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SURFACE TECHNOLOGY PLC

Year ended

31 December 2000



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SURFACE TECHNOLOGY plc

Annual Report and financial statements for the year ended 31 December 2000

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Directors

A M Hay
P L Hay
R M Ross
M G Crowther
V P Bellanti
D W Miller

Secretary and registered office

V P Bellanti
Norman Hay plc
Godiva Place
Coventry
CV1 5PN

Company number

2402547

Auditors

BDO Stoy Hayward
8 Baker Street
London, W1U 3LL

SURFACE TECHNOLOGY plc

Notice of meeting

Notice is hereby given that the annual general meeting of the company will be held at Godiva Place, Coventry on 6 July 2001 at 10.30 am for the following purposes:

1. To receive the directors' report and the audited financial statements for the year ended 31 December 2000.
2. To reappoint BDO Stoy Hayward as auditors and to authorise the directors to agree their remuneration for the ensuing year.

Members entitled to attend and vote at the meeting are entitled to appoint a proxy to attend and, in the event of a poll, vote instead of them. A proxy need not be a member of the company.

By order of the board

V P Bellanti

Secretary

14 May 2001

SURFACE TECHNOLOGY plc

Report of the Directors for the year ended 31 December 2000

The directors present their report together with the audited financial statements for the year ended 31 December 2000.

Results and dividends

The profit and loss account is set out on page 6 and shows the profit for the year. The directors do not recommend the payment of a dividend, and the retained profit for the year has been transferred to reserves.

Principal activities and future developments

The group is engaged in processing, coating and finishing metals, and in the supply of impregnation equipment and chemicals.

The results reflected the difficulties being experienced by many areas of the UK's engineering industry and exceptional costs totalling £249,000 in the second half.

Directors

The directors of the company during the year were:

A M Hay
P L Hay
R M Ross
M G Crowther
V P Bellanti
D W Miller appointed 15th February 2000

As reported last year M Hawley ceased to be a director on his death on 9th January 2000.

None of the directors has any interests in the shares of the company which require to be disclosed under the Companies Act 1985.

M G Crowther and R M Ross each have options to acquire 50,000 ordinary shares of 10p each in the parent company Norman Hay plc. The options are exercisable between 6 October 1996 and 5 October 2003 at 38p per share.

A M Hay, P L Hay and V P Bellanti are also directors of the parent company and their interests in the shares of that company are disclosed in its financial statements.

SURFACE TECHNOLOGY plc

Report of the Directors for the year ended 31 December 2000 (continued)

Statement of the 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 at the end of the financial year and of the profit or loss of the company 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 material departures disclosed and explained in the financial statements
- to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the financial statements comply with the above requirements. The directors are also responsible for maintaining adequate accounting records so as to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985 for safeguarding the assets of the group and for preventing and detecting fraud and other irregularities.

Creditors payment policy

The company'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 2000 Creditors represented 45 days of purchases for the year.

Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to reappoint them as auditors will be proposed at the forthcoming Annual General Meeting.

By order of the board

V P Bellanti

Secretary

14 May 2001



SURFACE TECHNOLOGY plc

Report of the auditors

To the shareholders of Surface Technology plc

We report on the financial statements on pages 6 to 18 which have been prepared under the accounting policies set out on pages 8 and 9.

Directors' and auditors' responsibilities

As described on page 4, 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 the 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.

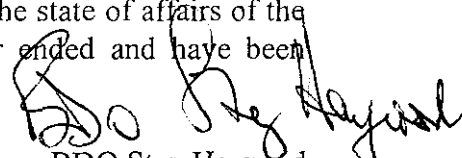
An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting 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 misstatement, whether caused by fraud or other irregularity or error.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2000 and of the profit for the year ended and have been properly prepared in accordance with the Companies Act 1985.


BDO Stoy Hayward
Chartered Accountants
and Registered Auditors
London

14 May 2001

SURFACE TECHNOLOGY plc**Profit and loss account for the year ended 31 December 2000**

| | Note | 2000 £000 | 1999 £000 |
|-----------------------------------------------|------|----------------------------|--------------|
| Turnover | 2 | 9,955 | 10,496 |
| Cost of sales | | (6,426) | (6,884) |
| Gross profit | | 3,529 | 3,612 |
| Distribution expenses | | (273) | (309) |
| Administrative expenses | | | |
| - Exceptional | 3 | (249) | - |
| - Other | 3 | (2415) | 2433 |
| Operating profit | 4 | 592 | 870 |
| Net interest (payable) receivable | 5 | (22) | 6 |
| Profit on ordinary activities before taxation | | 570 | 876 |
| Taxation credit (charge) | 6 | 44 | (41) |
| Retained profit for year | | 614 | 835 |
| Deficit brought forward | | (1,559) | (2,394) |
| Unrealised exchange gains | | 45 | - |
| Deficit carried forward | | (900) | (1,559) |

All amounts relate to continuing activities and are presented on an historical basis.

All recognised gains and losses are accounted for in the profit and loss account.

The only movement in shareholders' funds is the retained profit for the year shown above.

The notes on pages 8 to 18 form part of these financial statements.

SURFACE TECHNOLOGY plc**Balance sheet at 31 December 2000**

| | | 2000 | 1999 |
|----------------------------------------------|------|--------------|--------------|
| | | £000 | £000 |
| | Note | | |
| Fixed assets | | | |
| Intangible assets | 9 | 202 | - |
| Tangible assets | 10 | 1,597 | 1,622 |
| Investments in subsidiary undertakings | 11 | 218 | 196 |
| | | 2,017 | 1,818 |
| Current assets | | | |
| Stocks | 13 | 1,016 | 743 |
| Debtors | 14 | 5,457 | 4,670 |
| Cash at bank and in hand | | 211 | 328 |
| | | 6,684 | 5,741 |
| Creditors - due within one year | 15 | 3,601 | 3,117 |
| Net current assets | | 3,083 | 2,624 |
| Total assets less current liabilities | | 5,100 | 4,442 |
| Creditors - due after one year | 16 | - | 1 |
| | | 5,100 | 4,441 |
| Capital and reserves | | | |
| Called up share capital | 18 | 6,000 | 6,000 |
| Profit and loss account | | (900) | (1,559) |
| Shareholders' funds | | 5,100 | 4,441 |

All shareholders' funds are equity

The financial statements were approved by the Board on 14 May 2001


P L HAY
Director

The notes on pages 8 to 18 form part of these financial statements.

SURFACE TECHNOLOGY plc

Notes forming part of the financial statements

1 Accounting policies

The company is exempt from preparing group accounts as described in note 12. Consequently the financial statements present information about the company rather than the group of which it is a parent.

There have been no changes in accounting policies during the year.

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards using the following accounting policies:

Turnover

Turnover represents the invoiced amounts of own goods sold and services provided during the year, excluding value added tax.

Investments

Investments held as fixed assets are stated at cost less any provision for a permanent diminution in value.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, over their expected useful lives by equal amounts over the following periods.

| | |
|------------------------------|--------------------------------|
| Leasehold property | - Over the period of the lease |
| Plant, vehicles and fixtures | - 3 to 10 years |
| Computers | - 2 to 3 years |

Stocks

Stocks are valued at the lower of cost and net realisable value less payments on account. Cost is calculated as follows:

| | |
|------------------|-----------------------------------------------------------------------------------------------------------------|
| Raw materials | - cost of purchase on a first in, first out basis. |
| Work in progress | - cost of raw materials and labour, together with 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.

SURFACE TECHNOLOGY plc

Notes forming part of the financial statements

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.

Where financial instrument is used to hedge foreign currency exposure, the gains and losses on matched foreign exchange contracts are recognised in the profit and loss account at the date of their inception. Any assets or liabilities at the balance sheet date represent the fair value of forward exchange contracts.

To qualify as a hedge, a financial instrument must be related to actual assets or liabilities or to a firm commitment or anticipated transaction.

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 split between capital and interest using the actuarial method. The interest is charged to the profit and loss account. The capital part reduces the amounts 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 lease term.

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes to the extent that it is probable that liability or asset will crystallise.

SURFACE TECHNOLOGY plc**Notes forming part of the financial statements (continued)**

| | 2000 | 1999 |
|-------------------------------------------------------|--------------|---------------|
| | £000 | £000 |
| 2 Turnover | | |
| The analysis of turnover by destination is as follows | | |
| United Kingdom | 6,471 | 7,078 |
| Rest of Europe | 1,985 | 1,410 |
| Rest of World | 1,499 | 2,008 |
| | 9,955 | 10,496 |
| 3 Exceptional operating expense | | |
| Restructuring costs | (249) | - |
| 4 Operating profit | | |
| This is stated after charging: | | |
| Depreciation of tangible fixed assets | 315 | 305 |
| Auditors' remuneration for audit services | 38 | 36 |
| Operating lease rentals - plant and machinery | 197 | 193 |
| - land and buildings | 114 | 110 |
| 5 Net interest (payable) receivable | | |
| Bank interest receivable | 27 | 37 |
| Bank loan and overdraft interest payable | (48) | (28) |
| Finance lease and hire purchase interest | (1) | (3) |
| | (22) | 6 |

SURFACE TECHNOLOGY plc

Notes forming part of the financial statements (continued)

| | 2000 | 1999 |
|-----------------------------------|-------------|-------------|
| | £000 | £000 |
| 6 Taxation | | |
| UK Corporation tax charge | (6) | - |
| Overseas taxation credit (charge) | <u>50</u> | <u>(41)</u> |
| | <u>44</u> | <u>(41)</u> |

There are tax losses of approximately £800,000 (1999 £1,400,000) carried forward against future trading profits.

| | | |
|-------------------------------------------------------------|--------------|--------------|
| 7 Employees | | |
| Staff costs, including executive directors, during the year | | |
| Amounted to: | | |
| Wages and salaries | 2,972 | 3,178 |
| Social security costs | 277 | 298 |
| Pension costs | 129 | 128 |
| | <u>3,378</u> | <u>3,604</u> |

| | 2000 | 1999 |
|--------------------------------------------------------------------------------------------|---------------|---------------|
| | Number | Number |
| The average number of employees, including executive Directors, during the year comprised: | | |
| Office and management | 77 | 82 |
| Manufacturing | 96 | 111 |
| | <u>173</u> | <u>193</u> |

SURFACE TECHNOLOGY plc

Notes forming part of the financial statements (continued)

| 8 Directors' emoluments | 2000 £000 | 1999 £000 |
|---------------------------------------------------------|----------------------|----------------------|
| Management remuneration including pension contributions | 110 | 109 |
| Performance bonuses | 4 | 6 |
| | 114 | 115 |
| Highest paid director - management remuneration | 57 | 57 |
| - performance bonus | 4 | 2 |
| | 61 | 59 |

There is a performance related bonus scheme for certain directors based on financial results measured against budget.

| | Goodwill £000 |
|----------------------------|--------------------------|
| 9 Intangible assets | |
| Cost | |
| At 1 January 2000 | - |
| Additions | 216 |
| At 31 December 2000 | 216 |
| Amortisation | |
| Provided during the year | 14 |
| Net book value | |
| At 31 December 2000 | 202 |

SURFACE TECHNOLOGY plc**Notes forming part of the financial statements (continued)****10 Tangible assets**

| | Freehold Land and buildings | Long Leasehold Land and buildings | Plant, vehicles and fixtures | Computers | Total |
|--------------------------|--------------------------------------------|------------------------------------------------------|-------------------------------------------------|------------------|--------------|
| | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> |
| Cost | | | | | |
| At 1 January 2000 | - | 509 | 3,067 | 235 | 3,811 |
| Additions | 12 | 1 | 271 | 9 | 293 |
| Disposals | - | (4) | - | (1) | (5) |
| At 31 December 2000 | <u>12</u> | <u>506</u> | <u>3,338</u> | <u>243</u> | <u>4,099</u> |
| Depreciation | | | | | |
| At 1 January 2000 | - | 4 | 2,014 | 171 | 2,189 |
| Provided during the year | - | 10 | 269 | 34 | 313 |
| Disposals | - | - | - | - | - |
| At 31 December 2000 | <u>12</u> | <u>14</u> | <u>2,283</u> | <u>205</u> | <u>2,502</u> |
| Net book value | | | | | |
| At 31 December 2000 | <u>12</u> | <u>492</u> | <u>1,055</u> | <u>38</u> | <u>1,597</u> |
| At 31 December 1999 | <u>-</u> | <u>505</u> | <u>1,053</u> | <u>64</u> | <u>1,622</u> |

The net book value of plant, vehicles and fixtures includes £nil (1999 £38,000) in respect of assets held under finance leases. Depreciation on these assets amounted to £nil (1999 - £22,000).

SURFACE TECHNOLOGY plc

Notes forming part of the financial statements (continued)

| | |
|--------------------------------------------------|-------------|
| | <u>£000</u> |
| 11 Investments in subsidiary undertakings | |
| Cost at 1 January 2000 | 196 |
| Additions | 22 |
| Cost at 31 December 2000 | <u>218</u> |

The company's subsidiary undertakings are listed in note 20.

Consolidated accounts have not been prepared as the company itself is a wholly owned subsidiary undertaking of Norman Hay plc, a company registered in England and Wales.

12 Acquisitions

| | <u>Book Value £000</u> | <u>Fair value Adjustment £000</u> | <u>Provisional Fair Value £000</u> |
|----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------------------------|--------------------------------------------|
| The group purchased the business and assets of Industrial Impregnations for a total consideration of £241,000 including expenses as follows: | | | |
| Tangible fixed assets | 45 | (35) | 10 |
| Stock | 15 | - | 15 |
| | <u>60</u> | <u>(35)</u> | <u>25</u> |
| Net assets | | | |
| Goodwill capitalised in balance sheet | | | 216 |
| Total consideration including costs | | | <u>241</u> |

The directors have written down the tangible fixed assets acquired to reflect their recoverable amount, being less than depreciated replacement cost.

SURFACE TECHNOLOGY plc

| | 2000 | 1999 |
|-------------------------------|---------------------|-------------------|
| | £000 | £000 |
| 13 Stocks | | |
| Raw materials and consumables | 405 | 314 |
| Work in Progress | 310 | 162 |
| Finished goods | 301 | 267 |
| | <u>1,016</u> | <u>743</u> |

| | | |
|---------------------------------|---------------------|---------------------|
| 14 Debtors | | |
| Trade debtors | 2,087 | 1,922 |
| Other debtors | 97 | 62 |
| Prepayments and accrued income | 190 | 250 |
| Amounts due from parent company | 3,083 | 2,436 |
| | <u>5,457</u> | <u>4,670</u> |

All amounts shown under debtors fall due for payment within one year.

SURFACE TECHNOLOGY plc**Notes forming part of the financial statements (continued)**

| | <u>2000</u> <u>£000</u> | <u>1999</u> <u>£000</u> |
|--------------------------------------------|----------------------------|----------------------------|
| 15 Creditors - due within one year | | |
| Bank loans and overdraft (secured) | 279 | - |
| Trade creditors | 695 | 491 |
| Amounts due to subsidiary undertakings | 215 | 215 |
| Amounts due to other group companies | 1,763 | 1,761 |
| Other creditors | 51 | 39 |
| Corporation Tax | 12 | 8 |
| Other taxes and social security costs | 264 | 218 |
| Finance leases and hire purchase contracts | 1 | 7 |
| Accruals and deferred income | 321 | 378 |
| | <u>3,601</u> | <u>3,117</u> |

The bank loans and overdrafts are secured by a charge over the company's assets.

16 Creditors - due after one year

| | | |
|--------------------------------------------|----------|----------|
| Finance leases and hire purchase contracts | <u>-</u> | <u>1</u> |
|--------------------------------------------|----------|----------|

17 Deferred taxation

No credit has been taken for the deferred tax asset of approximately £265,000 at 31 December 2000 in respect of tax losses and deferred capital allowances and other timing differences.

| | <u>2000</u> <u>£000</u> | <u>1999</u> <u>£000</u> |
|--------------------------------------------------------|----------------------------|----------------------------|
| 18 Share capital | | |
| Authorised, issued and fully paid | | |
| 6,000,000 (1999: 6,000,000) ordinary shares of £1 each | <u>6,000</u> | <u>6,000</u> |

SURFACE TECHNOLOGY plc

Notes forming part of the financial statements (continued)

| | <u>Land and buildings</u> | | <u>Plant</u> | |
|------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------|--------------|-------------|
| | 2000 | 1999 | 2000 | 1999 |
| | £000 | £000 | £000 | £000 |
| 19 Commitments under operating leases | | | | |
| At 31 December 2000 the company had annual commitments under non-cancellable operating leases which expire as follows: | | | | |
| In one year | 62 | 59 | 160 | 183 |
| In two to five years | 89 | 170 | 64 | 188 |
| After five years | 1,186 | 1,160 | - | - |
| | 1,337 | 1,389 | 224 | 371 |

20 Subsidiary undertakings

The company has the following subsidiaries, all of which are wholly owned, dormant and registered in England and Wales:

Armourcote Surface Treatments Limited
Montgomery Plating Company Limited
Norman Hay (Metal Finishers) Limited
Ultraseal Limited
Ultraseal Contracts Limited
Ultraseal Contracts (North East) Limited
Ultraseal America Inc.
Industrial Impregnations Limited

The company has the following subsidiary, which is wholly owned, dormant and registered in Scotland:

Armourcote (East Kilbride) Limited

SURFACE TECHNOLOGY plc

Notes forming part of the financial statements (continued)

21 Contingent Liability

There are cross guarantees in respect of bank borrowings of other group companies. At 31st December 2000 the amount of bank loans and overdrafts outstanding in respect thereof was £2,302,000 (1999 : £2,780,000).

The company is part of a VAT group. At 31st December 2000 the VAT liability of other companies in that VAT group was £215,000 (1999 : £66,000).

22 Pensions

The company operates a number of defined contribution pension schemes. The assets of these schemes are held separately from those of the company in independently administered funds.

Until April 1993 the company also operated two defined benefit schemes which were established for certain subsidiary undertakings while under previous ownership. Contributions to the schemes ceased with effect from 1 April 1993 and are currently in the process of being wound up with a view to establishing surplus liability, the schemes have been replaced by two defined contribution schemes.

The pension cost charge shown in note 7 includes contributions payable by the company to the funds.

23 Cash flow statement

As a wholly owned subsidiary the company has taken advantage of the exemption provided by Financial Reporting Standard 1 not to present a cash flow statement in respect of the period. The accounts of the ultimate parent company, Norman Hay plc, incorporate a cash flow statement prepared in accordance with that Standard.

24 Ultimate parent company

The ultimate parent company is Norman Hay plc, a company registered in England and Wales, and copies of the group accounts may be obtained from the registered office at Godiva Place, Coventry, CV1 5PN.
