Vax Limited

Directors' report and financial statements

For the year ended 31 December 1998
Registered number 1341840

Directors' report and financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

Business review and future developments

The detailed results for 1998 are set out on page 5 and summarised as follows:

	1998 £000	1997 £000
Turnover	**13,745**	19,806
Operating loss before exceptional items	**(3,722)**	(2,358)
Exceptional items	**(1,743)**	(1,682)
Loss for the year	**(6,479)**	(4,307)

During 1998 the company's export turnover was adversely affected by three key events:

- the adverse economic trading position in Russia, which up to March 1998 was a significant market for the company's products.
- the structural difficulties in the Far East rendered the company's products uncompetitive for those markets in which distribution had been established successfully in 1996 and 1997.
- the continuing strengthening of sterling throughout 1998 adversely affected trading performance in other export markets.

UK domestic market sales declined by 27% in 1998. To address this segment share reduction, the company broadened its product range with the launch of the "Luna" range of vacuum cleaners in the second quarter of 1999. These incorporate the company's latest features and technology in a modern design. This product launch is coupled with the development programme referred to below.

The company is currently embarked on a series of major initiatives with the objective of returning it to profitability in the Year 2000. These are:

- the "Luna" launch in 1999 and a product development programme for the launch of a new range of vacuum cleaners in the millennium.
- a review of the company's product and overhead cost base to significantly improve the competitiveness of its range.
- restructuring the method of operations.
- relocating over the coming 18 months to facilities more appropriate to the scale of business.

This programme of events is comprehensive and is being aggressively pursued by the company's directors and employees.

During the year the company raised additional funding for its working capital requirements from Co-operation Retirement Benefit Fund Limited (CRBFL), the group's owner to fund developments and operations.

Principal activities

The principal activities of the company are the assembly, procurement and distribution of an integrated range of floorcare products.

Directors' report *(continued)*

Dividend

The directors do not recommend the payment of a dividend (1997: £Nil).

Directors

The directors who served during the year and to the date of this report were as follows:

PG Austen	
LI Jebson	
HJ Pudwill	(appointed 30 September 1999)
CC Chan	(appointed 30 September 1999)
D Butts	(appointed 30 September 1999)

None of the directors held any interest in the share capital of the company or any other group company.

Year 2000

The company recognises the potentially serious implications of the Year 2000 issue on computerised processes and systems. A review of computerised systems has been carried out to assess the potential for system failures. The company introduced a new computer system in 1999 incorporating operational and accounting software. All hardware and software for this system is or will be Year 2000 compliant. Where necessary plans are being formulated to upgrade or replace existing systems which are not currently Year 2000 compliant.

The Company also understands the implications of failures in the supply chain resulting from the Year 2000 issue. While it is not possible for any organisation to guarantee that it has resolved all the possible problems linked to the Year 2000, the board believes that it has a programme in place to address the key areas of risk.

The Board has provided adequate resources to ensure that the company is an acceptable state of readiness and that the risks of disruption to the business resulting from the Year 2000 issue will be minimised.

Post balance sheet event

On 30 September 1999 the company, together with a fellow subsidiary company Vax Appliances (Australia) Pty was acquired by TechTronic Industries Co., Ltd ("TTI"). TTI is a substantial consumer products group which will be able to apply the following to the development of the company; economies of scale, new overseas markets, a competitive manufacturing capability and access to capital. It is listed on the Hong Kong Stock Exchange and has two principal divisions, Powertools and Floorcare which together accounted for 91% of its turnover for the 12 months to 31 December 1998. Set out below is selective information from its latest statutory accounts:

	1998	1997
	HK $m	KH $m
Turnover	**2,531.8**	2,280.0
Profit from ordinary activities before taxation	**149.2**	132.9
Shareholders' funds	**638.8**	549.1

The company's strategy fits in extremely well with that of TechTronic Industries Co., Ltd and the prospects for growth over the next few years are significant.

Donations

Charitable donations made during the year amounted to £1,923 *(1997: £29,650)*

Directors' report *(continued)*

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.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board

LI Jebson
Company Secretary

Quillgold House
Kingswood Road
Hampton Lovett
Droitwich
Worcestershire

KPMG
2 Cornwall Street
Birmingham
B3 2DL

Auditors' report to the members of Vax Limited

We have audited the financial statements on pages 5 to 18.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

30 September 1999

Profit and loss account
for the year ended 31 December 1998

	Note	1998 £000	1997 £000
Turnover	2	13,745	19,806
Cost of sales		(11,368)	(16,570)
Gross profit		2,377	3,236
Distribution costs		(3,324)	(3,738)
Administrative expenses		(4,518)	(3,538)
Operating loss before exceptional items		(3,722)	(2,358)
Exceptional items	2	(1,743)	(1,682)
Loss on ordinary activities before interest		(5,465)	(4,040)
Interest receivable and similar income	3	327	267
Interest payable and similar charges	4	(1,321)	(505)
Loss on ordinary activities before taxation	2	(6,459)	(4,278)
Tax on loss on ordinary activities	7	(20)	(29)
Loss for the year retained for equity shareholders	17	(6,479)	(4,307)

Turnover and operating loss arise from the company's continuing activities.

There were no recognised gains or losses in either the current or preceding years other than those disclosed in the profit and loss account.

Balance sheet
at 31 December 1998

	Note	1998 £000	1998 £000	1997 £000	1997 £000
Fixed assets					
Intangible assets	*8*		**204**		-
Tangible assets	*9*		**894**		1,713
Investments	*10*		**6,244**		5,991
			7,342		7,704
Current assets					
Stocks	*11*	**1,207**		2,159	
Debtors	*12*	**2,930**		4,243	
Cash at bank and in hand		**1**		143	
		4,138		6,545	
Creditors: Amounts falling due within one year	*13*	**(9,961)**		(6,830)	
Net current liabilities			**(5,823)**		(285)
Total assets less current liabilities			**1,519**		7,419
Creditors: Amounts falling due after more than one year					
Amounts due to ultimate parent undertaking	*14*		**11,296**		10,096
Parent undertaking	*14*		**7,664**		8,285
			18,960		18,381
Capital and reserves					
Called up share capital	*16*		**33**		33
Profit and loss account	*17*		**(17,474)**		(10,995)
Equity shareholders funds			**(17,441)**		(10,962)
			1,519		7,419

These financial statements were approved by the board of directors on 30 September 1999 and were signed on its behalf by:

PG Austen

LI Jebson
Directors

Reconciliation of movements in shareholders' funds
for the year ended 31 December 1998

	1998 £000	1997 £000
Shareholders' funds at 1 January	**(10,962)**	(6,655)
Loss for the year	**(6,479)**	(4,307)
Shareholders' funds at 31 December	**(17,441)**	(10,962)

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Accounting standards

The financial statements have been prepared in accordance with applicable Accounting Standards.

Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention. The validity of the going concern basis is dependent on the continuing support of TechTronic Industries Co., Limited which is the company's ultimate parent company. The ultimate parent company has confirmed that it will enable the company to have access to the required funding to enable it, in the opinion of the directors, to continue trading for the foreseeable future.

Fixed assets and depreciation

Depreciation is provided to write off the cost less estimated residual value of fixed assets by equal instalments over their estimated useful lives as follows:

Intangible assets - development costs	shorter of product life and 3 years
Fixtures, fittings, plant and equipment	3-10 years
Office and computer equipment	3-5 years
Tooling over product life up to	over product life up to 5 years

Stock and work in progress

Stocks are valued at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and appropriate overhead expenditure.

Taxation

The credit for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Hire purchase and leased assets

Assets acquired under hire purchase contracts and finance leases are capitalised as tangible fixed assets in the balance sheet. The corresponding liability is recorded as a finance lease creditor and finance charges are allocated to accounting periods over the period of the agreement so as to produce a constant rate of charge.

Annual payments under operating leases are charged to revenue in the year in which they are incurred on a straight line basis.

Research and development costs

Research and development costs in respect of clearly defined projects are included in intangible fixed assets and are amortised over the earlier of their expected life or three years.

The cost of other research and development is charged to the profit and loss account as incurred.

Turnover

Turnover represents sales less returns and allowances and excludes value added tax.

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange at the balance sheet date.

Exchange differences arising on trading transactions are included in the profit and loss account.

Pensions

The company is a member of the group's defined contribution pension scheme, the Group Personal Pension Plan, which is available to all full time UK employees. The assets of the scheme are held separately from those of the group in an independently administered fund. The amounts of contributions payable to the pension scheme are charged to the profit and loss account in respect of the accounting period to which they relate.

Cash flow statement

A consolidated cash flow statement prepared in accordance with Financial Reporting Standard 1 is included in the financial statements of the parent company.

2 Turnover and loss on ordinary activities before taxation

Turnover is analysed by destination as follows:

	1998	1997
	£000	£000
External:		
United Kingdom	**9,266**	12,655
Other European Countries	**3,697**	2,656
Asia	**227**	3,870
Africa	**180**	-
	13,370	19,181
Inter-group	**375**	625
	13,745	19,806

All of the company's activities relate to continuing activities.

	1998	1997
	£000	£000
Loss on ordinary activities before taxation is stated *after charging:*		
Depreciation	**1,079**	1,902
Directors' remuneration (see note 6)	**266**	243
Auditors' remuneration and expenses	**29**	22
Amortisation of development costs	**-**	565
Hire of assets - operating leases:		
Motor vehicles	**115**	210
Property	**498**	498
Management charge	**720**	960

During the year, the auditors also received £4,000 (1997: £3,000) in respect of non-audit services.

Notes *(continued)*

2 Turnover and loss on ordinary activities before taxation *(continued)*

Exceptional items

The operating result is stated after charging the exceptional operating items below, which all relate to continuing activities:

	1998 £000	1997 £000
Accelerated depreciation on specific tooling lines	-	800
Increase in provision against amounts due from group undertakings	163	317
Accelerated amortisation on new product development costs	-	565
Reorganisation and rationalisation costs	1,580	-
	1,743	1,682
Charged to:		
Cost of sales	-	1,365
Administrative expenses	1,743	317
	1,743	1,682

3 Interest receivable and similar income

	1998 £000	1997 £000
Rent received	88	-
Bank interest received	11	6
Licence income from group companies	204	261
Loan interest received	24	-
	327	267

4 Interest payable and similar charges

	1998 £000	1997 £000
Amounts payable:		
Loans (see note 14)	1,200	480
Discounting interest	98	25
Bank interest	23	-
	1,321	505

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the company (including directors and part time employees) during the year, analysed by category, was as follows:

	Number of employees	
	1998	1997
Production and research	**80**	87
Selling and distribution	**55**	72
Management and administration	**26**	34
	161	193

	1998	1997
	£000	£000
Wages and salaries	**2,007**	3,356
Social security	**194**	263
Other pension costs	**40**	47
	2,241	3,666

6 Remuneration of directors

Aggregate directors' remuneration for the year was as follows:

	1998	1997
	£000	£000
Emoluments as executives (including benefits in kind)	**262**	220
Pension contributions	**4**	23
	266	243

The emoluments of the highest paid director were £192,000 (1997: £67,000) and the pension contributions were £Nil (1997: £9,000).

Notes *(continued)*

7 Taxation

Taxation charge based on the loss for the year:

	1998 £000	1997 £000
Overseas taxation	**20**	29

8 Intangible fixed assets

	Licence £000	Development costs £000	Total £000
Cost			
At beginning of year	500	991	1,491
Additions	-	204	204
At end of year	500	1,195	1,695
Amortisation			
At beginning of year	500	991	1,491
Charged in year	-	-	-
At end of year	500	991	1,491
Net book value			
At 31 December 1998	**-**	**204**	**204**
At 31 December 1997	-	-	-

Notes *(continued)*

9 Tangible fixed assets

	Tooling	Fixtures, fittings, plant and equipment	Total
	£000	£000	£000
Cost			
At beginning of year	9,561	2,465	12,026
Additions	330	183	513
Disposals	(1,033)	(44)	(1,077)
At end of year	8,858	2,604	11,462
Depreciation			
At beginning of year	8,554	1,759	10,313
Charge for the year	671	408	1,079
Disposals	(780)	(44)	(824)
At end of year	8,445	2,123	10,568
Net book value			
At 31 December 1998	**413**	**481**	**894**
At 31 December 1997	1,007	706	1,713

The net book value of fixed assets includes the following amounts relating to assets which are held under finance leases:

	Fixtures and fittings
	£000
Net book value at end of year	**60**
Depreciation charged in the year	**37**

There are no non-depreciable assets.

Notes *(continued)*

10 Investments

	1998 £000	1997 £000
Loans to group undertakings at cost	5,991	5,991
Joint venture at cost	253	-
	6,244	5,991

During the year the company acquired a 50% interest in India Floor Care & Appliances Limited, a company registered in India. This investment comprises 50% of the issued equity share capital which is the only class of shares in issue.

India Floor Care & Appliances Limited has not commenced to trade.

11 Stocks

	1998 £000	1997 £000
Raw materials and consumables	1,044	1,505
Finished goods and goods for resale	163	654
	1,207	2,159

12 Debtors

	1998 £000	1997 £000
Trade debtors	2,504	3,872
Prepayments and accrued income	232	299
Other debtors	-	72
Amounts due from group undertakings	43	-
Amounts due from joint venture	151	-
	2,930	4,243

Trade debtors include £2,445,000 *(1997: £4,523,000)* in respect of discounted debts.

Notes *(continued)*

13 Creditors: Amounts falling due within one year

	1998 £000	1997 £000
Bank overdraft (secured)	**224**	-
Cash advances	**2,140**	-
Trade creditors	**2,375**	4,310
Amounts owed to group undertakings	**436**	43
Other creditors	**3,106**	663
Accruals and deferred income	**1,620**	1,814
Obligations under finance lease	**60**	-
	9,961	6,830
Other creditors comprise:		
Invoice discounting balance	**953**	453
Employee tax and social security	**76**	90
Reorganisation provision	**1,580**	-
Other	**497**	120
	3,106	663

The cash advances were provided by the ultimate parent undertaking and are unsecured, repayable on demand and interest free.

14 Creditors: Amounts falling due after more than one year

	1998 £000	1997 £000
Secured Loan Notes 2000	**4,600**	4,600
Secured Loan Notes 2000 (Number 2)	**4,956**	4,956
Repayment premium accrual	**1,740**	540
Amount due to ultimate parent undertaking	**11,296**	10,096
Amount due to parent undertaking	**7,664**	8,285
	18,960	18,381

The Secured Loan Notes 2000 are repayable at par on 31 December 2000 and are interest free.

The Secured Loan Notes 2000 (Number 2) are repayable in full with a redemption premium of 100% on 31 December 2000. The premium is being accrued over the period to repayment so as to charge the profit and loss account at a constant rate.

The cash advances are secured, repayable on demand and are interest free.

Notes *(continued)*

14 Creditors: Amounts falling due after more than one year (continued)

The Loan Note facilities were made available by instruments dated 8 September 1995, 13 November 1996 and 27 October 1997 for the purpose of providing additional working capital.

The Loan Notes are secured on the company's and group's assets but rank in priority after the holders of the Convertible Secured Loan Notes 2000 in the parent company.

The amount due to the parent undertaking is interest free and is not repayable before 31 December 1999.

15 Provision for liabilities and charges

The amounts provided for deferred taxation, together with the amounts not provided, calculated on the liability method at a corporation tax rate of 31%, are as follows:

	1998		1997	
	Amount provided £000	**Amount not provided £000**	Amount provided £000	Amount not provided £000
Deferred tax liabilities/(assets) arising on:				
Accelerated capital allowances	**-**	**(433)**	-	(229)
Other timing differences	**-**	**(488)**	-	(96)
	-	**(921)**	-	(325)

There are total losses for taxation purposes available for carry forward of approximately £21 million (1997: £14 million) subject to agreement with the Inland Revenue.

16 Share capital

	1998 £000	1997 £000
Authorised:		
"A" ordinary shares of £1 each	**30**	30
"B" ordinary shares of £1 each	**10**	10
	40	40
Allotted and called up:		
"A" ordinary shares of £1 each (£1 paid)	**30**	30
"B" ordinary shares of £1 each (25p paid)	**3**	3
	33	33

Notes *(continued)*

17 Profit and loss account

	£000
At 1 January 1998	(10,995)
Retained loss for the year	(6,479)
At 31 December 1998	**(17,474)**

18 Contingent liabilities

There were no contingent liabilities at 31 December 1998

19 Leasing commitments

The company had annual commitments under non-cancellable operating leases which expire as follows:

	Land and buildings		Other	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
Within one year	**-**	-	**49**	14
Between two to five years	**-**	-	**133**	188
After five years	**498**	498	**-**	-
	498	498	**182**	202

20 Related party transactions

Rent of £498,000 was paid to the Quillgold Pension and Assurance Scheme for which AJ Brazier is a trustee and also a director of Vax International Limited.

Goods and services amounting to £496,000 were invoiced to India Floor Care and Appliances Limited during the year. Amounts due from this company were £151,000 at the end of the financial year.

The company is taking advantage of the exemption to disclose related party transactions with other group companies as more than 90 per cent of voting rights are controlled by Vax International Limited.

The company is contracted to pay £60,000 per annum as sponsorship of the Manchester Sale Rugby Football Club Limited of which PG Austen is also a director.

The company receives personnel advisory services from Phoenix Timber Group plc of which PG Austen is a director. This is at a cost of £12,000 per annum.

21 Capital commitments

At 31 December the company had commitments amounting to £237,000 (1997: £Nil) in respect of capital expenditure authorised by the directors and contracted.

Notes *(continued)*

22 Pensions

The company operates a defined contribution pension scheme for its full time UK employees. Contributions payable are charged to the profit and loss account in respect of the accounting period to which they relate.

Outstanding contributions at 31 December 1998 amounted to £6,173 (1997: £7,290).

23 Ultimate parent undertaking

The parent undertaking is Vax International Limited, a company incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of Vax International Limited can be obtained from:

Quillgold House
Kingswood Road
Hampton Lovett
Droitwich
Worcester
WR9 0QH

The ultimate parent company is the Co-operation Retirement Benefit Fund Limited. The address of the principal place of business is Via San Simpliciano, 1/12 Milan, 20/21 Italy.

On 30 September 1999 TechTronic Industries Co., Ltd purchased the whole of the issued share capital of the company and became the company's ultimate parent undertaking from that date.