

Sterling Fluid Systems Limited

(Registered Number: 248695)

Directors' Report and Financial Statements

For the Year Ended 30 November 1998



Sterling Fluid Systems Limited

Directors' Report For The Year Ended 30 November 1998

The Directors submit their report and the financial statements of the Company for the year ended 30 November 1998.

Principal Activities

The Company is involved in the manufacture, design and supply of pumps and fluid handling systems.

Trading Review and Dividends

The Directors are satisfied with the results for the year, the financial position of the Company and its prospects for the future. The Directors do not recommend the payment of a dividend and accordingly the loss after taxation of £253,000 (1997: profit £1,311,000) will be transferred to reserves.

Year 2000 and Euro

The Sterling Fluid Systems (UK) Limited group has undertaken a program to assess the risks and uncertainties associated with the Year 2000 problem and the introduction of the Euro. The Group has established a plan to mitigate these risks to its business and systems and is well advanced in taking the necessary corrective actions.

The Group's policy is to write-off costs incurred in rendering software and systems Year 2000 and Euro-compliant to the profit and loss as incurred. The total cost of the Group's plans is estimated at under £150,000 which will be borne by the Company.

Employment of Disabled Persons

The Company gives full and fair consideration to applications for employment from disabled persons. Within the limitation of their aptitudes and abilities, disabled persons are given the same training, career development and promotion as are available to all Company employees. If an employee becomes disabled the Company endeavours to continue his or her employment in the same or similar capacity.

Employee Involvement

It is the Company policy to inform and consult employees concerning the performance and future prospects of the Company by regular meetings with staff consultancy committees.

Directors And Their Interests

The Directors who held office during the year were:

C D Johnson
P B O'Kelly
O Shevlin
P Garner
G G Terry
A Lukes
T Smith
D A Carter

Resigned 30 June 1998

Sterling Fluid Systems Limited

Directors' Report For The Year Ended 30 November 1998 (Continued)

Directors And Their Interests (Continued)

No Director had any interest required to be disclosed under Schedule 7 of the Companies Act 1985 during the year ended 30 November 1998.

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 which 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.

Auditors

Our auditors, Price Waterhouse, merged with Coopers & Lybrand on 1 July 1998. Price Waterhouse resigned in favour of the new firm, PricewaterhouseCoopers, who were appointed by the Directors to fill the casual vacancy. A resolution to appoint PricewaterhouseCoopers as auditors to the Company will be proposed at the Annual General Meeting.

By Order of the Board



C D Johnson
Secretary

23 March 1999

PricewaterhouseCoopers
Thames Court
1 Victoria Street
Windsor
Berkshire SL4 1HB
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DX 123110 Windsor 2

Auditors' Report to the Members of Sterling Fluid Systems Limited

We have audited the financial statements on pages 4 to 14 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective Responsibilities of Directors and Auditors

As described on page 2 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

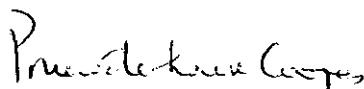
Basis of opinion

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 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 the Company's affairs as at 30 November 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
And Registered Auditors

23 March 1999

Sterling Fluid Systems Limited

Profit And Loss Account For The Year Ended 30 November 1998

	<i>Note</i>	1998 £'000	1997 £'000
Turnover	2	39,760	42,094
Cost of sales		(30,882)	(31,045)
Gross profit		8,878	11,049
Distribution costs		(5,021)	(4,915)
Administrative expenses		(3,049)	(2,932)
Other operating charges		(636)	(730)
Operating profit	3	172	2,472
Interest receivable		15	8
Interest payable	4	(633)	(744)
(Loss)/profit on ordinary activities before taxation		(446)	1,736
Tax on (loss)/profit on ordinary activities	7	193	(425)
Retained (loss)/profit for the year	17	(253)	1,311

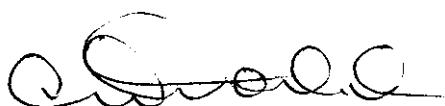
The Company has no recognised gains or losses other than those shown in the above profit and loss account.

Sterling Fluid Systems Limited

Balance Sheet As At 30 November 1998

	Note	1998 £'000	1997 £'000
Fixed assets			
Intangible assets	8	7	28
Tangible assets	9	7,728	7,106
		<u>7,735</u>	<u>7,134</u>
Current assets			
Stock	11	4,565	6,256
Debtors	12	11,261	9,639
Cash at bank and in hand		37	908
Creditors - amounts falling due within one year	13	(12,306)	(12,392)
Net current assets		<u>3,557</u>	<u>4,411</u>
Total assets less current liabilities		<u>11,292</u>	<u>11,545</u>
Creditors - amounts falling due after more than one year	14	(6,000)	(6,000)
Provisions for liabilities and charges	15	(600)	(600)
Net assets		<u>4,692</u>	<u>4,945</u>
Capital and reserves			
Called up share capital	16	30	30
Profit and loss account	17	4,662	4,915
Total equity shareholders' funds	17	<u>4,692</u>	<u>4,945</u>

Approved By The Board On 23 March 1999



CD Johnson
Director

The notes on pages 6 to 14 form part of these financial statements.

Sterling Fluid Systems Limited

Notes To The Financial Statements – 30 November 1998

1 Accounting Policies

(1) Basis of Accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable Accounting Standards. The principal accounting policies which the directors have adopted are as follows:

(2) Turnover

Turnover represents amounts invoiced to customers (excluding value added tax) for goods supplied.

(3) Intangible Assets

Intangible assets are amortised over their useful economic life as follows:

Patents and copyrights	-	10 years
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(4) Fixed Assets and Depreciation

Fixed assets are shown at cost less accumulated depreciation.

Depreciation is provided on all fixed assets other than freehold land in equal annual amounts calculated so as to write off the cost of each asset over its estimated useful life as follows:

Freehold buildings	-	2% to 3%
Short leasehold buildings	-	4%
Plant and machinery	-	5% to 12½%
Tooling and patterns	-	16⅔ % to 33⅓ %
Motor vehicles	-	25%

(5) Leased Assets

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease period.

(6) Stocks and Work in Progress

Stocks and work in progress are stated at the lower of cost, which includes factory overheads, and estimated net realisable value.

Sterling Fluid Systems Limited

Notes To The Financial Statements – 30 November 1998 (Continued)

1 Accounting Policies (Continued)

(7) Foreign Currencies

Assets and liabilities denominated in foreign currencies for which forward exchange contracts are held are translated at the rate of the forward contract.

Other assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies entered into during the year are translated at the rate ruling at the date of the transaction.

All differences in exchange arising from translation of foreign currencies are taken to the profit and loss account.

(8) Deferred Taxation

Deferred tax is provided in respect of timing differences only where, in the opinion of the directors, such timing differences are expected to reverse in the foreseeable future.

(9) Pensions

The employees of the Company are eligible to be members of the Sterling Fluid Systems Limited Pension Scheme. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employee's estimated working lives.

(10) Cash Flow Statement

Sterling Fluid Systems BV, an intermediate parent company, publishes a consolidated cash flow statement which includes the cash flows of the Company. The Company has therefore taken advantage of the exemption granted by Financial Reporting Standard 1 to not present a cash flow statement.

Sterling Fluid Systems Limited

Notes To The Financial Statements – 30 November 1998 (Continued)

2 Turnover

The geographical analysis of the Company's turnover by origin is as follows:

	1998 £'000	1997 £'000
United Kingdom	22,649	22,328
Other Western Europe	4,604	5,565
North America	3,225	3,317
South America	12	106
South East Asia and Australasia	2,398	3,458
Middle East	6,147	6,489
Eastern Europe	104	64
Near East	285	179
Africa	336	588
	39,760	42,094

Turnover derived by geographical destination is not materially different from that by origin. The directors consider that the Company operates in a single class of business.

3 Operating Profit

Operating profit is stated after charging:

	1998 £'000	1997 £'000
Depreciation – tangible fixed assets	1,093	993
Operating lease rentals - plant and machinery	472	159
- other	743	549
Amortisation of intangible fixed assets	21	21
Exceptional item – restructuring costs	-	195
Auditors' remuneration - audit	17	15
- other services	35	24

4 Interest Payable

	1998 £'000	1997 £'000
Loan from parent company	619	706
Bank loans and overdrafts	14	38
	633	744

Sterling Fluid Systems Limited

Notes To The Financial Statements – 30 November 1998 (Continued)

5 Directors' Emoluments

	1998 £'000	1997 £'000
Aggregate emoluments	313	359

Retirement benefits are accruing to five (1997: five) directors under a defined benefit pension scheme.

The above includes a charge for two directors who are also directors of the immediate parent company. Their emoluments for services to all companies in the Group are paid by that company. The amount shown above includes £115,000 (1997: £124,000) based on the directors' best estimate of the proportion of their time attributable to the Company.

The emoluments of the highest paid director were as follows:

	1998 £'000	1997 £'000
Aggregate emoluments	65	78
Accrued annual pension benefit at end of year	17	15

6 Employees

Staff costs were as follows:

	1998 £'000	1997 £'000
Wages and salaries	8,776	8,019
Social security costs	730	732
Other pension costs	625	550
	10,131	9,301

The average number of employees during the year was 469 (1997: 446) split as follows:

	1998 Number	1997 Number
Manufacturing	336	310
Sales and distribution	95	97
Administration	38	39
	469	446

Sterling Fluid Systems Limited

Notes To The Financial Statements – 30 November 1998 (Continued)

7 Tax On (Loss)/Profit On Ordinary Activities

	1998 £'000	1997 £'000
UK corporation tax @ 31%	(141)	590
Deferred taxation (Note 15)	-	(171)
Adjustment for (over)/under provision in prior year	(52)	6
	(193)	425

8 Intangible Assets

	Copyrights and Patents	
	1998 £'000	1997 £'000
At 1 December 1997	28	49
Amortisation	(21)	(21)
At 30 November 1998	7	28

9 Tangible Fixed Assets

	Freehold Land and Buildings £'000	Short Leasehold £'000	Plant Machinery & Equipment £'000	Motor Vehicles £'000	Tooling & Patterns £'000	Total £'000
Cost						
At 1 December 1997	4,089	224	9,025	177	1,282	14,797
Additions	17	138	1,383	77	114	1,729
Disposals	-	-	(2)	(31)	-	(33)
At 30 November 1998	4,106	362	10,406	223	1,396	16,493
Depreciation						
At 1 December 1997	646	76	5,828	69	1,072	7,691
Charge for the period	79	25	870	52	67	1,093
Disposals	-	-	(1)	(18)	-	(19)
At 30 November 1998	725	101	6,697	103	1,139	8,765
Net book amount						
At 30 November 1998	3,381	261	3,709	120	256	7,728
At 30 November 1997	3,443	148	3,197	108	210	7,106

Sterling Fluid Systems Limited

Notes To The Financial Statements – 30 November 1998 (Continued)

10 Capital Commitments

At 30 November 1998 future capital expenditure not provided for in the financial statements was as follows:

	1998 £'000	1997 £'000
Authorised and contracted for	51	20

11 Stocks

	1998 £'000	1997 £'000
Raw materials and consumables	3,533	4,480
Work in progress	1,032	1,776
	4,565	6,256

12 Debtors

	1998 £'000	1997 £'000
UK corporation tax recoverable	91	-
Trade debtors	10,568	9,134
Amounts owed by group undertakings	359	302
Prepayments and accrued income	222	196
Other debtors	21	7
	11,261	9,639

13 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Trade creditors	6,177	5,597
Amounts owed to group undertakings	3,739	3,069
Corporation tax	-	577
Other taxation and social security	613	434
Accruals and deferred income	1,777	1,835
Other creditors	-	880
	12,306	12,392

Sterling Fluid Systems Limited

Notes To The Financial Statements – 30 November 1998 (Continued)

14 Creditors: amounts falling due after more than one year

	1998 £'000	1997 £'000
Amounts owed to immediate parent company	6,000	6,000

The immediate parent undertaking has indicated that it will not demand repayment of its long term loan in the next twelve months.

15 Provisions For Liabilities And Charges

Deferred taxation, which is fully provided, comprises:

	1998 £'000	1997 £'000
Accelerated capital allowances	600	600

There were no movements in deferred taxation during the year.

16 Called Up Share Capital

	1998 £'000	1997 £'000
Authorised, allotted, called up and fully paid 30,000 ordinary shares of £1 each	30	30

17 Reconciliation of Movements In Shareholders' Funds

	Called up share capital £'000	Profit & loss account £'000	1998 Total £'000	1997 Total £'000
Balance brought forward	30	4,915	4,945	3,634
(Loss)/profit for the financial year	-	(253)	(253)	1,311
Balance carried forward	30	4,662	4,692	4,945

Sterling Fluid Systems Limited

Notes To The Financial Statements – 30 November 1998 (Continued)

18 Pension Commitments

The Company participates in the Sterling Fluid Systems Limited defined benefit pension scheme (the "SFS scheme") and SIHI defined benefit pension scheme (the "SIHI scheme") for employees in the UK providing benefits based on final pensionable pay. The assets are held separately from those of the Group in separate trustee administered funds. Pension costs are assessed on the advice of independent qualified actuaries. Actuarial valuations are prepared at least triennially, using the attained age method.

The latest valuation of the SFS scheme was carried out at 6 April 1997. The main assumption is a rate of return on investment of 1½% greater than the rate of increase in salaries. The contribution rate of the Company remains at 10.3% (employee 5%). The market value of the SFS scheme assets at 6 April 1997 represented 130% of accrued benefits to members after allowing for expected future increases in earnings.

The latest valuation of the SIHI scheme was carried out at 1 December 1995. The main assumption is a rate of return 2.0% greater than the rate of increase in salaries. The contribution rate of the Company remains at 10% (employee 5%). The market value of the SIHI scheme assets at 1 December 1995 represented 116% of accrued benefits to members after allowing for future increases in earnings.

The total pension cost for the Company during the year was £625,000 (1997: £550,000). No contributions (1997: Nil) were due to the schemes at the year end.

19 Operating Leases

The annual commitment at 30 November 1998 in respect of operating leases is as follows:

	1998		1997	
	Land and buildings £'000	Other operating leases £'000	Land and buildings £'000	Other operating leases £'000
Leases expiring:				
Within one year	23	25	39	51
1-5 years	28	401	28	156
After 5 years	692	-	420	-
	743	426	487	207

20 Related Party Transactions

The company has taken advantage of the exemption granted by Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the TBG Holdings NV group or investees of the group.

Sterling Fluid Systems Limited

Notes To The Financial Statements – 30 November 1998 (Continued)

21 Contingent Liability

In the normal course of business there exist performance bonds and guarantees outstanding at 30 November 1998 of £894,000 (1997: £1,287,000).

Other than the above, the only charge on Sterling Fluid Systems (UK) Limited (group) companies is a cross guarantee arrangement with Sterling Fluid Systems BV on a group syndicated facility. An amount of £49 million of this facility was being utilised at 30 November 1998.

22 Ultimate Parent Company

The ultimate parent undertaking is TBG Holdings NV, a company incorporated in Curacao, Netherlands Antilles.

The immediate parent undertaking for which group financial statements are prepared is Sterling Fluid Systems (UK) Limited, a company registered in England and Wales. A copy of the financial statements of the parent can be obtained from Sterling Fluid Systems (UK) Limited, Theale Cross, Reading, Berkshire RG31 7SP.