

# Norman Hay plc

Annual Report 2003



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## **Norman Hay plc**

The Group provides services for the processing, coating and finishing of metals. Areas of specialisation include the supply of plant, extraction and pollution control equipment, impregnation equipment and chemicals, fabrication, machining and servicing.

Our customers employ our various engineering services to optimise the quality and reliability of their own products. By helping them to deliver high quality products we play our part in maintaining their competitive advantage in a demanding market place.

The Group serves many different industries including: Aerospace, Automotive, Electronics, Engineering, Oil and Telecommunications in a diverse range of applications, covering areas such as instrumentation, mechanical handling, air conditioning, atomic energy, lighting, specialist coatings and NDT (non destructive testing).

**Surface Technology plc** has national coverage with facilities at East Kilbride, Leeds, Coventry and Slough. It is a leading supplier in the development and application of specialist surface coatings, impregnation techniques, NDT, leak detection, pressure testing, plating technology and paint finishes.

**Plasticraft Limited** designs, manufactures, installs and project manages all aspects of immersion process plant, including metal finishing plant, effluent treatment plant and fume exhaust systems.

**B K Engineering Limited** provides services for precision machining, sheet metal fabrication and electro mechanical assembly.

**Ultraseal International** designs, builds, installs and services impregnation equipment and manufactures associated sealants and chemicals for a global customer base. Ardrex Engineering, a division of Ultraseal International, supplies specialist NDT equipment predominantly to the aerospace sector.

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## Financial highlights

	2003	2002
<b>Turnover</b>	<b>£16.4m</b>	£18.8m
<b>Operating profit</b>	<b>£0.9m</b>	–
<b>Profit/(loss) before taxation</b>	<b>£0.9m</b>	(0.1m)
<b>Profit after taxation</b>	<b>£0.8m</b>	–
<b>Earnings/(loss) per share</b>	<b>5.8p</b>	(0.3p)
<b>Net assets per share</b>	<b>46.0p</b>	42.6p

### **Chairman's statement**

Pre-tax profit for the year ended 31 December 2003 is £866,000 (2002: loss after exceptionals £86,000) on a turnover of £16.4m (2002: £18.8m).

Cash flow was positive at £734,000 (2002: £826,000).

Earnings per share are 5.8 p (2002: loss 0.3p) and your Directors propose a final dividend for 2003 of 1.2p per share (2002: 1.2 p) to be paid on 23 July 2004 to shareholders on the register on 25 June 2004.

### **Operational review**

The overall results were encouraging with increased profitability despite some difficulties in the market. Our focus on developing international business is helping to offset the weaker home market for subcontracting as UK manufacturing capacity is moved to developing countries.

Although the traditional process plant engineering side of the business slowed slightly in 2003, we have performed well in the aerospace sector with major international installations.

Our sealant and associated chemical products division had a good year. The ongoing commitment to research and development will enable us to maintain and improve our position in the global market.

Subcontract processing in the UK suffers from pressure on prices and margins. We continue to counter this, wherever possible, by providing specialist coatings on large and complex components for multi-national customers.

### **Current trading and prospects**

Trading in 2004 started satisfactorily, both at home and overseas. We are seeking new areas of opportunity and investment to enhance the underlying strength of the Group.

**Peter L Hay**

Chairman

14 May 2004

**Directors and advisers**

**Directors**

**Peter L Hay**

Chairman

**Victor P Bellanti**

Chief Executive

**David W Miller**

Chief Operating Officer

**Anthony M Hay**

Non-Executive Director

**Secretary and registered office**

**Brigid M Cattle**

Godiva Place

Coventry CV1 5PN

**Registered number** 405025

**Auditors**

BDO Stoy Hayward LLP

125 Colmore Row, Birmingham B3 3SD

**Bankers**

Bank of Scotland

38 St Andrew Square, Edinburgh EH2 2YR

**Registrars**

Lloyds TSB Registrars Scotland

PO Box 28448

Finance House

Orchard Brae, Edinburgh EH4 1WQ

**Nominated Adviser and Broker**

Brewin Dolphin Securities Limited

PO Box 512, National House

36 St Ann Street, Manchester M60 2EP

## **Report of the Directors**

The Directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 December 2003.

### **Principal Group activities, review of operations and future developments**

The Group provides services in processing, coating and finishing metals. Areas of specialisation include the supply of plant, extraction and pollution control equipment, impregnation equipment and chemicals, non-destructive testing equipment, servicing, fabrication and machining. A review of operations and future developments is contained in the Chairman's Statement.

### **Results and dividends**

The Group profit for the year after taxation amounted to £839,000. An interim dividend of 1.0p (2002: 1.0p) per share was paid on 7 November 2003 and the Directors recommended a final dividend of 1.2p (2002: 1.2p). If approved, the final dividend will be paid on 23 July 2004 to shareholders on the register on 25 June 2004.

### **Directors**

The Directors of the company, shown on page 3, held office throughout the year. Mr V P Bellanti retires by rotation and, being eligible, offers himself for re-election.

### **Non-Executive Director**

Mr A M Hay is the Non-Executive Director. He has been a Director of the company for forty one years and served as Chairman from 1984 to 1993 and is independent from the day to day running of the Group.

### **Executive Directors**

Mr P L Hay is the Chairman. He has been on the Board of the company for twenty-seven years, serving as Managing Director for ten of them.

Mr V P Bellanti is Chief Executive and has been employed by Norman Hay plc for the last ten years. A graduate qualified accountant he has previously been employed by Commercial Intertech Ltd.

Mr D W Miller is the Chief Operating Officer and has been employed by Norman Hay plc for the last four years. He has had a successful engineering career with Smiths Industries, EMI and as Managing Director of Photo-Me International plc.

**Report of the Directors** continued**Directors' Interests****Interest in shares**

The interests of the Directors and their immediate families in the share capital of the company, which are required to be disclosed pursuant to the Companies Act 1985, on the dates set out below, are as follows:

	At 1 January 2003 Beneficial	31 December 2003 Beneficial
A M Hay	1,107,521	1,107,521
P L Hay	1,910,221	1,910,221
V P Bellanti	6,000	6,000
D W Miller	8,000	47,000

Details of the Directors' interests in share options are as follows:

**Interest in share options**

		Opening at 1 January 2003	Closing at 31 December 2003
V P Bellanti	(a)	170,000	170,000
	(b)	295,000	295,000
D W Miller	(c)	212,750	212,750

The options are exercisable between the following dates:

- (a) 2 October 1998 and 1 October 2005 at 33p per share;
- (b) 19 November 2000 and 18 November 2004 at 31.5p per share;
- (c) 7 April 2003 and 6 April 2007 at 37.5p per share.

At 31 December 2003 the middle market price of the ordinary shares was 32p per share, and the range during the year was between 17.5p and 35.5p.

There have been no changes in the above interests between 31 December 2003 and the date of the signing of the financial statements.

**Creditors payment policy**

The Group's policy for all suppliers is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment. At 31 December 2003 creditors represented 56 days of purchases for the year. The company has negligible trade creditors.

**Employees**

The Directors place considerable value on the involvement of employees and recognise the importance of communicating effectively on matters which affect their current and future interests. This communication is achieved through regular meetings at local operating level and through informal briefing sessions.

Report of the Directors continued

The Group's policy is to ensure that, as far as is reasonably practicable, there is a working environment which will minimise the risk to health and safety of its employees and those persons who are authorised to be on its premises.

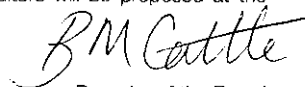
The Group continues to give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. If an employee becomes disabled, the Group endeavours to continue his or her employment if this is practicable and, in appropriate cases, special training may be given.

**Donations**

Donations for charitable purposes were nominal in amount. No political contributions were made.

**Auditors**

On 31 December 2003, BDO Stoy Hayward, the company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the Directors appointed BDO Stoy Hayward LLP as its successor. A resolution to re-appoint BDO Stoy Hayward LLP as auditors will be proposed at the forthcoming Annual General Meeting.



By order of the Board

**B M Cattle**

Secretary

14 May 2004



### **Statement of Directors' responsibilities**

The Directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the company and the Group at the end of the financial year and of the profit or loss of the Group for the period to that date. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards.

In addition the Directors are required:

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

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

## **Independent Auditors' report to the shareholders of Norman Hay plc**

### **To the shareholders of Norman Hay plc**

We have audited the financial statements of Norman Hay plc for the year ended 31 December 2003 on pages 9 to 24 which have been prepared under the accounting policies set out on pages 14 and 15.

#### *Respective responsibilities of Directors and Auditors*

The Directors' responsibilities for preparing the annual report and the financial statements, in accordance with applicable law and United Kingdom accounting standards, are set out in the statement of the Directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal 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 Group 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 Group is not disclosed.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the financial highlights, Chairman's statement and the Directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person for any other purpose and we hereby expressly disclaim any and all such liability.

#### *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 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 at 31 December 2003 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
**BDO Stoy Hayward LLP**

Chartered Accountants and Registered Auditors  
Birmingham  
14 May 2004

**Group profit and loss account** for the year ended 31 December 2003

	Note	2003 £000	2002 £000
<b>Turnover</b>	2	<b>16,375</b>	16,797
Cost of sales		<b>(10,913)</b>	(13,243)
<b>Gross profit</b>		<b>5,462</b>	5,554
Distribution expenses		<b>(426)</b>	(389)
Administrative expenses			
– exceptional	3	–	(813)
– other		<b>(4,097)</b>	(4,321)
Total administrative expenses		<b>(4,097)</b>	(5,134)
<b>Operating profit</b>	4	<b>939</b>	31
Operating profit before exceptional items		<b>939</b>	844
Exceptional items	3	–	(813)
Interest receivable	5	<b>78</b>	62
Interest payable	6	<b>(151)</b>	(179)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>866</b>	(86)
<b>Taxation (charge)/credit</b>	8	<b>(27)</b>	40
<b>Profit/(loss) on ordinary activities after taxation</b>		<b>839</b>	(46)
<b>Dividends</b>	9	<b>(317)</b>	(317)
<b>Retained profit/(accumulated loss)</b>	10, 21	<b>522</b>	(363)
<b>Basic and diluted earnings/(loss) per share</b>	11	<b>5.8p</b>	(0.3p)
<b>Basic and diluted earnings per share prior to impairment write off of goodwill on previous acquisition</b>		<b>5.8p</b>	5.3p

All amounts relate to continuing activities.

There is no material difference between the historical cost profit and the profit for the year shown above.

The notes on pages 14 to 24 form part of these financial statements.

**Group statement of total recognised gains and losses**

for the year ended 31 December 2003

**Group statement of total recognised gains and losses**

	<b>2003</b>	2002
	<b>£000</b>	£000
Profit/(loss) for the financial year	<b>839</b>	(46)
Exchange translation differences on consolidation	<b>(35)</b>	—
<b>Total recognised gains and losses for the financial year</b>	<b>804</b>	(46)

**Reconciliation of movements in shareholders' funds**

for the year ended 31 December 2003

	<b>2003</b>	2002
	<b>£000</b>	£000
Profit/(loss) for the financial year	<b>839</b>	(46)
Dividends	<b>(317)</b>	(317)
	<b>522</b>	(363)
Exchange translation differences on consolidation	<b>(35)</b>	—
Net addition/(reduction) to shareholders' funds	<b>487</b>	(363)
Opening shareholders' funds	<b>6,143</b>	6,506
<b>Shareholders' funds at 31 December 2003</b>	<b>6,630</b>	6,143

The notes on pages 14 to 24 form part of these financial statements.

**Group balance sheet** at 31 December 2003

	Note	2003 £000	2002 £000
<b>Fixed assets</b>			
Intangible assets	12	471	526
Tangible assets	13	5,295	5,383
Investments	14	22	22
		<b>5,788</b>	5,931
<b>Current assets</b>			
Stocks	15	946	1,419
Debtors	16	4,239	4,403
Cash at bank and in hand		157	87
		<b>5,342</b>	5,909
<b>Creditors – due within one year</b>	17	<b>3,772</b>	4,442
<b>Net current assets</b>		<b>1,570</b>	1,467
<b>Total assets less current liabilities</b>		<b>7,358</b>	7,398
<b>Creditors – due after one year</b>	18	<b>728</b>	1,255
<b>Provision for liabilities and charges</b>			
– deferred taxation	19	–	–
		<b>(728)</b>	(1,255)
		<b>6,630</b>	6,143
<b>Capital and reserves</b>			
Called up share capital	20	1,442	1,442
Share premium account	21	1,068	1,068
Revaluation reserve	21	559	566
Capital redemption reserve	21	58	58
Other reserves	21	766	766
Profit and loss account	21	2,737	2,243
<b>Shareholders' funds</b>		<b>6,630</b>	6,143

All Shareholders' funds are equity.

The financial statements were approved by the Board on 14 May 2004.



The notes on pages 14 to 24 form part of these financial statements.

**Balance sheet** at 31 December 2003

	Note	2003 £000	2002 £000
<b>Fixed assets</b>			
Tangible assets	13	2,609	2,633
Investment in subsidiary undertakings	14	11,559	11,348
		<b>14,168</b>	13,981
<b>Current assets</b>			
Debtors	16	840	716
Creditors – due within one year	17	5,255	5,060
<b>Net current liabilities</b>		<b>(4,415)</b>	(4,344)
<b>Total assets less current liabilities</b>		<b>9,753</b>	9,637
Creditors – due after one year	18	5,577	6,053
		<b>4,176</b>	3,584
<b>Capital and reserves</b>			
Called up share capital	20	1,442	1,442
Share premium account	21	1,068	1,068
Revaluation reserve	21	559	566
Capital redemption reserve	21	58	58
Profit and loss account	21	1,049	450
		<b>4,176</b>	3,584

All Shareholders' funds are equity.

The financial statements were approved by the Board on 14 May 2004.



**V P Bellanti**  
Director

The notes on pages 14 to 24 form part of these financial statements.

**Group cash flow statement** for the year ended 31 December 2003

	Note	2003 £000	2002 £000
<b>Net cash inflow from operating activities</b>	26	<b>1,813</b>	1,797
<b>Returns on investments and servicing of finance</b>			
Interest received		78	62
Interest paid		(143)	(168)
Interest element of finance leases		(8)	(11)
		<b>(73)</b>	(117)
<b>Taxation</b>			
Tax paid		-	(1)
<b>Capital expenditure</b>			
Purchase of tangible and intangible fixed assets		(658)	(424)
Sale of tangible fixed assets		34	49
		<b>(624)</b>	(375)
<b>Acquisitions</b>			
Purchase of businesses		-	(93)
<b>Equity dividends paid</b>		<b>(318)</b>	(317)
<b>Net cash inflow before financing</b>		<b>798</b>	894
<b>Financing</b>			
Decrease in debt		(476)	(403)
Capital element of finance lease rentals		(64)	(68)
		<b>(540)</b>	(471)
<b>Increase in cash</b>	27	<b>258</b>	423

The notes on pages 14 to 24 form part of these financial statements.

## Notes to the financial statements

### 1 Accounting policies

#### Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

#### Basis of consolidation

The consolidated financial statements incorporate the results of Norman Hay plc and all other subsidiary and associated undertakings as at 31 December 2003, with the exception of Lancy Water Technology Limited, using the acquisition or merger method of accounting as appropriate. The accounts of Lancy Water Technology Limited have not been consolidated with those of the Group as the Directors consider that the amounts involved are not material. A separate statement of affairs of Lancy Water Technology Limited is shown on page 19. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition.

#### Turnover

Turnover represents the invoiced amount of own goods sold and services provided during the year, excluding value added tax, except in respect of long term contracts where turnover represents the sales value of work done in the year.

#### Land and buildings

The company took advantage of the arrangements under FRS 15 which allow the retention of the carrying value of revalued land and buildings acquired prior to 31 December 1999. All additions since this date are stated at cost. Where an asset that was previously revalued is disposed of, its book value is eliminated and an appropriate transfer made from the revaluation reserve to the profit and loss reserve.

#### Valuation of investments

Investments held as fixed assets are stated at cost less any provision for impairment.

#### Depreciation and amortisation

Depreciation and amortisation is provided at rates calculated to write-off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life as follows:

Goodwill	15 years
Freehold buildings	45 years
Leasehold property	Over term of lease
Plant, vehicles and fixtures	3 to 10 years
Computer equipment	2 to 5 years

Impairment tests on the carrying value of goodwill are undertaken at the end of the first full year following acquisitions and in other years if events or changes in circumstances indicate that the carrying value may not be recoverable.

#### Stocks

Stocks are stated at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition comprise:

Raw materials – cost of purchase on a first in, first out basis.

Work in progress and finished goods – cost of raw materials and labour plus attributable overheads based on the normal level of activity.

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

#### Long-term contracts

Long-term contracts are assessed on a contract by contract basis and are reflected in the profit and loss account by recording turnover and related costs as contract activity progresses. Where the outcome of each long-term contract can be assessed with reasonable certainty before its conclusion, the attributable profit is recognised in the profit and loss account as the difference between the reported turnover and related costs for that contract.

#### Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account. Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amount payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.



**Notes to the financial statements** continued**Foreign currency translation**

Balances in foreign undertakings are translated into sterling at the rates of exchange ruling at the balance sheet date.

The effect of variances in exchange rates between the beginning and end of the financial year on the opening net investment in foreign undertakings is dealt with through reserves.

Foreign currency transactions of UK companies are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account for the year, except for intra Group funding where differences are taken directly to profit and loss reserves.

**Deferred taxation**

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

**Pension costs**

Contributions to the Group's defined contribution scheme are charged to the profit and loss account in the year in which they become payable.

**Research and development**

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred.

	<b>2003</b>	2002
	<b>£000</b>	£000
<b>2 Turnover, results and net assets</b>		
The analysis of turnover by destination is as follows:		
United Kingdom	<b>11,685</b>	13,817
Rest of Europe	<b>2,068</b>	2,835
Rest of the World	<b>2,622</b>	2,145
	<b>16,375</b>	18,797
Substantially all the Group's turnover, results and net assets relate to surface engineering, impregnation and specialist fabrication and originate in the United Kingdom.		
<b>3 Administrative expense – exceptional</b>		
Impairment write off of goodwill relating to previous acquisition	<b>–</b>	813
<b>4 Operating profit</b>		
This is stated after charging:		
Amortisation of intangible assets	<b>59</b>	130
Impairment of intangible assets	<b>–</b>	813
Depreciation of tangible fixed assets	<b>708</b>	458
Auditors' remuneration – audit services Company £6,000 (2002: £6,000)	<b>38</b>	38
– non audit services	<b>5</b>	15
Operating lease rentals – plant and machinery	<b>153</b>	156
– properties	<b>151</b>	178
<b>5 Interest receivable</b>		
Bank deposits	<b>78</b>	62

Notes to the financial statements continued

	2003 £000	2002 £000
<b>6 Interest payable</b>		
Bank loans and overdrafts	143	188
Hire purchase interest	8	11
	<b>151</b>	179

	2003 Number	2002 Number
<b>7 Employees</b>		
The average number of employees, including Executive Directors, during the year comprised:		
Office and management	114	121
Manufacturing	156	140
	<b>270</b>	261

Staff costs, including Executive Directors, during the year amounted to:

	2003 £000	2002 £000
Wages and salaries	5,972	5,979
Social security costs	589	546
Other pension costs (note 23)	229	231
	<b>6,790</b>	6,756

Directors' remuneration consists of:

	2003 £000	2002 £000
Aggregate emoluments	467	345
Pension contributions	37	35
	<b>504</b>	380

The highest paid Director received a salary of £153,000 (2002: £118,000) and a pension contribution of £19,000 (2002: £18,000).

The company contributed £37,000 (2002: £35,000) towards the personal pension plans of three Directors (2002: three), including the highest paid Director.

**8 Taxation**

	2003 £000	2002 £000
UK Corporation Tax – charge/(credit) for the year	42	(1)
(Credit to)/transfer from deferred taxation account	(15)	41
	<b>27</b>	40

The tax assessed for the year is lower (2002: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2003 £000	2002 £000
Profit/(loss) on ordinary activities at the standard rate of corporation tax in the UK of 30% (2002: 30%)	260	(26)
Expenses not deductible for tax purposes	89	43
Capital allowances in excess of depreciation	(35)	341
Utilisation of tax losses	(212)	(359)
Additional deduction for research and development expenditure	(8)	–
Other short term timing differences	2	–
Income not taxable for tax purposes	(52)	–
Marginal relief	(2)	–
Current tax charge/(credit) for the year	<b>42</b>	(1)

## Notes to the financial statements continued

	2003	2002
	£000	£000
<b>9 Dividends</b>		
Ordinary shares		
Interim paid 1.0p per ordinary share (2002: 1.0p)	143	143
Final 1.2p per ordinary share (2002: 1.2p)	174	174
	<b>317</b>	317

**10 Profit/(loss) for the financial year**

Dealt with in the accounts of the holding company	592	160
Deficit in subsidiary undertakings	(70)	(523)
	<b>522</b>	(363)

In accordance with the exemption allowed by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account.

**11 Basic earnings/(loss) per ordinary share**

Profit/(loss) on ordinary activities after taxation	839	(46)
	<b>Number</b>	<b>Number</b>
	<b>000s</b>	<b>000s</b>
Number of ordinary shares in issue	14,415	14,415
Earnings/(loss) per share	5.8p	(0.3p)
Earnings per share prior to impairment write off of goodwill on previous acquisition	5.8p	5.3p

The adjusted earnings per share is based on the profit of £839,000 (2002: £767,000) prior to impairment write off of £Nil (2002: £813,000) and is shown in order to provide a uniform comparison of the results of the trading operations of the Group.

**Diluted earnings per share**

The effect of share options in the current and previous period is not dilutive.

**12 Intangible assets**

	Goodwill
	£000
<b>Group</b>	
Cost	
At 1 January 2003	1,862
Additions	4
<b>At 31 December 2003</b>	<b>1,866</b>
Amortisation	
At 1 January 2003	1,336
Provided during the year	59
<b>At 31 December 2003</b>	<b>1,395</b>
Net book value	
<b>At 31 December 2003</b>	<b>471</b>
<b>At 31 December 2002</b>	526

## Notes to the financial statements continued

	Freehold land and buildings £000	Long leasehold land and buildings £000	Plant, vehicles and fixtures £000	Computers £000	Total £000
<b>13 Tangible assets</b>					
<b>Group</b>					
Cost or valuation					
At 1 January 2003	3,560	520	4,881	391	9,352
Additions	–	–	636	18	654
Disposals	–	–	(262)	–	(262)
<b>At 31 December 2003</b>	<b>3,560</b>	<b>520</b>	<b>5,255</b>	<b>409</b>	<b>9,744</b>
Depreciation					
At 1 January 2003	363	31	3,302	273	3,969
Provided during the year	42	9	597	60	708
Disposals	–	–	(228)	–	(228)
	<b>405</b>	<b>40</b>	<b>3,671</b>	<b>333</b>	<b>4,449</b>
Net book value					
<b>At 31 December 2003</b>	<b>3,155</b>	<b>480</b>	<b>1,584</b>	<b>76</b>	<b>5,295</b>
At 31 December 2002	3,197	489	1,579	118	5,383
<b>Company</b>					
Cost or valuation					
At 1 January 2003	2,895	–	51	10	2,956
Additions	–	–	4	13	17
Disposals	–	–	–	(3)	(3)
<b>At 31 December 2003</b>	<b>2,895</b>	<b>–</b>	<b>55</b>	<b>20</b>	<b>2,970</b>
Depreciation					
At 1 January 2003	280	–	34	9	323
Provided during the year	23	–	8	10	41
Disposals	–	–	–	(3)	(3)
<b>At 31 December 2003</b>	<b>303</b>	<b>–</b>	<b>42</b>	<b>16</b>	<b>361</b>
Net book value					
<b>At 31 December 2003</b>	<b>2,592</b>	<b>–</b>	<b>13</b>	<b>4</b>	<b>2,609</b>
At 31 December 2002	2,615	–	17	1	2,633

The net book value of plant, vehicles and fixtures includes Group £249,000 (2002: £288,000) and Company £Nil (2002: £Nil) in respect of assets held under finance lease and hire purchase contracts. Depreciation charged on these assets amounted to Group £91,000 (2002: £56,000) and Company £Nil (2002: £Nil).

## Notes to the financial statements continued

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
<b>13 Tangible assets</b> continued				
Freehold land and buildings are included at:				
Open market value at 16 November 1992	<b>2,878</b>	2,878	<b>2,850</b>	2,850
Cost	<b>682</b>	682	<b>45</b>	45
	<b>3,560</b>	3,560	<b>2,895</b>	2,895
The historical balances of freehold land and buildings are:				
Cost	<b>2,945</b>	2,945	<b>2,280</b>	2,280
Accumulated depreciation	<b>(398)</b>	(356)	<b>(297)</b>	(274)
Historical net book value	<b>2,547</b>	2,589	<b>1,983</b>	2,006

£000

**14 Investments****Group**

Other investments

Cost

At 1 January 2003 and 31 December 2003

**22**

The investment represents a 30% interest in the shares held in Ultraseal India pvt and in the opinion of the Directors the market value of the investment is not materially different from the cost.

This is not treated as an associated company under FRS 9 as the Group exercises no control or influence over the operating or financial policies of Ultraseal India pvt.

Lancy Water Technology Limited is not consolidated within the results of the Group, as the Directors consider that the amounts involved are not material. During the year Lancy Water Technology Limited made a loss after taxation of £32,000 and had aggregate capital and reserves of £78,000.

**Company**

Subsidiary undertakings

**Cost**

At 1 January 2003 and 31 December 2003

**14,379****Provisions**

At 1 January 2003

3,031

Release of provision

(211)

At 31 December 2003

**2,820****Net book value at 31 December 2003****11,559**

Net book value at 31 December 2002

11,348

The principal subsidiaries are shown in note 25.

## Notes to the financial statements continued

	Group	
	2003	2002
	£000	£000
<b>15 Stocks</b>		
Raw materials and consumables	440	456
Work in progress	32	42
Long-term contract balances	130	528
Finished goods	344	393
	<b>946</b>	<b>1,419</b>
The replacement cost of stock is not materially different from that stated		
Long-term contract balances comprise:		
Net costs less foreseeable losses	166	660
Payments on account	(36)	(132)
	<b>130</b>	<b>528</b>

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
<b>16 Debtors</b>				
Trade debtors	3,666	4,002	-	-
Amount owed by subsidiaries	-	-	782	701
Other debtors	182	60	48	4
Deferred taxation (note 19)	25	10	-	-
Prepayments and accrued income	366	331	10	11
	<b>4,239</b>	<b>4,403</b>	<b>840</b>	<b>716</b>

All amounts included in debtors are receivable within one year.

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
<b>17 Creditors due within one year</b>				
Bank overdraft and loans (secured)	430	618	2,011	1,909
Trade creditors	1,217	1,319	29	24
Amounts owed to subsidiaries	-	-	2,831	2,867
Finance leases and hire purchase	51	64	-	-
Taxes and social security costs	577	565	37	34
Other creditors	51	32	-	-
Accruals and deferred income	1,014	1,112	174	52
Payments on account	217	558	-	-
Proposed dividend	173	174	173	174
Corporation tax	42	-	-	-
	<b>3,772</b>	<b>4,442</b>	<b>5,255</b>	<b>5,060</b>

The bank overdraft and loans are secured over all the Group's assets and undertakings.

## Notes to the financial statements continued

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
<b>18 Creditors due after one year</b>				
Finance leases and hire purchase	92	143	-	-
Bank loans (secured)	636	1,112	636	1,112
Amounts owed to subsidiaries	-	-	4,941	4,941
	<b>728</b>	<b>1,255</b>	<b>5,577</b>	<b>6,053</b>

The bank loans are secured over all the Group's assets and undertakings.

A cross guarantee structure also exists to encompass all companies within the Group.

The Board reviews and agrees policies for managing its financial risks as necessary. At the present time bank borrowings are on floating interest rates as indicated. However, the Board does not consider interest rate risk to be significant and therefore does not use interest rate swaps. Foreign currency risk is minimal as trade in the current and previous year is only undertaken in local currency of the relevant company or division. Liquidity risk is managed by obtaining and reviewing the adequacy of banking facilities. At 31 December 2003 the Group had unutilised bank facilities of £1,560,000, (2002: £1,312,000) and the annual working capital facility of £1,500,000 (2002: £1,500,000) was renewed on 15 August 2003. Short term debtors and creditors are not treated as financial assets and liabilities in relation to FRS 13.

	Group				Company	
	Loans and overdrafts		Finance leases		Loans and overdrafts	
	2003	2002	2003	2002	2003	2002
	£000	£000	£000	£000	£000	£000
in one year or less (note 17)	430	618	51	64	2,011	1,909
in more than one year but not more than two years	322	430	92	143	322	430
in more than two years but not more than five years	90	434	-	-	90	434
in more than five years	224	248	-	-	224	248
	<b>1,066</b>	<b>1,730</b>	<b>143</b>	<b>207</b>	<b>2,647</b>	<b>3,021</b>

The bank loans are repayable by equal monthly installments and interest is payable at 1 1/4 % above the bank base rate.

The fair values of financial instruments are not considered materially different to book value.

**19 Deferred taxation**

The amount of deferred taxation provided, which relates to capital allowances, is as follows:

	Group	Company
	£000	£000
Asset at 1 January 2003	(10)	-
Credit to profit and loss account	(15)	-
Asset at 31 December 2003 (note 16)	(25)	-

If the Group's freehold land and buildings were sold at their net book value no corporation tax liability would arise due to available reliefs.

The Group has an unprovided deferred tax asset of £330,000 in respect of trading losses. This has not been provided for due to insufficient evidence of future recoverability.

## Notes to the financial statements continued

	31 December 2003		31 December 2002	
	Number 000s	Value £000	Number 000s	Value £000
<b>20 Share capital</b>				
Authorised – ordinary shares of 10p each	18,000	1,800	18,000	1,800
Allotted and fully paid – ordinary shares of 10p each	14,415	1,442	14,415	1,442

At 31 December 2003 the following options were outstanding including those relating to Directors as detailed on page 5:

- (a) On 170,000 ordinary shares, exercisable between 2 October 1998 and 1 October 2005 at 33p per share  
 (b) On 295,000 ordinary shares, exercisable between 19 November 2000 and 18 November 2004 at 31.5p per share  
 (c) On 212,750 ordinary shares, exercisable between 7 April 2003 and 6 April 2007 at 37.5p per share

	Share premium account £000	Revaluation reserve £000	Capital redemption reserve £000	Other non- distributable reserves £000	Profit and loss account £000
<b>21 Reserves</b>					
<b>Group</b>					
At 1 January 2003	1,068	566	58	766	2,243
Movement in reserves	–	(7)	–	–	7
Retained loss for the year	–	–	–	–	522
Exchange translation difference on consolidation	–	–	–	–	(35)
<b>At 31 December 2003</b>	<b>1,068</b>	<b>559</b>	<b>58</b>	<b>766</b>	<b>2,737</b>
<b>Company</b>					
At 1 January 2003	1,068	566	58	–	450
Movement in reserves	–	(7)	–	–	7
Retained profit for the year	–	–	–	–	592
<b>At 31 December 2003</b>	<b>1,068</b>	<b>559</b>	<b>58</b>	<b>–</b>	<b>1,049</b>

**22 Contingent liabilities**

The company had outstanding guarantees in respect of subsidiary undertakings amounting to £16,000 at 31 December 2003 (2002: £22,000).

**23 Pension Costs**

The Group operates a number of defined contribution pension schemes. The assets of these schemes are held separately from those of the Group, in independently administered funds. Three Directors are members of the scheme. A pension costs charge of £229,000 (2002: £231,000) represents the contributions payable by the Group to those schemes.

Until 1993, the Group also operated two defined benefit schemes, which were established for certain subsidiary undertakings, while under previous ownership. Contributions to these schemes ceased with effect from 1 April 1993, and the schemes are in the process of being wound up. It is envisaged that this process will be finalised within the next twelve months.

*Surface Technology plc (Leeds) Retirement and Death Benefits Scheme*

The most recent valuation at 10 April 2002 indicated that, on the basis of a deferred membership of 15 members, the Scheme assets were sufficient to meet its liabilities. It was assumed that the investment return would be 4% per annum, having been transferred to cash funds during the previous year, and that pensions would increase at a rate of 2.6% per annum.



## Notes to the financial statements continued

**23 Pension Costs** continued

At 31 December 2001, the Scheme, which is contracted out of the state scheme, had assets of approximately £646,000 at market value, and a surplus of £245,000, before taking into account any related deferred tax liability. The actuary has advised that, given that the Scheme's assets have been held in cash throughout the year and that the liability valuation assumptions have not changed significantly, there will not be any material movement on the above surplus.

It is expected that the trustees will secure individual deferred annuity policies shortly, and that the bulk of the surplus will be accounted for by a supplementary transfer payment for members who have previously transferred out during the course of the winding-up. As a result, apart from the company seeking reimbursement of some of the scheme expenses that it had previously settled, there will be no other financial implication in the wind-up of this scheme on the employer. Consequently, FRS 17 notes are not reproduced in these accounts.

*Surface Technology plc (Coventry) Retirement and Death Benefits Scheme*

The actuary has advised that a deficit of approximately £25,000 has recently been determined on a GN19 basis, and this was settled by the employer in February 2003. This represents the extent of the employer's liability to contribute to this Scheme, and the trustees' task is now to distribute the available assets, which should be completed in the next twelve months. Consequently, given that there is no further financial implication for the Company with regard to this Scheme, FRS 17 notes have not been reproduced in these accounts.

Land & Buildings		Plant	
2003	2002	2003	2002
£000	£000	£000	£000

**24 Commitments under operating leases**

At 31 December 2003 there were annual commitments under non-cancellable operating leases which expire as follows:

**Group**

In one year	-	-	16	6
In two to five years	115	79	122	114
After five years	16	52	-	-
	<b>131</b>	<b>131</b>	<b>138</b>	<b>120</b>

**25 Subsidiary undertakings**

The company has the following principal subsidiaries, all of which are wholly owned, with the exception of Lancy Water Technology Limited (see note 14). These subsidiaries operate principally in Great Britain, apart from Ultraseal America Inc. which operates in the United States. All these subsidiaries have 31 December financial year ends.

Company	Principal activities
Surface Technology plc	Surface engineering, impregnation and finishing of metals. Supply of impregnation equipment and chemicals and NDT equipment
Plasticraft Limited/ERG Lancy Limited (a subsidiary of Plasticraft)	Design, supply and installation of plant and pollution control equipment.
B K Engineering Limited	Specialist fabrication and machining.
Lancy Water Technology Limited	Design and manufacture of specialist water treatment systems.
Ultraseal America Inc.	Distributors of impregnation equipment and chemicals.

The subsidiaries are registered in England and Wales, with the exception of Ultraseal America Inc. which is registered in the United States of America.

## Notes to the financial statements continued

	2003	2002	
	£000	£000	
<b>26 Reconciliation of operating profit to net cash inflow from operating activities</b>			
Operating profit	939	31	
Impairment of goodwill	-	813	
Depreciation and amortisation	767	588	
Decrease in stocks	462	165	
Decrease/(increase) in debtors	168	(753)	
(Decrease)/increase in creditors	(523)	953	
<b>Net cash inflow from operating activities</b>	<b>1,813</b>	<b>1,797</b>	
	<b>2003</b>	<b>2002</b>	
	<b>£000</b>	<b>£000</b>	
<b>27 Reconciliation of net cash inflow to movement in net debt</b>			
Increase in cash in the year	258	423	
Cash inflow from decrease in debt and lease financing	540	471	
<b>Change in net debt resulting from cash flows</b>	<b>798</b>	<b>894</b>	
	<b>At 1</b>	<b>At 31</b>	
	<b>January</b>	<b>Cash December</b>	
	<b>2003</b>	<b>Flow 2003</b>	
	<b>£000</b>	<b>£000</b>	
<b>28 Analysis of net debt</b>			
Cash in hand and at bank	87	70	157
Overdraft	(188)	188	-
	(101)	258	157
Debt due within one year	(430)	-	(430)
Debt due after one year	(1,112)	476	(636)
Finance leases	(207)	64	(143)
<b>Total</b>	<b>(1,850)</b>	<b>798</b>	<b>(1,052)</b>

## Notice of meeting

**Notice is hereby given that the fifty-seventh Annual General Meeting** of the Company will be held at Norman Hay plc, Godiva Place, Coventry on 23 June 2004 at 11 am for the following purposes:

- 1** To receive and adopt the Directors' report and audited financial statements for the year ended 31 December 2003.
- 2** To declare a final dividend for the year ended 31 December 2003.
- 3** To re-elect as a Director Mr V P Bellanti who retires by rotation in accordance with Article 84 of the Articles of Association.
- 4** To re-appoint the auditors. On 31 December 2003, BDO Stoy Hayward, the Company's auditors, transferred its business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the Directors appointed BDO Stoy Hayward LLP as its successor. A resolution to re-appoint BDO Stoy Hayward LLP as auditors will be proposed at the forthcoming Annual General Meeting.
- 5** To authorise the Directors to fix the auditors' remuneration.
- 6** To consider and, if thought fit, approve as an Ordinary Resolution:
  - 1) That in accordance with Article 7A of the Company's Articles of Association and Part V Chapter VII of the Companies Act 1985 ("the Act") the Company be and it is hereby authorised generally and unconditionally (pursuant to Section 166 of the Act) to make market purchases of any of its own shares on such terms and in such a manner as the Board of Directors of the Company may from time to time determine.
  - 2) The general authority conferred by this resolution shall:
    - i) expire on the date of the Annual General Meeting of the Company to be held in 2005;
    - ii) be limited to 750,000 shares of the Company;
    - iii) not permit the payment per share of less than 10p nor more than 5% above the average of the middle market quotations (derived from The Stock Exchange Daily Official List) of the shares for the ten business days before any such purchase is made;
    - iv) before expiry entitle the Company to enter into any contract for the purchase of its own shares which will or might be executed wholly or partly after its expiration.
  - 3) This authority shall only be capable of variation, revocation or renewal by the Company in General Meeting.
- 7** To consider and, if thought fit, approve as a Special Resolution:  
That the Directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (as defined in that Act) and pursuant to an authority dated 16 June 2003 given to the Directors to allot relevant securities (as defined in that Act) as if the provisions of Section 89(1) of the Act did not apply to any such allotment until the conclusion of the Annual General Meeting to be held in 2005 or 15 months whichever comes first in respect of:
  - i) allotments in connection with rights issues (subject only to such exclusions as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical requirements of an recognised regulatory body in any territory);  
and
  - ii) the allotment for cash (otherwise than pursuant to (i)) of equity securities up to an aggregate nominal amount of £75,000.

Registered office:  
Godiva Place  
Coventry CV1 5PN

By order of the Board  
**B M Cattle**  
14 May 2004

### Notes:

- 1 A member entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company. A form of proxy is attached for use at the meeting. Members should complete, sign and return this so as to reach the office of the Company's Registrars not less than 48 hours before the time appointed for the holding of the meeting. By so doing they will not be precluded from attending and voting at the meeting in person should they be able to do so.
- 2 A register of Directors' interests and those of their families in the shares of the Company and copies of relevant Directors' service contracts will be available for inspection at Norman Hay plc, Godiva Place, Coventry from the date of this notice until the close of the meeting.

**Form of Proxy**

Form of Proxy for use at the Annual General Meeting to be held on 23 June 2004.

I/We, \_\_\_\_\_

of \_\_\_\_\_

being a member/members of Norman Hay plc, hereby appoint the Chairman of the meeting.

OR I) \_\_\_\_\_

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 11 am on 23 June 2004 and at any adjournment thereof.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2004

Signature \_\_\_\_\_

Please indicate, by inserting a cross in the appropriate space, how you wish your vote to be cast on all the resolutions mentioned. If you sign this form and return it without specific directions, your proxy will vote or abstain at his discretion. This proxy will be used only in the event of a poll being directed or demanded.

**Resolutions** **For** **Against**

<b>1</b>	To receive and adopt the Directors' report and financial statements		
<b>2</b>	To declare a final dividend		
<b>3</b>	To re-elect Mr V P Bellanti as a Director		
<b>4</b>	To reappoint the auditors		
<b>5</b>	To authorise the Directors to fix the auditors' remuneration		
<b>6</b>	To authorise the Company to buy its own shares		
<b>7</b>	To disapply Section 89(1), Companies Act 1985 to share issues		

**Notes:**

- 1** To be effective, this form must be lodged with the Registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6ZR, no later than forty-eight hours before the meeting.
- 2** Any alteration in this form should be initialled.
- 3** In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the other joint holders and for this purpose seniority shall be determined by the order the names appear in the Register of Members.
- 4** In the case of a corporation, this form should be executed either under its common seal or under the hand of an officer or attorney duly authorised.
- 5** Completion and return of this form will not preclude shareholders from attending and voting at the meeting should they subsequently decide to do so.
- †)** If it is desired to appoint any other person (who need not be a member of the Company) to act as proxy, insert the name in the space provided above and strike out the reference to the Chairman.



SECOND FOLD

BUSINESS REPLY SERVICE  
Licence No. SEA 10850.



FIRST FOLD

**Lloyds TSB Registrars  
The Causeway  
Worthing  
West Sussex  
BN99 6ZR**

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