

STERLING FLUID SYSTEMS LIMITED

Report and Accounts

30 November 2001

 ERNST & YOUNG

248695



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Sterling Fluid Systems Limited

Registered No. 248695

DIRECTORS

C D Johnson
P B O'Kelly
O Shevlin
P Garner
G G Terry
A Lukes
M J Partridge
J B Davies
B Millward
K Auld

SECRETARY

C D Johnson

AUDITORS

Ernst & Young LLP
Apex Plaza
Reading
Berkshire
RG1 1YE

BANKERS

Barclays Bank Plc
54 Lambart Street
London
EC3V 9EX

SOLICITORS

Collyer-Bristow
4 Bedford Row
London
WC1R 4DF

REGISTERED OFFICE

Sterling Fluid Systems Limited
Theale Cross
Reading
Berkshire
RG31 7SP

DIRECTORS' REPORT

The directors submit their report and the financial statements of the Company for the year ended 30 November 2001.

PRINCIPAL ACTIVITIES

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

TRADING REVIEW AND DIVIDENDS

The directors do not recommend the payment of a dividend and accordingly the loss after taxation of £1,177,000 (2000: loss £2,139,000) will be transferred to reserves.

THE EURO

The company experienced minimal accounting and currency issues arising from the introduction of EMU. The costs associated with the introduction of the Euro are immaterial and have been expensed as incurred.

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 are listed on page 2.

No director had any interest required to be disclosed under Schedule 7 of the Companies Act 1985 during the year ended 30 November 2001 apart from P B O'Kelly who holds 1 share.

DIRECTORS' REPORT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts 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 accounts, the directors are required to:

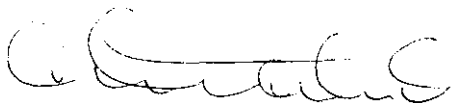
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act. 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

In the year, Ernst & Young were appointed as the auditors for the Company with effect from 4 October 2001. A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board



Secretary

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STERLING FLUID SYSTEMS LIMITED

We have audited the company's financial statements for the year ended 30 November 2001 which are comprised of the Profit and Loss Account, Balance Sheet, Reconciliation of Shareholders' Funds and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30 November 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Registered Auditor
Reading

15 April 2002

Sterling Fluid Systems Limited

PROFIT AND LOSS ACCOUNT

for the year ended 30 November 2001

	Note	2001 £'000	2000 £'000
TURNOVER	2	31,627	32,984
Cost of sales		(24,942)	(26,339)
GROSS PROFIT		<u>6,685</u>	<u>6,645</u>
Distribution costs		(2,952)	(4,793)
Administrative expenses		(3,924)	(3,111)
		<u>(191)</u>	<u>(1,259)</u>
Other operating income/(charges)		19	(1,267)
OPERATING LOSS	3	<u>(172)</u>	<u>(2,526)</u>
Interest receivable		18	11
Interest payable	6	(716)	(617)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(870)</u>	<u>(3,132)</u>
Tax charge/(credit) on loss on ordinary activities	7	307	(993)
LOSS FOR THE YEAR	16	<u><u>(1,177)</u></u>	<u><u>(2,139)</u></u>

The results for the years above are derived entirely from continuing operations.

The company has no recognised gains and losses other than the results above and therefore no separate statement of total recognised gains and losses has been presented.

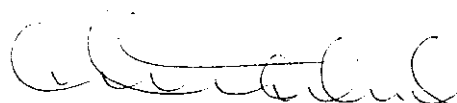
Sterling Fluid Systems Limited

BALANCE SHEET

as at 30 November 2001

	Note	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	8	5,292	6,100
Investments	9	15	-
		<u>5,307</u>	<u>6,100</u>
CURRENT ASSETS			
Stock	10	7,115	4,965
Debtors	11	14,607	8,866
Cash at bank and in hand		17	49
		<u>21,739</u>	<u>13,880</u>
CREDITORS: amounts falling due within one year	12	<u>(17,758)</u>	<u>(14,188)</u>
NET CURRENT ASSETS		<u>3,981</u>	<u>(308)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		9,288	5,792
CREDITORS: amounts falling due after more than one year	13	(8,439)	(4,073)
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>(307)</u>	<u>-</u>
NET ASSETS		<u>542</u>	<u>1,719</u>
CAPITAL AND RESERVES			
Called up share capital	15	30	30
Profit and loss account	16	512	1,689
TOTAL EQUITY SHAREHOLDERS' FUNDS	16	<u>542</u>	<u>1,719</u>

Approved by the Board on 26 March 2002



Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2001

1 ACCOUNTING POLICIES

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:

Research and development

Research and development costs are written off as they are incurred.

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, machinery and equipment	-	5% to 20%
Tooling and patterns	-	16 2/3% to 33 1/3%
Motor vehicles	-	25%

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

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Stock and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first-out basis.
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2001

1 ACCOUNTING POLICIES (CONTINUED)

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.

Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debt balances is reasonably certain.

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 as they become payable in accordance with the rules of the scheme.

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 FRS1 (revised) "Cash Flow Statements" to not present a cash flow statement.

Investments

The investment in Sterling Fluid Systems Middle East LLC has not been equity accounted for as the company is taking advantage of the exemptions from preparation of group accounts under s.229 of the Companies Act 1985.

Sterling Fluid Systems Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2001

2 TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties for goods supplied.

The total turnover of the company has been derived from its principal activity for which a geographical analysis is given below:

	2001 £'000	2000 £'000
United Kingdom	17,541	17,504
Other Western Europe	2,824	4,904
North America	2,774	2,948
South America	12	5
South East Asia and Australasia	2,214	1,204
Middle East	4,510	4,718
Eastern Europe	863	1,203
Near East	63	170
Africa	826	328
	<u>31,627</u>	<u>32,984</u>

3 OPERATING LOSS

Operating loss is stated after charging/(crediting):

	2001 £'000	2000 £'000
Profit on disposal of fixed assets	(8)	(11)
Depreciation - owned tangible fixed assets	984	1,055
- tangible fixed assets held under finance leases	23	13
Operating lease rentals - plant and machinery	429	448
- other	943	962
Auditors' remuneration - audit	19	38
- other services	55	41
	<u>1,443</u>	<u>1,567</u>

4 DIRECTORS' EMOLUMENTS

	2001 £'000	2000 £'000
Aggregate emoluments	<u>829</u>	<u>575</u>

Retirement benefits are accruing to nine (2000: five) directors under a defined benefit pension scheme.

The emoluments of the highest paid director were as follows:

	2001 £'000	2000 £'000
Aggregate emoluments	164	108
Accrued annual pension benefit at end of year	<u>3</u>	<u>35</u>

Sterling Fluid Systems Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2001

5 STAFF COSTS

	2001 £'000	2000 £'000
Wages and salaries	7,602	7,945
Social security costs	593	639
Other pension costs	614	570
	<u>8,809</u>	<u>9,154</u>

The average monthly number of employees during the year was 314 (2000: 365) split as follows:

	2001 No.	2000 No.
Manufacturing	199	220
Sales and distribution	79	107
Administration	36	38
	<u>314</u>	<u>365</u>

6 INTEREST PAYABLE

	2001 £'000	2000 £'000
Loan from parent undertaking	119	529
Bank loans and overdrafts	592	83
Finance leases	5	5
	<u>716</u>	<u>617</u>

7 TAX ON LOSS ON ORDINARY ACTIVITIES

	2001 £'000	2000 £'000
Taxation credits attributable to group relief	-	(543)
Deferred taxation	307	(450)
	<u>307</u>	<u>(993)</u>

The tax loss for the year will be surrendered within the group for no consideration.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2001

8 TANGIBLE FIXED ASSETS

	<i>Freehold land and buildings £'000</i>	<i>Short leasehold £'000</i>	<i>Plant, machinery & equipment £'000</i>	<i>Motor vehicles £'000</i>	<i>Tooling & patterns £'000</i>	<i>Total £'000</i>
Cost:						
At 1 December 2000	4,162	363	6,396	244	665	11,830
Additions	-	4	152	-	54	210
Disposals	-	-	(109)	(69)	-	(178)
At 30 November 2001	4,162	367	6,439	175	719	11,862
Depreciation:						
At 1 December 2000	885	154	4,255	118	318	5,730
Charge for the period	82	27	743	44	111	1,007
Disposals	-	-	(105)	(62)	-	(167)
At 30 November 2001	967	181	4,893	100	429	6,570
Net book value:						
At 30 November 2001	3,195	186	1,546	75	290	5,292
At 30 November 2000	3,277	209	2,141	126	347	6,100

Included in plant, machinery and equipment are finance leases with a net book value of £78,000 (2000: £101,000).

9 INVESTMENTS

Cost:

	<i>£'000</i>
At 1 December 2000	-
Additions	15
Disposals	-
At 30 November 2001	15

Details of the investment in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

<i>Name of Company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>
Investment		
Sterling Fluid Systems Middle East LLC Incorporated in Abu Dhabi, UAE	Ordinary shares	49%

Sterling Fluid Systems Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2001

10 STOCK

	2001 £'000	2000 £'000
Raw materials and consumables	4,204	3,425
Work in progress	1,667	881
Finished goods and goods for resale	1,244	659
	<u>7,115</u>	<u>4,965</u>

11 DEBTORS

	2001 £'000	2000 £'000
Trade debtors	10,464	5,396
Amounts owed by group undertakings	3,909	3,180
Prepayments and accrued income	193	185
Other debtors	41	59
UK corporation tax recoverable	-	46
	<u>14,607</u>	<u>8,866</u>

12 CREDITORS: amounts falling due within one year

	2001 £'000	2000 £'000
Bank loans and overdrafts	2,199	237
Trade creditors	7,588	3,637
Amounts owed to group undertakings	6,029	8,079
Finance leases	23	26
Taxation and social security	448	496
Accruals and deferred income	1,471	1,713
	<u>17,758</u>	<u>14,188</u>

13 CREDITORS: amounts falling due after more than one year

	2001 £'000	2000 £'000
Amounts owed to immediate parent undertaking	8,380	4,000
Obligations under finance leases and hire purchase contracts	59	73
	<u>8,439</u>	<u>4,073</u>

The immediate parent undertaking has indicated that it will not demand repayment of the funds loaned to the company in the twelve months from the date of signing the statutory accounts.

Sterling Fluid Systems Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2001

14 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation has been fully provided in the accounts as follows:

	2001 £'000	2000 £'000
Accelerated capital allowances	307	-

The movement in deferred taxation during the year was as follows:

	Deferred tax provision 2001 £'000	2000 £'000
At 1 December 2000 (Prior year: at 1 December 1999)	-	450
Charged/(Credited) to the profit and loss account	307	(450)
At 30 November 2001 (Prior year: at 30 November 2000)	307	-

15 CALLED UP SHARE CAPITAL

	2001 £'000	2000 £'000
Authorised, allotted, called up and fully paid 30,000 ordinary shares of £1 each	30	30

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share Capital £'000	Profit & Loss Account £'000	Total Share- holders' Funds £'000
At 1 December 2000	30	1,689	1,719
Loss for the year	-	(1,177)	(1,177)
At 30 November 2001	30	512	542

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2001

17 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. With effect from 30 September 1999 the assets and liabilities of the SIHI scheme were transferred into the SFS scheme to create a merged scheme, the "SFS merged scheme". The SFS merged scheme is funded by the payment of contribution to separately 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 merged scheme was carried out at 6 April 2000. The main assumption is that the investment return of 7% would exceed salary escalation by 2% per annum and price inflation by 4% per annum. The contribution rate of the company remains at 10.3% (employee 5%).

The actuarial review indicated that the market value of the assets of £23,000,000 was sufficient to cover 118% of accrued benefits to members after allowing for expected future increases in earnings. The resulting surplus is not recognised in the balance sheet as it is spread over a number of Sterling companies. The element of the asset relating solely to Sterling Fluid Systems Limited would not have a material impact on results and therefore is not recognised in the statutory accounts.

The transitional arrangements of the new accounting standard FRS17 require disclosure of assets and liabilities as at 30 November 2000 calculated in accordance with the requirements of FRS17. For the purpose of these financial statements, these figures are illustrative only and do not impact on the 30 November 2001 balance sheet. The assets of the Plan have been taken at market value and the liabilities have been calculated using the following principal actuarial assumptions:

Inflation	2.5%
Salary increase	4.0%
Rate of discount	5.5%

On this basis the illustrative balance sheet figures are as follows:

Assets	£22,200,000
Liabilities	£26,300,000
Deficit	£ 4,100,000

The assets of the Plan at 30 November 2001 are split as follows:

	Value	Expected Rate of Return
Equities	£14,800,000	7.5%
Property	£800,000	6.0%
Fixed Interest	£2,800,000	5.5%
Cash	£900,000	5.0%
Insurance Policies	£2,900,000	7.0%

The total pension costs for the Company during the year was £614,000 (2000: £570,000). £176,000 contributions (2000: £102,000) were due to the SFS merged scheme at the year end.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 November 2001

18 OPERATING LEASES

The annual commitment at 30 November 2001 in respect of operating leases is as follows:

	2001		2000	
	<i>Land and buildings £'000</i>	<i>Other operating leases £'000</i>	<i>Land and buildings £'000</i>	<i>Other operating leases £'000</i>
Leases expiring:				
Within one year	-	163	-	102
In two to five years	144	291	144	310
In over five years	532	-	610	-
	<u>676</u>	<u>454</u>	<u>754</u>	<u>412</u>

19 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted by FRS 8 "Related Party Transactions" from disclosing related party transactions with entities that are part of the TBG Holdings NV group or investees of the group.

20 CONTINGENT LIABILITY

Performance bonds and guarantees remain outstanding at 30 November 2001. These arose in the normal course of business and amount to £718,000 (2000: £1,167,000).

21 CAPITAL COMMITMENTS

At 30 November 2001 future capital expenditure not provided for in the financial statements was as follows:

	2001 £'000	2000 £'000
Authorised and contracted for	<u>21</u>	<u>5</u>

22 ULTIMATE PARENT COMPANY

The immediate parent undertaking for which group financial statements are prepared is Sterling Fluid Systems (UK Group) Limited (formerly 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 Group) Limited, Theale Cross, Reading, Berkshire RG31 7SP.

The ultimate parent undertaking and controlling party is TBG Holdings NV, a company incorporated in Curaçao, Netherlands Antilles.