

STERLING HYDRAULICS LIMITED
DIRECTORS' REPORT & FINANCIAL STATEMENTS

AS AT 31ST MARCH 2004



Company No: 284312

STERLING HYDRAULICS LIMITED

Directors

K Wilson (Chairman)
T M Hair (Managing Director)
D H Blunn
I G Corbin
P M Hopkins
I Newsham
D A Symes
W P Wyatt

REPORT OF THE DIRECTORS

The directors submit their report and financial statements for the twelve months ended 31st March 2004.

RESULTS

	£
Profit on ordinary activities before taxation	956,349
Taxation	<u>(289,128)</u>
Profit on ordinary activities after taxation	667,221
Dividend	<u>-</u>
Retained profit for the financial year	667,221
Profit and loss account brought forward	<u>1,129,318</u>
Profit and loss account carried forward	<u><u>£1,796,539</u></u>

ACTIVITIES

The company's principal activity during the year was the manufacture and sale of a range of products for the fluid power industry including cartridge and solenoid valves, centralised lubrication equipment and other special products for niche markets.

On 1st April 2003, the company acquired the activities of GLE Hi-Tech Seals Limited, a fellow subsidiary.

DIRECTORS

The directors are as shown above. Messrs K Wilson and D H Blunn retire by rotation and being eligible offer themselves for re-election. Mr Tim Hair was appointed on 12th January 2004 and Mr I G Corbin on 1st January 2004. Mr D R Diggins resigned on 8th January 2004.

No director in office at the end of the year has any interest in the share capital of the company.

The following directors had beneficial interests in ordinary shares in Caledonia Investments Plc, the company's ultimate holding company, at 31st March 2004:

	<u>2004</u>	<u>2003</u>
W P Wyatt	61,886	61,886
D H Blunn	<u>1,575</u>	<u>1,575</u>
	<u><u>63,461</u></u>	<u><u>63,461</u></u>

The directors' options to subscribe for ordinary shares in Caledonia Investments Plc were as follows:-

	<u>2004</u>	<u>Granted</u>	<u>2003</u>
W P Wyatt	<u>50,500</u>	<u>9,000</u>	<u>41,500</u>

There were no other directors' interests requiring disclosure under the Companies Act 1985.

STERLING HYDRAULICS LIMITED

EMPLOYEES

Arrangements exist whereby the company's representatives may meet regularly with employees' representatives who are able to enquire into matters of concern to them as employees and may express their views on matters likely to affect their interests. Such meetings also enable the company to seek and make employees aware of the financial and economic factors affecting the performance of relevant areas of the company. The company does not operate an employee share scheme.

It is the company's policy to assist in the employment of disabled persons and to offer them equal opportunities, wherever possible, to develop their careers and gain promotion having regard to their particular aptitudes and abilities.

CREDITOR PAYMENT POLICY

It is the policy of the company to agree terms of payment when binding purchase contracts are entered into. The company seeks to abide by the payment terms agreed whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms. The number of days purchases outstanding at the year end calculated in accordance with SI 1997 No 571, is 66.

CHARITABLE DONATIONS

The company made charitable donations during the year totalling £135.

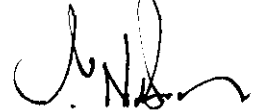
AUDITORS

In accordance with Section 386(i) of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually.

Sterling House
Crewkerne
Somerset
TA18 8LL

11th June 2004

By Order of the Board



I Newsham
Secretary

STERLING HYDRAULICS LIMITED

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 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STERLING HYDRAULICS LIMITED

We have audited the financial statements on pages 4 to 11.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described above, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

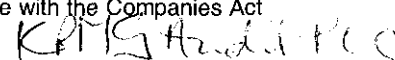
Basis of audit opinion

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 31st March 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG Audit Plc
Chartered Accountants
Registered Auditor
Bristol
11th June 2004

STERLING HYDRAULICS LIMITED

PROFIT AND LOSS ACCOUNT

for the year ended 31st March 2004

	Notes	2004	2003
		£	£
TURNOVER - continuing operations	2	15,030,101	15,001,886
Change in stocks of finished goods and work in progress		<u>127,098</u>	<u>(313,289)</u>
		15,157,199	14,688,597
Raw materials and consumables		6,104,314	6,017,985
Staff costs	4	5,296,175	5,282,610
Depreciation	7	775,830	766,921
Other operating charges	5	<u>2,025,089</u>	<u>1,850,092</u>
		<u>(14,201,408)</u>	<u>(13,917,608)</u>
OPERATING PROFIT			
- continuing operations		955,791	770,989
INTEREST			
- receivable		558	-
- other amounts payable		<u>-</u>	<u>(5,469)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		956,349	765,520
Tax on profit for the year	6	<u>(289,128)</u>	<u>(158,988)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		667,221	606,532
DIVIDEND		<u>-</u>	<u>(1,000,000)</u>
PROFIT/(LOSS) FOR THE YEAR		667,221	(393,468)
Balance brought forward		<u>1,129,318</u>	<u>1,522,786</u>
BALANCE CARRIED FORWARD		<u>£1,796,539</u>	<u>£1,129,318</u>

In both the current and preceding financial years there was no material difference between the historical cost profits and those reported in the profit and loss account above.

The profit and loss account includes all recognised gains and losses for the years ended 31st March 2004 and 31st March 2003.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

for the year ended 31st March 2004

	2004	2003
	£	£
Profit/(loss) for the financial year	667,221	(393,468)
Opening equity shareholders' funds	<u>1,149,318</u>	<u>1,542,786</u>
Closing equity shareholders' funds	<u>£1,816,539</u>	<u>£1,149,318</u>

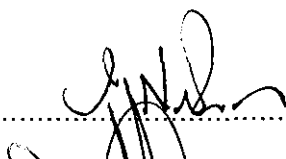
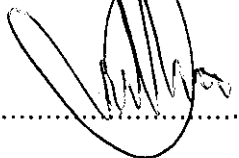
STERLING HYDRAULICS LIMITED

BALANCE SHEET

as at 31st March 2004

	<u>Notes</u>	<u>2004</u>	<u>2003</u>
		£	£
TANGIBLE FIXED ASSETS	7	3,056,565	3,515,760
CURRENT ASSETS			
Stocks	8	2,082,710	1,836,366
Debtors	9	5,247,824	3,908,437
Cash at bank and in hand		<u>1,420,273</u>	<u>1,056,269</u>
		8,750,807	6,801,072
CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR	10	<u>9,787,687</u>	<u>8,940,801</u>
NET CURRENT LIABILITIES		<u>(1,036,880)</u>	<u>(2,139,729)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,019,685	1,376,031
PROVISIONS FOR LIABILITIES AND CHARGES - deferred taxation	11	<u>(203,146)</u>	<u>(226,713)</u>
NET ASSETS		<u>£1,816,539</u>	<u>£1,149,318</u>
CAPITAL AND RESERVES			
Called up share capital	12	20,000	20,000
Profit and loss account		<u>1,796,539</u>	<u>1,129,318</u>
		<u>£1,816,539</u>	<u>£1,149,318</u>

Approved by the Board on 11th June 2004

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I Newsham

T M Hair

} Directors

STERLING HYDRAULICS LIMITED

NOTES TO THE financial statements

for the year ended 31st March 2004

1. ACCOUNTING POLICIES

1.1 Accounting Convention

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

1.2 Depreciation of Tangible Fixed Assets

Depreciation is provided at various rates designed to write off the cost of tangible fixed assets in equal annual instalments over their anticipated useful lives namely:

Freehold buildings	50 years
Plant and fixtures	4 - 8 years
Motor vehicles	5 years
Tools	3 - 5 years

1.3 Stocks

Stocks are stated at the lower of cost (including materials, direct labour and an appropriate allocation of production overheads) and net realisable value.

1.4 Deferred Taxation

Deferred taxation is recognised, without discounting, in respect of all timing differences which have arisen, but not reversed, by the balance sheet date.

1.5 Research and Development

Research and development expenditure is written off in the year in which it is incurred.

1.6 Pensions

The company participates in group pension schemes that provide benefits based on either defined contributions or final pensionable pay. The assets of the scheme are held separately from those of the company.

Contributions to the defined contribution scheme are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

The company is unable to identify its share of the underlying assets and liabilities of the group defined benefits scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. The amount charged to the profit and loss account represents contributions payable to the scheme in respect of the period.

1.7 Cash Flow Statement

The ultimate holding company has included within its financial statements a consolidated cash flow statement in accordance with Financial Reporting Standard No 1 (revised). Therefore, the company is not required to give its own separate cash flow statement.

STERLING HYDRAULICS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31st March 2004

1.8 Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

1.9 Related Parties

The company has taken advantage of the exemption contained in FRS 8 and has not disclosed transactions or balances with entities which form part of the group (or investees in the group qualifying as related parties). The consolidated financial statements of Caledonia Investments Plc, within which this company is included, can be obtained from the address given in note 15.

2. TURNOVER

Turnover represents the net amount receivable, exclusive of value added tax, in respect of goods and services provided during the year and is recognised when finished product is despatched from the factory. The turnover attributable to each of the company's geographical markets was as follows:

	<u>2004</u>	<u>2003</u>
	£	£
United Kingdom	5,269,862	5,244,597
Germany	1,164,200	1,642,552
Other European countries	3,354,923	3,634,705
North America	3,810,167	3,193,822
Other countries	1,430,949	1,286,210
	<u>£15,030,101</u>	<u>£15,001,886</u>

3. DIRECTORS' EMOLUMENTS

	<u>2004</u>	<u>2003</u>
	£	£
Directors' emoluments	481,576	350,077
Pension contributions	36,337	31,445
Compensation for loss of office	176,070	43,534
	<u>£693,983</u>	<u>£425,056</u>

The emoluments and pension contributions of the highest paid director were as follows:

	<u>2004</u>	<u>2003</u>
	£	£
Directors' emoluments	96,514	117,558
Pension contributions	10,960	11,548
Compensation for loss of office	176,070	-
	<u>£283,544</u>	<u>£129,106</u>

Pension contributions were accruing to three (2003: four) directors under a defined benefits pension scheme and two (2003: one) directors under a defined contributions pension scheme.

4. STAFF COSTS

	<u>2004</u>	<u>2003</u>
	£	£
Wages and salaries	4,647,373	4,691,447
Social security and other medical insurance costs	450,864	411,164
Other pension costs (note 14)	197,938	179,999
	<u>£5,296,175</u>	<u>£5,282,610</u>

STERLING HYDRAULICS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31st March 2004

4. **STAFF COSTS** (Cont.)

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

	<u>2004</u>	<u>2003</u>
Production	124	134
Administration	63	75
Selling and marketing	25	25
	<u>212</u>	<u>234</u>

5. **OTHER OPERATING CHARGES**

	<u>2004</u>	<u>2003</u>
Other operating charges include:		
Auditors' remuneration	<u>£18,060</u>	<u>£17,650</u>

6. **TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<u>2004</u> £	<u>2003</u> £
UK corporation tax:		
On profit for year	305,057	183,584
In respect of prior year	<u>13,500</u>	<u>49,035</u>
Total current tax	318,557	232,619
Deferred tax:		
Timing differences	<u>(29,429)</u>	<u>(73,631)</u>
Tax on profit on ordinary activities	<u>£289,128</u>	<u>£158,988</u>

The current tax charge for the period is higher (2003: charge lower) than the standard rate of corporation tax in the UK (30%, 2003: 30%). The differences are explained below:

	<u>2004</u> £	<u>2003</u> £
Current tax reconciliation		
Profit on ordinary activities before tax	<u>956,349</u>	<u>765,520</u>
Current tax at 30% (2003:30%)	286,905	229,656
Effects of:		
Expenses not deductible for tax purposes	2,223	1,554
Capital allowances for period less than/(in excess of) depreciation	33,945	(45,222)
Other timing differences	(18,016)	(2,404)
Adjustments in respect of prior year	<u>-</u>	<u>-</u>
Total current tax charge	<u>£305,057</u>	<u>£183,584</u>

STERLING HYDRAULICS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31st March 2004

7. **TANGIBLE FIXED ASSETS**

	<u>Freehold Property</u> £	<u>Plant & Machinery</u> £	<u>Tools & Equipment</u> £	<u>Total</u> £
COST				
At 31st March 2003	267,897	8,969,866	3,104,441	12,342,204
Additions	-	98,355	159,056	257,411
Transfers	113,018	92,551	46,601	252,170
Disposals	-	(195,265)	(182,727)	(377,992)
At 31st March 2004	<u>380,915</u>	<u>8,965,507</u>	<u>3,127,371</u>	<u>12,473,793</u>
DEPRECIATION				
At 31st March 2003	186,011	6,162,653	2,477,780	8,826,444
Charge for the year	6,523	537,675	231,632	775,830
Transfers	11,295	47,999	29,145	88,439
Disposals	-	(110,219)	(163,266)	(273,485)
At 31st March 2004	<u>203,829</u>	<u>6,638,108</u>	<u>2,575,291</u>	<u>9,417,228</u>
NET BOOK VALUE				
At 31st March 2004	<u>£177,086</u>	<u>£2,327,399</u>	<u>£552,080</u>	<u>£3,056,565</u>
At 31st March 2003	<u>£81,886</u>	<u>£2,807,213</u>	<u>£626,661</u>	<u>£3,515,760</u>

8. **STOCKS**

	<u>2004</u> £	<u>2003</u> £
Raw materials and consumables	733,550	614,304
Work in progress	1,002,197	803,684
Finished goods and goods for resale	346,963	418,378
	<u>£2,082,710</u>	<u>£1,836,366</u>

It is estimated that the replacement value of stocks, as a result of increases in the cost of raw materials and labour, is not materially different from the values reflected above.

9. **DEBTORS**

	<u>2004</u> £	<u>2003</u> £
Trade debtors: due within one year	2,281,464	2,355,383
Amounts owed by group companies	2,811,143	1,433,347
Other debtors	629	654
Prepayments and accrued income	154,588	119,053
	<u>£5,247,824</u>	<u>£3,908,437</u>

10. **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<u>2004</u> £	<u>2003</u> £
Trade creditors	1,353,963	1,398,390
Amounts owed to group companies	7,492,590	7,050,499
United Kingdom corporation tax	259,963	124,990
Other creditors including taxation and social security	190,559	100,815
Accruals	490,612	266,107
	<u>£9,787,687</u>	<u>£8,940,801</u>

STERLING HYDRAULICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st March 2004

11. DEFERRED TAXATION

	<u>2004</u> £	<u>2003</u> £
Accelerated capital allowances	221,489	249,573
Other timing differences	(18,343)	(22,860)
	<u>£203,146</u>	<u>£226,713</u>
 Movement in deferred taxation:		
At 31st March 2003	(226,713)	(300,344)
Profit and loss account	29,429	73,631
Acquisition of business	(5,862)	-
At 31st March 2004	<u>(£203,146)</u>	<u>(£226,713)</u>

12. SHARE CAPITAL

	<u>2004</u>	<u>2003</u>
Authorised:		
20,000 ordinary shares of £1 each	<u>£20,000</u>	<u>£20,000</u>
Allotted, issued and fully paid:		
20,000 ordinary shares of £1 each	<u>£20,000</u>	<u>£20,000</u>

13. CAPITAL COMMITMENTS

Capital commitments as at 31st March 2004 amounted to £86,010 (2003: £24,398).

14. PENSIONS

The company operates a defined contribution pension scheme and a defined benefits pension scheme for employees. The assets of the schemes are held separately from those of the company in independently administered funds. The pension cost represents contributions paid by the company to the funds and amounted to £197,938 (2003: £179,999).

Contributions payable by the company to the defined benefits pension scheme are assessed in accordance with the advice of qualified actuaries using the projected unit method. The principal actuarial assumptions used are an investment return of 7¼% p.a. and that pay increases would not exceed 4% p.a.

At 1st October 2002, the date of the last actuarial valuation, the market value of the assets of the scheme was £6,900,000 and the funding level was 67%.

STERLING HYDRAULICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31st March 2004

15. **ULTIMATE HOLDING COMPANY**

The directors regard Caledonia Investments Plc, incorporated in England and Wales, as the company's holding company. Copies of the Caledonia Investments Plc accounts may be obtained from:

Caledonia Investments Plc
Cayzer House
30 Buckingham Gate
LONDON
SW1E 6NN