

688533

PENNY & GILES INTERNATIONAL plc

Report and Accounts

31 December 1998



PENNY & GILES INTERNATIONAL PLC

DIRECTORS:	Mr T R Evans Mr C M McCarthy
SECRETARY:	Mr M Arnaouti
REGISTERED OFFICE:	Gatwick Road Crawley West Sussex RH10 2RZ
REGISTERED NUMBER:	688533

## PENNY & GILES INTERNATIONAL PLC

### REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and accounts for the year ended 31 December 1998.

### RESULTS AND DIVIDENDS

The results of the Company are set out in the Profit and Loss account on page 5. A final dividend of £7,866,000 is now recommended by the Directors (1997: £2,955,000).

### REVIEW OF THE BUSINESS

The Company's principal activity was the design, manufacture and sale of advanced electronic, electrical and electro-mechanical instrumentation principally for measurement, control and recording applications in aerospace and many other industries.

With effect from 1 January 1998 the Company transferred its position sensors business at net book value to Penny & Giles Controls Limited (formerly Penny & Giles Blackwood Limited). At the same time the Agency Agreement with Penny & Giles Position Sensors Limited was cancelled. Also with effect from 1 January 1998 the Company transferred the entire issued share capital of Penny & Giles Controls Limited (formerly Penny & Giles Blackwood Limited) to Bowthorpe plc.

### DIRECTORS

The Directors of the Company who served during the year were as follows:

Mr T R Evans  
Mr C M McCarthy

In accordance with the Company's Articles of Association, Mr T R Evans retires by rotation at the forthcoming Annual General Meeting and, being eligible, will offer himself for re-election.

### DIRECTORS' INTERESTS

The interests of the Directors who served during the year were as follows:

No Director had any interest in the securities of the Company.

Mr C M McCarthy is a Director of the Company's parent company, Bowthorpe plc and his notifiable interests are set out in the report and accounts of that company.

The notifiable interests of the other Directors, according to the statutory register maintained under Section 325 Companies Act 1985, are set out below:

	<u>Ordinary shares of 10p each</u>		<u>BOWTHORPE plc</u> <u>Options over Ordinary shares of 10p each *</u>			
	1 January 1998	31 December 1998	1 January 1998	Granted in year	Exercised in year	31 December 1998
Mr T R Evans	-	-	22,695	13,418	(3,236)#	32,877

\* includes options held under the Bowthorpe Savings Related Share Option Scheme and the Bowthorpe Executive Share Option Scheme

# 1,558 lapsed

## EMPLOYEE INVOLVEMENT AND CONSULTATION

The Directors place strong emphasis on high standards of customer care and service and acknowledge that the commitment of every employee to this business requirement is considered essential. Accordingly, the necessity for and importance of good relations with all employees has long been recognised and accepted throughout the Company.

## EMPLOYMENT OF DISABLED PERSONS

Employment policies are designed to provide equal opportunities for all existing and prospective employees. In particular, full and fair consideration is given to applications made by disabled persons bearing in mind their respective aptitudes and abilities. Where possible, arrangements are also made for the continuing employment within a safe working environment of employees who have become disabled.

## CREDITOR PAYMENT POLICY

The Company is responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is Company policy that payments to suppliers are made in accordance with those terms provided that suppliers also comply with all relevant terms and conditions.

At 31 December 1998 the Company had an average of 60 days' purchases outstanding in trade creditors.

## YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own year 2000 issues.

To date the Company has identified no Year 2000 issues in its products, business critical systems or operating equipment that cannot be rectified. Therefore, the Board is of the opinion that Penny & Giles International's internal Year 2000 risk is low and it expects to be substantially compliant by mid 1999.

However, given the general complexity inherent in the Year 2000 issue, resulting in part from the uncertainty of the readiness of its business partners (ie customers and suppliers), it is unable to provide categorical assurances as to the Company's Year 2000 compliance.

During 1999, emphasis will be on further reducing its level of uncertainty by completing testing and by focusing on the Year 2000 compliance and readiness of the key customers and suppliers with whom it deals.

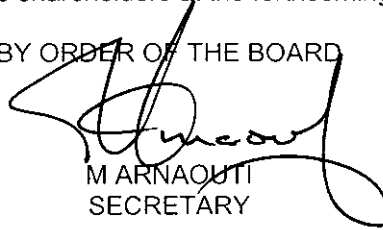
Contingency plans are also being prepared and these will include developing alternative means of transacting business, securing alternative sources of supply, planning for key staff to be available at critical times and other appropriate measures.

Most of the cost of implementing the action plans will be subsumed into the recurring activities of the departments involved. The total costs of modifications to computer hardware and software is estimated at £40,000, most of which has already been incurred and expensed.

AUDITORS

In accordance with Section 384 Companies Act 1988 a resolution to re-appoint Ernst & Young as auditors to the Company will be put to shareholders at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD



M ARNAOUTI  
SECRETARY

Gatwick Road  
Crawley  
West Sussex RH10 2RZ

Dated: 16th July 1999

**PENNY & GILES INTERNATIONAL plc**  
**PROFIT AND LOSS ACCOUNT**  
**YEAR ENDED 31 DECEMBER 1998**

5

	<u>NOTE</u>	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
Turnover	2	33,125	34,300
Other Operating Costs	3	<u>25,685</u>	<u>27,991</u>
Net Operating Profit/(loss)	4	7,440	6,309
Income from shares in group companies		45	434
		<hr/>	<hr/>
Profit on ordinary activities before taxation		7,485	6,743
Taxation	8	<u>2,340</u>	<u>1,824</u>
Profit on ordinary activities after taxation		5,145	4,919
Dividends -Final		7,866	2,955
		<hr/>	<hr/>
(Loss)/profit retained	18	<u>(2,721)</u>	<u>1,964</u>

**RECOGNISED GAINS AND LOSSES**

There are no recognised gains or losses other than the profit attributable to the shareholders of the Company of £5,145,000 in the year ended 31 December 1998 and of £4,919,000 in the year ended 31 December 1997.

The notes on pages 6 to 14 form part of these accounts

**PENNY & GILES INTERNATIONAL plc**  
**BALANCE SHEET**  
**AT 31 DECEMBER 1998**

6

	<u>NOTE</u>	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
Fixed Assets			
Tangible assets	9	2,126	2,351
Investments	10	815	1,411
Current Assets			
Stocks	11	4,274	4,656
Debtors	12	15,895	12,621
Cash at bank and in hand		<u>926</u>	<u>2,548</u>
		21,095	19,825
Current Liabilities			
Creditors due within one year	13	<u>16,678</u>	<u>13,508</u>
Net Current Assets		<u>4,417</u>	<u>6,317</u>
Assets less Current Liabilities		<u>7,358</u>	<u>10,079</u>
Capital and Reserves			
Called up share capital	16	2,387	2,387
Share premium account	17	1,103	1,103
Profit and loss account	18	<u>3,868</u>	<u>6,589</u>
Capital Employed		<u>7,358</u>	<u>10,079</u>

  
C M McCarthy

Director

Date .....

The notes on pages 6 to 14 form part of these accounts

**Notes to the accounts**

**1 Accounting Policies**

**Basis of accounting**

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

**Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction; all exchange profits and losses arising thereby are dealt with through the profit and loss account.

Assets and liabilities denominated in foreign currencies are translated at the rates ruling at 31 December.

**Turnover**

Represents the amounts charged to customers for goods and services during the year excluding tax.

**Product development**

Expenditure is charged to profit and loss account in the year in which it is incurred.

**Pension contributions**

Two pension schemes are operated for the benefit of employees by the ultimate parent company. These schemes require contributions to be made to separately administered funds, based on triennial actuarial valuations. Contributions to the pension funds are charged to profit and loss account so as to spread the cost of pension over the employees' working lives. Differences between the amounts funded and the amounts charged are treated as either provisions or prepayments in the balance sheet. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected working lives of employees.

**Deferred taxation**

Deferred taxation is provided, using the liability method, on all timing differences to the extent that they are expected to reverse in the future, calculated at the rate at which it is estimated that the tax will be payable.

**Tangible assets**

Depreciation is provided to write off all assets over their estimated useful lives.

Asset lives are as follows:

Freehold and leasehold properties	50 years
Plant and machinery	7 years
Fittings and equipment	5 - 8 years
Motor vehicles	5 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate that the carrying value may not be recoverable.



**1 Accounting Policies (continued)**

Assets obtained under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their estimated useful lives. The interest element of the rentals is charged to the profit and loss account in equal instalments over the period of the lease.

Operating lease rentals are charged to profit and loss account over the period of the lease.

**Stocks**

Stocks are valued at the lower of cost and estimated net realisable value. Cost includes all costs in bringing each product to its present location and condition, being the manufacturing cost on a FIFO basis, including all attributable overheads based on a normal level of activity. Net realisable value represents selling price less further costs to be incurred to completion and on sale.

**2 Turnover**

The turnover and loss before taxation were attributable to the company's principal activity. The geographical analysis of turnover by market was:

	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
Europe - United Kingdom	8,249	12,175
- Continental	5,303	5,654
America	15,725	11,467
Far East	3,306	3,511
Australasia	345	291
Other	197	1,202
	<u>33,125</u>	<u>34,300</u>

**3 Other Operating Costs**

Change in stocks of finished goods and work in progress	444	266
Raw materials and consumables	14,843	14,574
Staff Costs - Wages and Salaries	5,833	7,775
- Social Security Costs	476	625
- Other Pension Costs	281	467
Depreciation - Owned Assets	638	798
Other Operating Costs (see note 6)	3,170	3,486
	<u>25,685</u>	<u>27,991</u>

**4 Net Operating Profit**

Is stated after charging:

Operating lease costs:

- property	157	167
- hire of plant and equipment	40	23
Product development costs	2,829	2,558
Auditor's remuneration	21	21
Directors' remuneration (note 7)	-	72

**5 Employees**

The average number of employees of the Company during the year was:

	<u>1998</u> <u>Number</u>	<u>1997</u> <u>Number</u>
Manufacturing	264	370
Selling and distribution	34	50
Administration	21	26
	<u>319</u>	<u>446</u>

**Pension costs**

The Group has two Final Salary based schemes to which Penny & Giles International plc contributes, a Staff Pension Plan and a Retirement Cash Plan, where costs are assessed in accordance with the advice of a qualified actuary. The latest actuarial valuations were undertaken as at 1 April 1997 for the Plans. Further details are set out in the report and accounts of the Company's parent company, Bowthorpe plc.

**6 Provision for loss on closure**

The accounts include a release of £1,086,000 of the provision of £4,905,000 made in 1996 for the cost of closure of part of the operation. No provision has been carried forward.

**7 Director's Remuneration**

	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
Salary and performance related bonuses	-	72
Benefits in kind	-	-
Emoluments	<u>-</u>	<u>72</u>

There are no charges in these accounts for 1998 for director's emoluments as their services are primarily in respect of other subsidiary companies of the Bowthorpe Group and their emoluments are borne by those companies.

1998      1997  
£000      £000

**8 Taxation**

Based on the result for the year -

Corporation tax at 31% (1997: 31.5%)

2,340      1,824

**9 Tangible Assets**

	Plant & Machinery <u>£000</u>	Fixtures fittings and equipment <u>£000</u>	Total <u>£000</u>
<b>Cost:</b>			
At 1 January 1998	3,282	3,446	6,728
Additions	375	958	1,333
Intra group transfers	(1,484)	(887)	(2,371)
Interclass transfers	(13)	13	-
Disposals	(14)	(156)	(170)
<b>At 31 December 1998</b>	<u><b>2,146</b></u>	<u><b>3,374</b></u>	<u><b>5,520</b></u>
<b>Depreciation:</b>			
At 1 January 1998	2,219	2,158	4,377
Provided for the year	244	394	638
Intra group transfer	(1,012)	(452)	(1,464)
Interclass transfers	(16)	16	-
Disposals	(14)	(143)	(157)
<b>At 31 December 1998</b>	<u><b>1,421</b></u>	<u><b>1,973</b></u>	<u><b>3,394</b></u>
<b>Net book value at 31 December 1998</b>	<u><b>725</b></u>	<u><b>1,401</b></u>	<u><b>2,126</b></u>

There are no assets held under finance leases.

1998      1997  
£000      £000

**Capital expenditure commitments:**

Authorised by the directors and ordered

Nil      98

**1998**  
**£000**

**10 Investment in subsidiaries**

**Shares at Cost:**

At 1 January	2,691
Transferred to subsidiaries	(596)
<b>At 31 December</b>	<b>2,095</b>

**Provision:**

At 1 January	1,280
<b>At 31 December</b>	<b>1,280</b>
<b>Net Book Value at 31 December</b>	<b>815</b>

The principal subsidiary undertakings at 31 December 1998 were:

<b>Company:</b>	<b>Nature of business:</b>
Penny & Giles Drives Technology Ltd	measurement and control applications.
Penny & Giles Aerospace Ltd	analysis and interpretation of data.
Flight Data Company	

All subsidiary undertakings are wholly owned and are registered in England.

In the opinion of the directors, the value of the investment in subsidiary undertakings is not less than the amount at which they are stated in the accounts.

Group accounts have not been prepared since at 31 December 1998 the Company was itself a wholly owned subsidiary of Bowthorpe plc.

	<u>1998</u>	<u>1997</u>
	<u>£000</u>	<u>£000</u>
<b>11 Stocks</b>		
Raw materials	2,683	2,621
Work in progress	1,232	1,491
Finished goods	359	544
	<u>4,274</u>	<u>4,656</u>

**12 Debtors**

Due within one year:

Trade debtors	4,390	4,947
Owed by group undertakings	4,523	2,259
Owed by subsidiary undertakings	13	244
Loan to parent company	6,637	4,718
Other debtors	210	233
Prepayments and accrued income	122	220
	<u>15,895</u>	<u>12,621</u>

**13 Creditors**

Due within one year:

Trade creditors	3,282	4,314
Payments received on account	-	17
Owed to group undertakings	302	553
Owed to subsidiary undertakings	1,224	1,707
Other creditors	969	787
Accruals and deferred income	952	2,200
Corporation tax	1,930	741
Dividends payable	7,866	2,955
Other taxes and social security	153	234
	<u>16,678</u>	<u>13,508</u>

**14 Deferred taxation**

No provision for deferred taxation is necessary since capital allowances have not been given in advance of the corresponding charges for depreciation.

	<u>1998</u>	<u>1997</u>
	<u>£000</u>	<u>£000</u>
<b>15 Operating lease commitments</b>		
Annual commitments which expire: In respect of property:		
In the second to fifth year	-	109
Over five years	136	-
	<u>136</u>	<u>109</u>
In respect of plant and equipment:		
Within one year	-	12
In the second to fifth year	3	46
	<u>3</u>	<u>58</u>

<b>16 Share capital</b>	<u>1998</u>	<u>1997</u>		
	<u>Number</u>	<u>Number</u>		
	<u>'000</u>	<u>'000</u>		
Ordinary shares of 25p each:				
Authorised	20,000	20,000	5,000	5,000
Allotted, called up and fully paid	<u>9,550</u>	<u>9,550</u>	<u>2,387</u>	<u>2,387</u>

**17 Share premium account**

At 1 January 1998 and 31 December 1998	<u>1,103</u>
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**18 Profit and loss account**

	<u>£000</u>
At 1 January 1998	6,589
Loss retained	(2,721)
At 31 December 1998	<u>3,868</u>

**19 Reconciliation of shareholders' funds and movements on reserves**

	Share Capital £000	Share Premium £000	Profit and loss account £000	Total £000
At 1 January 1997	2,387	1,103	4,625	8,115
Profit for the year	-	-	4,919	4,919
Dividends	-	-	(2,955)	(2,955)
<b>At 1 January 1998</b>	<b>2,387</b>	<b>1,103</b>	<b>6,589</b>	<b>10,079</b>
Profit for the year	-	-	5,145	5,145
Dividends	-	-	(7,866)	(7,866)
<b>At 31 December 1998</b>	<b>2,387</b>	<b>1,103</b>	<b>3,868</b>	<b>7,358</b>

**20 Cash Flow Statement**

As the Company is a wholly owned subsidiary undertaking of Bowthorpe plc, a company registered in England and Wales, which prepares a consolidated cash flow statement the Company has taken advantage of the exemption provided under the scope of FRS 1 (Revised 1996) not to prepare a cash flow statement.

**21 Related Party Transaction**

As the Company is a wholly owned subsidiary undertaking of Bowthorpe plc, a company registered in England and Wales, which prepares consolidated accounts, the Company has taken advantage of the exemption provided under the scope of FRS 8 not to include details of transactions with other companies which are subsidiaries of Bowthorpe plc. There are no other related party transactions.

**22 Ultimate Holding Company**

The parent company of the group of undertakings for which group accounts are drawn up, and of which the Company is a member, is Bowthorpe plc registered in England and Wales. Bowthorpe plc is the company's ultimate parent company and copies of its accounts can be obtained by writing to Bowthorpe plc, Gatwick Road, Crawley, West Sussex, RH10 2RZ.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS**

15

The following statement is made with a view to explaining to shareholders the responsibilities of the directors in relation to the accounts.

Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that financial year. 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 accounting standards which they consider to be applicable have been followed, subject to any explanations and material departures being disclosed in the notes to the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that in preparing the accounts for the financial year ended 31 December 1998, as set out on pages 4 to 14, the Company has complied with the above requirements.

The directors are responsible for ensuring that the Company keeps 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 Act. The directors also have general responsibility for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## REPORT OF THE AUDITORS

16

### TO THE MEMBERS OF PENNY & GILES INTERNATIONAL plc

We have audited the accounts on pages 4 to 14, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 7 and 8.

#### Respective responsibilities of directors and auditors

As described on page 15 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.


#### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by directors in the preparation of the accounts, 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 accounts 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 accounts.

#### Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**ERNST & YOUNG**  
**REGISTERED AUDITOR**  
**LONDON**

Date

*21 Feb 1999*

Becket House  
1 Lambeth Palace Road  
LONDON  
SE1 7EU