 30 September 1995	11,989	9,761	21,750	1,624	1,590	3,214
Exchange rate adjustments	(172)	4	(168)	-	-	-
Acquisition of subsidiaries	17	301	318	-	-	-
Additions	505	2,165	2,670	52	218	270
Disposals	(1,937)	(494)	(2,431)	(1,600)	(90)	(1,690)
Deficit on revaluation	(42)	-	(42)	-	-	-
Disposal of business	-	(251)	(251)	-	-	-
At 30 September 1996	10,360	11,486	21,846	76	1,718	1,794
Depreciation						
At 30 September 1995	1,707	4,625	6,332	64	134	198
Exchange rate adjustments	(13)	(8)	(21)	-	-	-
Acquisition of subsidiaries	11	143	154	-	-	-
Charge for the year	356	1,567	1,923	9	250	259
Disposals	(73)	(359)	(432)	(72)	(65)	(137)
Disposal of business	-	(245)	(245)	-	-	-
At 30 September 1996	1,988	5,723	7,711	1	319	320
Net book value						
At 30 September 1996	8,372	5,763	14,135	75	1,399	1,474
At 30 September 1995	10,282	5,136	15,418	1,560	1,456	3,016

The net book value of land and buildings comprises:

	Group		Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Freehold property	7,267	10,020	-	1,560
Long leasehold property	1,024	262	-	-
Short leasehold property	81	-	75	-
	8,372	10,282	75	1,560

Notes to the Accounts

NOTE 13 CONTINUED

The net book value of plant and machinery includes an amount of £67,000 (1995: £10,000) in respect of assets held under finance leases.

The historical cost of land and buildings at 30 September 1996 was as follows:

	Group		Company	
	1996	1995	1996	1995
	£000	£000	£000	£000
Cost	6,701	8,582	76	1,954
Depreciation	(2,547)	(3,182)	(1)	(812)
Net book value	4,154	5,400	75	1,142

Depreciation is provided to write off the cost or valuation, less estimated residual value, of tangible fixed assets on the following bases:

Freehold and long leasehold buildings	2% per annum straight line
Short leasehold buildings	over period of lease
Plant and machinery	10% per annum straight line
Computer systems	20%-33% per annum straight line
Motor vehicles	25% per annum straight line

14 INVESTMENTS

	Group		Company	
	1996	1995	1996	1995
	£000	£000	£000	£000
Shares at cost less provisions	6	134	31,004	30,857
Own shares	250	-	250	-
	256	134	31,254	30,857

Group investments in external shares, all of which are held by Autronica, comprise minority shareholdings in a number of listed and unlisted companies. None of the investments are material to the Group.

All investments in Company shares are held by the Trustees of the Whessoe Employee Share Ownership Trust which is operated in conjunction with the Whessoe Restricted Share Scheme. Funds are provided to enable the Trustees to purchase Company shares sufficient to cover the restricted shares conditionally awarded to participants in the Scheme. These payments are amortised and charged to the profit and loss account over three years on a straight line basis. The Trustees seek to hold sufficient Company shares to ensure they can provide participants in the Scheme with restricted shares as they become unconditionally entitled to them. At 30 September 1996, the Trust held 194,000 restricted Company shares with a market value of £213,400. The dividends on these shares have been waived.

NOTE 14 CONTINUED

Investment in subsidiary undertakings

The Company's investments comprise shares in Group undertakings.

The principal subsidiaries in which the Company holds 100% of the equity are set out below. Those in which the equity is held by a subsidiary undertaking are marked with an asterisk.

Undertaking	Country of operation and incorporation	Principal activities
* Autronica AS	Norway	Fire Security and Marine Instrumentation
* Coggins Systems Inc.	USA	Liquid Measurement and Control
* Elcon Instruments Srl	Italy	Fire Security
Whessoe Varec Limited	England	Liquid Measurement and Control
* Whessoe Varec Inc.	USA	Liquid Measurement and Control
* Whessoe Varec SA	France	Liquid Measurement and Control
* A G Marvac Limited	England	Liquid Measurement and Control

In addition, the whole of the equity of eighteen trading and two dormant subsidiary undertakings is held within the Group.

The directors consider that the aggregate value of the Company's investment in subsidiary undertakings is not less than the amount stated in the balance sheet.

The business and certain assets and liabilities of En Engineering of Milan were acquired on 17 November 1995 and the entire share capital of A G Marvac Limited was acquired on 4 July 1996:

Net assets acquired:	A G Marvac Limited £000	En Engineering £000	Total £000
Tangible fixed assets	72	92	164
Stocks	179	235	414
Debtors	553	202	755
Creditors	(385)	(734)	(1,119)
Provisions	(150)	-	(150)
Taxation	(67)	(12)	(79)
Cash and cash equivalents	84	(239)	(155)
Bank loans	(6)	(54)	(60)
Total net assets/(liabilities) acquired	280	(510)	(230)
Total consideration including expenses	(2,815)	(16)	(2,831)
Goodwill arising on acquisitions during the year	(2,535)	(526)	(3,061)

It is not practical to determine the post acquisition results of En Engineering because the operations have been completely absorbed within Elcon Instruments Srl.

Notes to the Accounts

15 STOCKS

Stocks are classified as follows:	Group 1996 £000	Group 1995 £000
Fire Security and Marine Instrumentation	7,262	6,194
Liquid Measurement and Control	5,767	4,560
	13,029	10,754
Finished goods	3,901	2,659
Work in progress	1,807	2,035
Raw materials and consumables	7,321	6,060
	13,029	10,754

16 DEBTORS

	Group		Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Trade debtors	24,207	17,341	-	-
Amounts recoverable on contracts	650	954	-	-
Amounts owed by subsidiary undertakings	-	-	25,074	18,014
Other debtors	2,117	2,155	819	637
Prepayments and accrued income	2,293	2,390	780	795
	29,267	22,840	26,673	19,446

Included within prepayments and accrued income for the Group is £1,173,000 (1995: £1,472,000) and for the Company £689,000 (1995: £785,000) in respect of pension contributions made in advance of their recognition in the profit and loss account.

Debtors receivable after more than one year include other debtors, prepayments and accrued income for the Group of £1,079,000 (1995: £905,000) and for the Company of £825,000 (1995: £689,000).

17 CREDITORS DUE WITHIN ONE YEAR

	Group		Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Bank loans and overdrafts (note 19)	2,313	1,801	903	1,568
Convertible loan stock (note 19)	358	-	358	-
Trade creditors	10,206	8,569	57	49
Progress claims in advance	71	40	-	-
Corporation tax	2,131	1,780	-	-
Other creditors including taxation and social security costs	838	1,025	184	87
Accruals and other creditors	10,475	9,619	1,835	1,616
Bills of exchange	237	146	-	-
Proposed dividend	412	888	412	888
	27,041	23,868	3,749	4,208

18 CREDITORS DUE AFTER MORE THAN ONE YEAR

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Bank loans (note 19)	6,098	1,467	-	-
Other loan (note 19)	6,336	6,244	-	-
Other creditors	55	-	27	-
	12,489	7,711	27	-

19 BANK LOANS, OVERDRAFTS, CONVERTIBLE LOAN STOCK AND OTHER LOAN

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
By instalments not wholly repayable within five years	12,454	7,661	-	-
Wholly repayable within five years	2,651	1,851	903	1,568
	15,105	9,512	903	1,568
Amounts due are repayable as follows:				
Bank loans and overdrafts				
More than five years	1,886	998	-	-
Between two and five years	3,498	318	-	-
Between one and two years	714	151	-	-
Bank loans after more than one year (note 18)	6,098	1,467	-	-
Less than one year (note 17)	2,313	1,801	903	1,568
	8,411	3,268	903	1,568
Convertible loan stock				
Less than one year (note 17)	358	-	358	-
Other loan				
More than five years (note 18)	6,336	6,244	-	-
	15,105	9,512	1,261	1,568

The terms of repayment and rates of interest are as follows:

Bank loans The majority of bank loans are repayable by instalments, with final instalments due between 1996 and 2022. Rates of interest on borrowings, which are primarily in foreign currencies, are generally variable at rates between 6.2% and 14.2%.

Convertible loan stock The convertible loan stock issued during the year is denominated in sterling and has interest payable between a rate equivalent to a specified UK bank base rate and 1% below that base rate.

Other loan The other loan repayable in more than five years is an issue of 8.33% unsecured Senior Guaranteed Loan Notes on 4 February 1993, with a final maturity of 1 March 2005.

Security Borrowings of £1,376,000 are secured on certain fixed and other assets.

Notes to the Accounts

20 PROVISION FOR LIABILITIES AND CHARGES

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
Provision for restructuring costs	166	201	-	-
Deferred taxation	23	45	-	(98)
	189	246	-	(98)
DEFERRED TAXATION				
At 30 September 1995	45	(435)	(98)	(333)
Disposal of subsidiary undertakings	-	(121)	-	-
Profit and loss account (note 7)	(22)	579	98	235
Exchange movement	-	22	-	-
At 30 September 1996	23	45	-	(98)
REPRESENTED BY:				
Timing differences in respect of capital allowances	21	(31)	-	25
Short-term timing differences	32	(244)	-	(123)
Overseas timing differences	(30)	320	-	-
	23	45	-	(98)

The estimated amount of deferred taxation in respect of accelerated capital allowances for which no provision has been made in these accounts is £Nil (1995: £24,000).

21 SHARE CAPITAL

	Authorised 1996 No.	Authorised 1995 No.	Allotted, called up and fully paid 1996 £000	Allotted, called up and fully paid 1995 £000
Ordinary shares of 25p each	48,000,000	34,000,000	7,407	7,395

Under the provisions of the Whessoe Executive Share Option Scheme, options have been granted to executive directors and certain other senior executives of the Group which require that 423,606 shares are reserved for future allocation. Under the terms of the Scheme, options are exercisable between 3 and 10 years from the date of grant.

The option prices are as follows:

Number	Pence per share
20,000	118
36,106	290
15,000	346
50,000	185
302,500	99

Under the terms of the employee Savings Related Share Option Scheme 9,617 shares are reserved at an option price of 294 pence. Options are exercisable 5 years from the date of grant.

22 RESERVES

	Group 1996 £000	Group 1995 £000	Company 1996 £000	Company 1995 £000
SHARE PREMIUM ACCOUNT				
At 30 September 1995	20,579	20,445	20,579	20,445
Shares issued	42	134	42	134
At 30 September 1996	20,621	20,579	20,621	20,579
REVALUATION RESERVE				
At 30 September 1995	1,105	4,214	782	1,536
Deficit on revaluation of land and buildings	(42)	(754)	-	(754)
Transfer to profit and loss account	(848)	(2,355)	(782)	-
At 30 September 1996	215	1,105	-	782
OTHER RESERVES				
At 30 September 1995	(11,541)	(13,324)	(415)	(388)
Transfer to profit and loss account	-	1,017	-	-
Goodwill written off	(3,238)	-	-	-
Currency translation differences	(140)	766	100	(27)
At 30 September 1996	(14,919)	(11,541)	(315)	(415)
PROFIT AND LOSS ACCOUNT				
At 30 September 1995	9,353	5,632	27,423	23,325
Retained (loss)/profit for the year	(665)	(1,814)	(217)	4,098
Revaluation transfer	848	2,355	782	-
Transfer from other reserves	-	(1,017)	-	-
Goodwill credited	588	4,197	-	-
At 30 September 1996	10,124	9,353	27,988	27,423

Goodwill written off in respect of acquisitions made since 1 October 1985 amounted to £38,179,000 (1995: £35,529,000).

23 CAPITAL COMMITMENTS

	Group 1996 £000	Group 1995 £000
CAPITAL EXPENDITURE		
Contracts placed but not provided for in the accounts	46	148
Authorised by the directors but for which no contract has been placed	887	9
OBLIGATIONS UNDER FINANCE LEASES ARE PAYABLE:		
Within 1 year	10	4
Between 2 and 5 years	28	-
	38	4

NOTE 23 CONTINUED

	Group 1996 £000	Group 1995 £000
OBLIGATIONS UNDER OPERATING LEASES ARE AS FOLLOWS:		
Expiring:		
Within 1 year	80	113
Between 2 and 5 years	610	170
Beyond 5 years	726	888
	1,416	1,171

Payments to be made in respect of operating leases for land and buildings included above are £36,000 expiring within one year, £464,000 expiring between 2 and 5 years and £726,000 expiring after five years.

24 PENSIONS

Pension costs for the year were:

	Group 1996 £000	Group 1995 £000
REGULAR COSTS		
UK schemes	290	302
Overseas schemes	1,152	828
	1,442	1,130

The cost of defined benefit schemes in the UK is assessed in accordance with the advice of an actuary using the attained age method. The latest actuarial assessment of these schemes took place as at 1 April 1995. The assumptions which have the most significant impact on the results of the valuations are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment return would be 1.5% per annum greater than salary increases.

At the date of the latest actuarial valuation, the market value of the assets of the UK defined benefit schemes was £47,731,235. This represents a surplus over that value required to cover the benefits accrued to members based upon final pensionable salaries.

A recent change in Norwegian legislation has moved some of the burden of pension provision from the State to the Employer. The impact of this change, for ourselves and for many other Norwegian companies, is the emergence of a deficit in pension funding. The latest actuarial valuation of our defined benefit scheme, performed in September 1995 in accordance with the new legislation, showed a potential deficit in the fund, after tax, of £1,400,000. This is being amortised over the remaining service lives of the scheme's employees in line with Statement of Standard Accounting Practice number 24.

25 CONTINGENT LIABILITIES

At 30 September 1996 there were contingent liabilities of £4,164,000 under bank guarantees for the performance of contracts.

On 13 November 1996 a writ concerning various claims relating to the sale of the Group's former Piping Systems Division was received from Prospect Industries Plc. The Statement of Claim, which provides some detail of the claims, was received on 5 December 1996. The amounts claimed are significant. The validity or otherwise of the claims is being investigated, and whilst it is too early to make a definitive judgement, the directors intend to defend the claims vigorously and their view, based on the information currently available to them, including legal and accounting advice, is that the claims will not result in a material liability to the Group.

Consolidated Cash Flow Statement

For the year ended 30 September 1996

	Notes	1996 £000	1995 £000
Net cash (outflow)/inflow from operating activities	1	(2,464)	1,709
Returns on investment and servicing of finance	2	(727)	(913)
Taxation		(238)	(832)
Capital expenditure and financial investment	2	(838)	(672)
Acquisitions and disposals	2	(2,996)	14,367
Equity dividends paid		(1,213)	(443)
Cash (outflow)/inflow before use of liquid resources and financing		(8,476)	13,218
Management of liquid resources	2	2,668	(3,229)
Financing	2	5,243	(7,786)
(DECREASE)/INCREASE IN CASH IN THE PERIOD		(565)	2,201

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Notes	1996 £000	1995 £000
(Decrease)/increase in cash in the period		(565)	2,201
Cash (inflow)/outflow from (increase)/decrease in debt		(5,189)	7,960
Cash (inflow)/outflow from (decrease)/increase in liquid resources		(2,668)	3,229
Change in net debt resulting from cash flows	3	(8,422)	13,390
Loans (acquired)/disposed with subsidiary	3	(60)	168
Translation difference	3	(201)	(430)
MOVEMENT IN NET DEBT IN THE PERIOD		(8,683)	13,128
BALANCE AT 30 SEPTEMBER 1995	3	58	(3,070)
BALANCE AT 30 SEPTEMBER 1996	3	(8,625)	58

Notes to Cashflow Statement

1. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	1996 Continuing £000	1996 Discontinued £000	1996 Total £000	1995 Continuing £000	1995 Discontinued £000	1995 Total £000
Operating profit/(loss)	2,292	(40)	2,252	5,047	(347)	4,700
Depreciation	1,921	2	1,923	1,716	121	1,837
Profit on sale of fixed assets	(106)	-	(106)	(240)	-	(240)
Increase in stocks	(1,861)	-	(1,861)	(4,062)	(120)	(4,182)
Increase in debtors	(5,740)	(10)	(5,750)	(5,266)	(568)	(5,834)
Increase/(decrease) in creditors	871	(1)	870	5,737	(732)	5,005
Movement in non cash items	208	-	208	170	253	423
Net cash (outflow)/inflow from operating activities	(2,415)	(49)	(2,464)	3,102	(1,393)	1,709

2. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASHFLOW STATEMENT

	1996 £000	1995 £000
Returns on investment and servicing of finance		
Interest received	871	828
Interest paid	(1,598)	(1,741)
Net cash outflow from returns on investment and servicing of finance	(727)	(913)
Capital expenditure and financial investment		
Purchase of fixed assets	(2,670)	(2,704)
Purchase of investments	(250)	-
Sale of tangible fixed assets	1,863	2,032
Sale of investments	219	-
Cash outflow for capital expenditure and financial investment	(838)	(672)
Acquisitions and disposals		
Purchase of subsidiary undertakings in year	(2,431)	-
Net overdraft acquired with subsidiary	(155)	-
Purchase of subsidiary undertakings in prior year	(467)	(404)
Disposal of subsidiary undertakings	22	14,701
Net overdraft disposed with subsidiary	35	70
Net cash (outflow)/inflow for acquisitions and disposals	(2,996)	14,367
Management of liquid resources		
Cash withdrawn from term deposits	7,589	-
Cash deposited	(4,921)	(3,229)
Net cash inflow/(outflow) from management of liquid resources	2,668	(3,229)
Financing		
Convertible loan stock due within one year	358	-
New long term loan fully repayable May 2002	4,921	-
Repayment of loans	(90)	(7,960)
Increase/(decrease) in debt	5,189	(7,960)
Issue of ordinary share capital	54	174
Net cash inflow/(outflow) from financing	5,243	(7,786)

Notes to Cashflow Statement

3. ANALYSIS OF NET DEBT

	30 Sept 95 £000	Cash Flow £000	Acquisitions and disposals (excl. cash and overdraft) £000	Other non-cash changes £000	Exchange movement £000	30 Sept 96 £000
Cash	6,341	(371)	-	-	(36)	5,934
Term desposits	3,229	(7,589)	-	4,921	(15)	546
Cash in hand at bank	9,750	(7,960)	-	4,921	(51)	6,480
Overdrafts	-	(194)	-	-	-	(194)
Convertible loan stock due within one year	-	(358)	-	-	-	(358)
Debt due within one year	(1,801)	90	(6)	(374)	(28)	(2,119)
Debt due after one year	(7,711)	-	(54)	(4,547)	(122)	(12,434)
	58	(8,422)	(60)	-	(201)	(8,625)

4. CASH FLOW RELATING TO EXCEPTIONAL ITEMS

The sale of tangible fixed assets in 1996 includes £1,380,000 sale proceeds relating to the sale of the Group's former head office.

The net book value of the land and buildings amounted to £1,531,000 giving a loss on disposal of £151,000.

The operating cash inflows in 1995 include an outflow of £246,000 which relates to the net cost in the fundamental restructuring of Coggins Systems withdrawal from the systems integration business.

5. MAJOR NON-CASH TRANSACTIONS

A loan of £4,921,000 which had a right of set off was reclassified from a deduction off term deposits to amounts due over one year as the right of set off ended during the year.

6. PURCHASE OF SUBSIDIARY UNDERTAKINGS

	1996 £000
Net liabilities acquired	(230)
Goodwill	3,061
	2,831
Satisfied by	
Cash consideration, fees and expenses paid	2,431
Deferred payments	400
	2,831

A G Marvac Limited contributed £96,000 to the Group's cashflow from operating activities.

7. SALE OF BUSINESS

Net liabilities disposed	-
Loss on disposal	(800)
Goodwill	588
Liabilities retained on disposal	234
	22
Satisfied by	
Cash consideration, net of fees and expenses paid	22

The operating cashflow movements on the business sold during the year are highlighted in discontinued activities.

Shareholders' Information

FINANCIAL CALENDAR 1997

Annual General Meeting
January 1997
Interim Report
6 months to 31 March 1997
May 1997
Preliminary Announcement
Year to 30 September 1997
December 1997

Interim Dividend 1996/97
To be announced May 1997
Payable July 1997
Final Dividend 1996/97
To be announced December 1997
Payable February 1998

ANALYSIS OF SHAREHOLDINGS AT 30 SEPTEMBER 1996

	Number of holders
Ordinary shares held:	
Under 500	714
500 - 999	422
1,000 - 2,499	529
2,500 - 4,999	235
5,000 - 9,999	101
10,000 - 19,999	40
20,000 - 49,999	30
50,000 upwards	66
	2,137

Investors by category:	
Private individuals	1750
Nominee companies	297
Other corporate bodies	34
Investment trusts and pension funds	23
Others	22
Insurance companies	11
	2,137

STOCK MARKET PRICES (PENCE PER SHARE)

	1995/96	1994/95	1993/94
Highest	187	156	264
Lowest	108 1/2	99	90
September 30	110	149	102

CAPITAL GAINS TAX

For the purpose of UK capital gains tax, the values of the shares of the Company at the following dates, adjusted for subsequent rights issues, were:

6 April 1965	58.5p
31 March 1982	81.1p