

MEGGER GROUP LIMITED

(Formerly AVO International Holdings Limited)

Report and Accounts

30 November 2002



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Megger Group Limited (Formerly AVO International Holdings Limited)

Registered No. 2582519

DIRECTORS

D J Clarke (appointed 25th June 2002, resigned 31st August 2003)

P H Frank

A R Hardie

SECRETARY

A R Hardie

AUDITORS

Ernst & Young LLP

1 More London Place

London SE1 2AF

REGISTERED OFFICE

Archcliffe Road

Dover

Kent

DIRECTORS' REPORT

The directors present their report and accounts of the group for the year ended 30 November 2002.

RESULTS AND DIVIDENDS

The group profit for the year after taxation amounted to £1,003,000 (2001 restated - £1,903,000). An amount of £1,003,000 was transferred to reserves (2001 restated - £1,197,000 transferred from reserves). No dividend was declared for the year, but £3,100,000 was paid in respect of prior years (2001 - £3,100,000 declared but not paid).

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the group during the year continued to be the manufacture, marketing and distribution of electrical and electronic testing and measuring instruments.

DIRECTORS AND THEIR INTERESTS IN SHARES OR DEBENTURES

The directors during the year were as follows:

D J Clarke (appointed 25th June 2002, resigned 31st August 2003)
P H Frank
A R Hardie

No director at any time during the year ended 30 November 2002 (2001 - £nil) was beneficially interested in any shares or debentures of the Company or any group company according to the register required to be kept under section 325 of the Companies Act 1985.

GROUP RESEARCH AND DEVELOPMENT ACTIVITIES

The group is heavily committed to research and development activities so as to secure its position as a market leader in its addressed markets.

UK EMPLOYEES

The group's policy is to consult and discuss with employees, through Unions and at meetings, matters likely to affect employees' interests.

It is the policy of the group to maintain the employment of disabled persons wherever practicable and to ensure appropriate opportunities for their training, career development and promotion.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The group does not make contributions to political parties. No donations were made to charitable institutions during the period.

CREDITOR PAYMENT POLICY AND PRACTICE

It is the policy of the group to agree terms of settlement with its suppliers, which are appropriate for the markets in which they operate, and to abide by those terms where suppliers have also met their obligations. Trade creditors at the year end represents 61 days (2001 - 61 days) of average annual purchases.

DIRECTORS' REPORT

AUDITORS

Ernst & Young LLP were appointed by the directors as the auditors during 2001. As the company has elected to dispense with the obligation to appoint auditors annually, Ernst & Young LLP will be deemed to be appointed at the next date for the appointment of auditors.

By order of the board



Secretary

29/11/03

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the 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 group and which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE INDEPENDENT AUDITORS

to the members of Megger Group Limited (formerly AVO International Holdings Limited)

We have audited the group's financial statements for the year ended 30 November 2002, which comprise the group profit and loss account, the group statement of total recognised gains and losses, the group balance sheet, the company balance sheet, the group statement of cash flows and the related notes 1 to 31. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and 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 company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except that the scope of our work was limited as explained below. 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 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. However, the evidence available to us was limited as the group's accounting policy relating to the treatment of development expenditures within the financial statements was changed during the year ended 30 November 2002 to a policy to capitalize development costs in so far as these fulfill the criteria required by SSAP 13 Accounting for research and development. During the year ended 30 November 2001, the company implemented a new tracking procedure to capture the cost information by project. However, prior to that date, the company had not carried out detailed tracking to determine the amounts which would be capitalized under SSAP 13. In consequence it was not possible for us to perform the auditing procedures necessary to obtain sufficient appropriate audit evidence as regards the estimate of capitalized development costs included in the preceding years' accounts at £1,309,000. Any adjustment to this would have an estimated consequential effect (net of deferred tax) of £827,000 on the profit after tax for the year ended 30 November 2001.

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

REPORT OF THE INDEPENDENT AUDITORS

to the members of Megger Group Limited (formerly AVO International Holdings Limited)

(continued)

Qualified opinion arising from limitation in audit scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the capitalized development costs of £1,309,000 as at 1 December 2002, in our opinion, the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 November 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

In respect alone of the limitation on our work relating to the capitalized development costs of £1,309,000 as at 1 December 2002:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper accounting records had been maintained.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

30 October 2003

Megger Group Limited (Formerly AVO International Holdings Limited)

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 30 November 2002

		2002	Restated 2001
	Notes	£000	£000
TURNOVER	1	49,705	53,110
Cost of sales		(28,725)	(29,990)
Gross profit		20,980	23,120
Distribution costs		(10,350)	(10,383)
Administrative expenses		(7,299)	(9,388)
Other operating expenditure		(1,055)	(675)
OPERATING PROFIT	3	2,276	2,674
Interest receivable and similar income	6	52	22
Interest payable and similar charges	7	(73)	(46)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		2,255	2,650
Tax on profit on ordinary activities	8	(1,252)	(747)
PROFIT FOR THE FINANCIAL YEAR		1,003	1,903
Dividends	9	-	(3,100)
AMOUNT TRANSFERRED TO/(FROM) RESERVES		1,003	(1,197)


STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2002	Restated 2001
	£000	£000
Profit for the financial year	1,003	1,903
Currency translation differences on foreign currency net investments	(1,570)	65
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	(567)	1,968
Prior year adjustments (notes 1 and 24)	1,465	
TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT	898	

Megger Group Limited (Formerly AVO International Holdings Limited)

GROUP BALANCE SHEET
at 30 November 2002

		2002	Restated 2001
	Notes	£000	£000
FIXED ASSETS			
Intangible assets	11	5,814	4,529
Tangible assets	12	7,952	9,121
		<u>13,766</u>	<u>13,650</u>
CURRENT ASSETS			
Stocks and work in progress	15	7,939	9,314
Debtors	16	9,418	10,386
Cash at bank and in hand		857	3,345
		<u>18,214</u>	<u>23,045</u>
CREDITORS: amounts falling due within one year	17	(7,053)	(11,831)
NET CURRENT ASSETS		<u>11,161</u>	<u>11,214</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>24,927</u>	<u>24,864</u>
CREDITORS: amounts falling due after more than one year	18	(30)	(92)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred tax	20	(1,560)	(868)
		<u>23,337</u>	<u>23,904</u>
CAPITAL AND RESERVES			
Called up share capital	23	34,785	34,785
Profit and loss account	24	14,549	15,116
Other reserves		(25,997)	(25,997)
EQUITY SHAREHOLDERS' FUNDS		<u>23,337</u>	<u>23,904</u>


Director

29/10/03

Megger Group Limited (Formerly AVO International Holdings Limited)

COMPANY BALANCE SHEET
at 30 November 2002

		2002	2001
	Notes	£000	£000
FIXED ASSETS			
Investments in group undertakings	13	42,238	42,238
NET CURRENT LIABILITIES - amounts falling due within one year	17	(6,806)	(6,977)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>35,432</u>	<u>35,261</u>
CAPITAL AND RESERVES			
Called up share capital	23	34,785	34,785
Profit and loss account	24	647	476
EQUITY SHAREHOLDERS' FUNDS		<u>35,432</u>	<u>35,261</u>


Director

29/12/03

Megger Group Limited (Formerly AVO International Holdings Limited)

GROUP STATEMENT OF CASH FLOWS
for the year ended 30 November 2002

	<i>Notes</i>	<i>2002</i> £000	<i>2001</i> £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	25	6,250	5,087
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(73)	(43)
Interest element of finance lease rentals		-	(3)
Interest received		52	22
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(21)	(24)
TAXATION		(488)	(1,116)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(813)	(1,334)
Receipts from sales of tangible fixed assets		8	348
Acquisition of intangible assets		-	(202)
Capitalised research and development costs		(2,618)	(1,309)
CASH OUTFLOW FOR CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(3,423)	(2,497)
EQUITY DIVIDENDS PAID		(3,100)	-
FINANCING			
Repayments of bank borrowings	22	-	-
Payments of the capital element of finance leases	22	(1)	(28)
CASH OUTFLOW FROM FINANCING		(1)	(28)
(DECREASE)/INCREASE IN CASH IN THE PERIOD		(783)	1,422

Megger Group Limited (Formerly AVO International Holdings Limited)

GROUP STATEMENT OF CASH FLOWS
for the year ended 30 November 2002

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	<i>Notes</i>	<i>2002</i> £000	<i>2001</i> £000
(DECREASE)/INCREASE IN CASH		(783)	1,422
Cash outflow from decrease in debt and lease financing		1	28
Change in net debt resulting from cash flows		(782)	1,450
Translation difference		150	113
MOVEMENT IN NET FUNDS IN THE YEAR		(632)	1,563
NET DEBT AT 1 DECEMBER	22	1,489	(74)
NET FUNDS/(DEBT) AT 30 NOVEMBER		857	1,489

NOTES TO THE ACCOUNTS

at 30 November 2002

1. ACCOUNTING POLICIES

Accounting convention

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

Change of accounting policy

The company has changed its policy relating to research and development expenditure. Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

This has resulted in a prior year adjustment to recognise £1,309,000 of capitalised research and development costs which had been expensed to the profit and loss account in the prior year and increasing the deferred tax provision by £482,000. The net adjustment to reserves is to increase profit and loss reserves by £827,000.

Basis of consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries. Intra group sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only.

Turnover

Turnover, which excludes value added tax, sales between group companies and trade discount, represents the invoiced value of goods and services supplied.

Goodwill

Goodwill arising on consolidation, being the excess of the purchase price over the fair values of the underlying net assets of subsidiary companies acquired, is capitalised and amortised against profits over its useful economic life, the majority of which is over 15 years. The carrying values of intangible assets are reviewed for impairment at the end of the first full financial year following their acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Other business combinations

For the acquisition of AVO International Inc (USA) and Megger Limited (Canada) merger accounting principles have been used.

Depreciation

Depreciation is calculated so as to write off the cost of fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal time periods in use are:

Freehold buildings	-	30 years
Plant and equipment	-	7-10 years
Office equipment	-	3-8 years
Motor vehicles	-	4 years
Product tooling	-	7 years

Freehold land is not depreciated.

Fixed assets (excluding goodwill)

The cost of fixed asset investments is their purchase cost, together with any incidental expenses of acquisition. The carrying value of tangible fixed asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recovered.

NOTES TO THE ACCOUNTS
at 30 November 2002

1. ACCOUNTING POLICIES

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value as follows:

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first-out basis.
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

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

Taxation

The charge for taxation is based on the profit for the period as adjusted for disallowable items.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date, using the incremental approach. Timing differences are differences between the Group's taxable profits and its results as stated in the accounts.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Research and development expenditure

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

Warranties for products

Provision is made for the estimated liability on all products still under warranty, including claims already received.

Foreign currencies

Assets and liabilities of subsidiaries expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial period. Trading results of overseas subsidiaries are also translated at average rates of exchange. Differences on exchange arising from the re-translation into sterling of the opening balance sheets of overseas subsidiary companies and of trading results are taken to reserves. All other exchange differences are dealt with in arriving at operating profit.

NOTES TO THE ACCOUNTS
at 30 November 2002

1. ACCOUNTING POLICIES (continued)

Leased assets

Assets held under finance leases are treated as tangible fixed assets and depreciation provided thereon. The deemed capital element of future rentals is treated as a liability and deemed interest calculated at a rate based on the capital value outstanding is charged over the period of the lease against operating profit.

Rentals in respect operating leases are charged against operating profit as incurred.

Pensions

The Company has no pension scheme. The UK main pension fund is held within Megger Limited (a subsidiary undertaking) and is a contributory, defined benefit, externally funded scheme which is contracted out of the UK state scheme. The fund is valued regularly by professionally qualified independent actuaries.

Contributions to the fund are charged to the profit and loss account in accordance with the long-term funding rate as advised by the actuaries.

The scheme was closed to new employees on 4 April 2000. A new UK defined contribution scheme, contracted in to the UK State scheme was opened on 1 October 2000 to both existing and new employees.

Megger USA provides a cash balance defined contribution savings plan for all US employees and a defined benefit retirement plan for some employees. For the cash balance plan Megger contributes 4% of eligible earnings. For the defined contribution plan, participants may contribute up to 20% of their aggregate compensation, as defined, and Megger matches \$.50 of each dollar of elective contributions made, up to the first 6% of a participant's aggregate compensation. Contributions made by Megger USA to the savings plans during 2002 and 2001 were approximately \$351,000 and \$354,000, respectively.

2. PRINCIPAL ACTIVITY AND ANALYSIS OF RESULTS

The principal activity of the group is the design, manufacture, marketing and distribution of a range of electrical and electronic testing and measuring instruments. In the opinion of the Directors this represents one class of business. The turnover and profit before tax of this activity is set out in the consolidated profit and loss account on page 7.

An analysis of turnover by geographical market is given below:

	2002	2001
	£000	£000
United Kingdom	5,933	6,325
Europe (excluding the UK)	5,658	5,052
The Americas	31,402	33,421
Rest of World	6,712	8,312
	<u>49,705</u>	<u>53,110</u>

Megger Group Limited (Formerly AVO International Holdings Limited)

NOTES TO THE ACCOUNTS at 30 November 2002

3. OPERATING PROFIT

This is stated after charging/(crediting):

	2002	2001
	£000	£000
Amortisation of goodwill	1,122	1,155
Amortisation of development expenditure	43	-
Depreciation of tangible fixed assets - owned assets	1,658	1,596
- under finance leases	2	28
Hire of plant and equipment	372	456
Other operating leases - land & buildings	558	414
- motor cars & office equipment	341	605
Redundancy and re-organisation costs	333	52
Auditors' remuneration - audit services	55	53
- non audit services	-	-
Release of deferred income	-	(1,871)
Profit on sale of tangible fixed assets	-	20
Research and development expenditure	2,610	3,557

4. DIRECTORS' REMUNERATION

	2002	2001
	£000	£000
Aggregate emoluments (excluding payments to the group's defined benefit pension scheme)	157	305
Company contributions to money purchase pension schemes	2	47
	No.	No.
Members of defined benefit pension schemes	1	2
Members of money purchase pension schemes	1	1

The amounts in respect of the highest paid director are as follows:

	2002	2001
	£000	£000
Aggregate emoluments (excluding payments to the group's defined benefit pension scheme)	96	210
Accrued pension (under the group's defined benefit pension scheme) at the end of the year	5	49

Megger Group Limited (Formerly AVO International Holdings Limited)

NOTES TO THE ACCOUNTS at 30 November 2002

5. STAFF COSTS

	2002	2001
	£000	£000
Wages and salaries	15,197	15,163
Social security costs	1,284	1,350
Other pension costs	773	534
	<u>17,254</u>	<u>17,047</u>

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

	2002	2001
	No.	No.
USA	317	322
United Kingdom	220	223
Canada	12	12
France	11	11
	<u>560</u>	<u>568</u>

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2002	2001
	£000	£000
Bank interest receivable	<u>52</u>	<u>22</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2002	2001
	£000	£000
Charges on finance leases	11	3
Interest payable on bank loans and overdrafts	62	43
	<u>73</u>	<u>46</u>

Megger Group Limited (Formerly AVO International Holdings Limited)

NOTES TO THE ACCOUNTS

at 30 November 2002

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002	Restated 2001
	£000	£000
(a) <u>Analysis of charges for the period:</u>		
Current tax:		
UK corporation tax	694	813
Overseas tax	(151)	260
	<u>543</u>	<u>1,073</u>
Deferred tax (note 20)		
Origination and reversal of timing differences	815	348
Adjustment in respect of prior years	(106)	(674)
	<u>709</u>	<u>(326)</u>
Tax on profits on ordinary activities	<u>1,252</u>	<u>747</u>

(b) Factors affecting tax charge for the year:

Profit on ordinary activities before tax:	<u>2,255</u>	<u>2,650</u>
Profit on ordinary activities multiplied by standard rate of Corporation tax of 30% (2001 30%)	676	795
Effect of:		
Expenses not deductible for tax purposes	560	481
Capital allowances for period in excess of depreciation	-776	-290
Overseas tax rates in excess of 30%	83	87
	<u>543</u>	<u>1,073</u>

9. DIVIDENDS

	2002	2001
	£000	£000
During the year dividends of nil pence per share were declared (2001 - 8.9 pence)	-	3,100

10. PROFIT OF MEGGER GROUP LIMITED (COMPANY)

Megger Group Limited has taken advantage of the legal dispensation under Section 230 of the Companies Act 1985 allowing it not to publish a separate profit and loss account. The profit for the year attributable to shareholders of the Company dealt with in these accounts is £171,000 (2001 - £3,065,000)

Megger Group Limited (Formerly AVO International Holdings Limited)

NOTES TO THE ACCOUNTS

at 30 November 2002

11. INTANGIBLE FIXED ASSETS

Group

	<i>Goodwill</i>	<i>Capitalised development</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 December 2001 (<i>Restated</i>)	3,220	1,309	4,529
Translation adjustments	(73)	(95)	(168)
Current year additions	-	2,618	2,618
Amortisation for the period	(1,122)	(43)	(1,165)
At 30 November 2002	2,025	3,789	5,814

The goodwill arising on the acquisition of AVO Limited and its subsidiary undertakings is being amortised over 15 years.

12. TANGIBLE FIXED ASSETS

Group

	<i>Freehold land and buildings</i>	<i>Plant, equipment and motor vehicles</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:			
At 1 December 2001	9,020	19,461	28,481
Additions	144	669	813
Disposals	(2)	(1,967)	(1,969)
Translation adjustments	(283)	(918)	(1,201)
At 30 November 2002	8,879	17,245	26,124
Depreciation:			
At 1 December 2001	(3,852)	(15,508)	(19,360)
Provided during the year	(216)	(1,444)	(1,660)
Disposals	1	1,960	1,961
Translation adjustments	167	720	887
At 30 November 2002	(3,900)	(14,272)	(18,172)
Net book value:			
At 30 November 2002	4,979	2,973	7,952
At 1 December 2001	5,168	3,953	9,121

The net book value of plant, equipment and motor vehicles above includes an amount of £nil (2001 - £2,000) in respect of assets held under finance leases and hire purchase contracts. The depreciation charge for the year on these assets was £2,000 (2001 - £28,000).

Company

The company does not own any tangible fixed assets.

Megger Group Limited (Formerly AVO International Holdings Limited)

NOTES TO THE ACCOUNTS

at 30 November 2002

13. INVESTMENTS IN GROUP UNDERTAKINGS

<i>Company</i>	2002
	£000
Cost:	
At 1 December 2001 and 30 November 2002	42,238

The following is a list of trading subsidiaries included in the group accounts:

<i>Name of company</i>	<i>Country of incorporation if not Great Britain</i>	<i>Shares held</i>	<i>Proportion of nominal value of shares and voting rights held directly by</i>		<i>Nature of Business</i>
			<i>Company</i>	<i>Subsidiaries</i>	
AVO Limited		Ordinary £1 Preference £1	100% 100%	- -	Investment holding company
Megger Limited (Formerly AVO International Limited)		Ordinary £1	-	100%	Manufacturers of electrical and electronic measurement instruments
Megger SARL	France	Ordinary €	-	100%	Distributors of test and measurement equipment
AVO International Inc	USA	Ordinary	-	100%	Manufacturers of electrical and electronic measurement instruments
Megger Limited (Formerly AVO Multi-Amp Canada Limited)	Canada	Ordinary	-	100%	Distributors of test and measurement equipment

The company has other wholly owned non-trading subsidiary undertakings.

In the opinion of the directors, the value of the company's interests in its subsidiary undertakings is not less than the amount at which it is stated in the balance sheet.

14. CAPITAL EXPENDITURE COMMITMENTS

<i>Group</i>	2002	2001
	£000	£000
Approved expenditure outstanding	91	129

Company

There is no capital expenditure outstanding in respect of the company.

Megger Group Limited (Formerly AVO International Holdings Limited)

NOTES TO THE ACCOUNTS at 30 November 2002

15. STOCKS

The amounts attributable to the different categories are as follows:

	<i>Group</i>		<i>Company</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Raw materials and consumables	4,906	5,580	-	-
Work in progress	748	692	-	-
Finished goods and goods for resale	2,285	3042	-	-
	<u>7,939</u>	<u>9,314</u>	<u>-</u>	<u>-</u>

16. DEBTORS: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Trade debtors	8,283	8,946	-	-
Other assets	56	591	-	-
Prepayments and other debtors	791	676	-	-
Corporation tax recoverable	288	173	-	-
	<u>9,418</u>	<u>10,386</u>	<u>-</u>	<u>-</u>

17. CREDITORS: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank overdraft (secured)	-	1,855	-	-
Trade creditors	4,270	4,232	-	-
Amounts owed to subsidiary undertakings	-	-	6,537	3,704
Dividends declared but not paid	-	3,100	-	3,100
Obligations under finance leases	-	1	-	-
Corporation tax	396	219	239	168
Other taxes including VAT and social security costs	99	91	-	-
Other creditors and accruals	2,288	2,333	30	5
	<u>7,053</u>	<u>11,831</u>	<u>6,806</u>	<u>6,977</u>

18. CREDITORS: amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bank term loan	-	-	-	-
Obligations under finance leases	-	-	-	-
Other creditors and accruals	30	92	-	-
	<u>30</u>	<u>92</u>	<u>-</u>	<u>-</u>

Megger Group Limited (Formerly AVO International Holdings Limited)

NOTES TO THE ACCOUNTS

at 30 November 2002

18. CREDITORS: amounts falling due after more than one year (continued)

A revolving credit line amounting to US\$5 million (2002 - US\$6.0 million) is available to the Company and other companies within the Megger Group Limited group. The Company, together with other Megger Group Limited companies, has guaranteed repayment of the overall borrowings under the facility which at 30 November 2002 amounted to £nil (2001 - £1,855,000). As security for the facility, the Company has entered into a Memorandum of Deposit whereby it has granted a first equitable charge over its shares in AVO Limited.

In addition, its wholly owned subsidiaries, AVO Limited and Megger Limited, have both guaranteed the obligations under the facility including the repayment of borrowings together with accrued interest thereon and AVO Limited has entered into a Memorandum of Deposit whereby it has granted to the bank a first equitable charge over its shares in Megger Limited, AVO International Inc and Megger Limited of Canada.

The Directors are of the opinion that no loss will arise as a result of the above arrangements.

Bank loans and overdrafts fall due for repayment as follows:

	<i>Group</i>		<i>Company</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Amounts repayable:				
within one year or on demand	-	1,855	-	-
between one and two years	-	-	-	-
between two and five years	-	-	-	-
	<u>-</u>	<u>1,855</u>	<u>-</u>	<u>-</u>

20. PROVISIONS FOR LIABILITIES AND CHARGES

<i>Group</i>	<i>Deferred tax</i>
	<i>£000</i>
At 1 December 2000	1,194
Credited to the profit and loss account (note 8)	(326)
	<u>868</u>
At 30 November 2001	
Translation adjustments	(17)
Debited to the profit and loss account (note 8)	709
	<u>1,560</u>
At 30 November 2002	

Company

There were no provisions for liabilities and charges in respect of the company.

NOTES TO THE ACCOUNTS
at 30 November 2002

21. DEFERRED TAX

Group

	<i>Restated</i>		<i>Restated</i>	
	<i>Full potential liability</i>		<i>Provision made</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Accelerated capital allowances	1,560	868	1,560	868
Other timing differences	-	-	-	-
	<u>1,560</u>	<u>868</u>	<u>1,560</u>	<u>868</u>

Company

There is no provision or potential liability to deferred tax in respect of the Company.

Due to the group policy of continued ownership of properties, it would be necessary to replace major properties by purchasing similar properties and, in the UK, rollover relief would be available. Accordingly, the potential amount of tax which might arise on the property if it were disposed of at its balance sheet value has not been quantified.

22. ANALYSIS OF NET DEBT

	<i>At</i>		<i>At</i>	
	<i>1 December</i>		<i>Exchange</i>	<i>30 November</i>
	<i>2001</i>	<i>Cash flow</i>	<i>movement</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cash	3,345	(2,638)	150	857
Overdraft balances	(1,855)	1,855	-	-
	<u>1,490</u>	<u>(783)</u>	<u>150</u>	<u>857</u>
Finance leases	(1)	1	-	-
	<u>1,489</u>	<u>(782)</u>	<u>150</u>	<u>857</u>

23. SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each	36,000	36,000	34,785	34,785

NOTES TO THE ACCOUNTS
at 30 November 2002

24. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

<i>Group</i>	<i>Called up share capital £000</i>	<i>Profit and loss account £000</i>	<i>Other reserves £000</i>	<i>Total £000</i>
Merged shareholders' funds at 1 December 2000	34,785	16,248	(25,997)	25,036
Profit for the financial year as previously reported	-	438	-	438
Dividends paid and payable	-	(3,100)	-	(3,100)
Currency translation differences	-	65	-	65
Merged shareholders' funds at 30 November 2001 as previously reported	34,785	13,651	(25,997)	22,439
Prior year adjustments				
Research and development	-	827	-	827
Deferred tax	-	638	-	638
Merged shareholders' funds at 30 November 2001 as restated	34,785	15,116	(25,997)	23,904
Profit for the financial year	-	1,003	-	1,003
Dividends paid and payable	-	-	-	-
Currency translation differences	-	(1,570)	-	(1,570)
Merged shareholders' funds at 30 November 2002	34,785	14,549	(25,997)	23,337

Other reserves represent the merger of reserve of £25,997,000 arising as a result of the group reconstruction that took place in the year 2000.

<i>Company</i>	<i>Called up share capital £000</i>	<i>Profit and loss accounts £000</i>	<i>Total £000</i>
At 1 December 2000	34,785	511	35,296
Profit for the financial year (note 10)	-	3,065	3,065
Dividends paid and payable	-	(3,100)	(3,100)
At 30 November 2001	34,785	476	35,261
Profit for the financial year (note 10)	-	171	171
Dividends paid and payable	-	-	-
At 30 November 2002	34,785	647	35,432

Megger Group Limited (Formerly AVO International Holdings Limited)

NOTES TO THE ACCOUNTS

at 30 November 2002

25. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of operating profit to net cash inflow from operating activities:

<i>Group</i>	<i>2002</i>	<i>Restated</i>
	<i>2001</i>	
	<i>£000</i>	<i>£000</i>
Operating profit	2,276	2,674
Add back non-cash items included in operating profit		
Amortisation of goodwill	1,122	1,155
Amortisation of development expenditure	43	-
Depreciation	1,660	1,624
Movement on deferred income	-	(100)
Profit on sale of tangible fixed assets	-	20
(Increase)/decrease in stocks	757	(1,173)
(Increase)/decrease in debtors	118	2,044
Increase/(decrease) in creditors	274	(1,157)
	<u>6,250</u>	<u>5,087</u>

26. FINANCIAL LEASE COMMITMENTS

The Group has the following obligations under finance leases as follows:

<i>Group</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>
Finance leases which expire:		
within one year	-	1
between one and five years inclusive	-	-
	<u>-</u>	<u>1</u>
Finance charge allocated to future periods	-	-
	<u>-</u>	<u>1</u>

Company

There were no finance lease commitments in respect of the Company.

27. OPERATING LEASE COMMITMENTS

<i>Group</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>
Land and buildings - operating leases which expire:		
within one year	57	-
between one and five years inclusive	356	338
over five years	-	390
	<u>413</u>	<u>728</u>

Megger Group Limited (Formerly AVO International Holdings Limited)

NOTES TO THE ACCOUNTS at 30 November 2002

27. OPERATING LEASE COMMITMENTS (CONYINUED)

<i>Group</i>	<i>2002</i> <i>£000</i>	<i>2001</i> <i>£000</i>
Motor cars & office equipment - operating leases which expire:		
within one year	88	160
between one and five years inclusive	440	589
over five years	-	-
	<u>528</u>	<u>749</u>

Company

There were no operating lease commitments in respect of the Company.

28. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

An individual in the US claimed that he received an electric shock on 11 May 1994 while operating a piece of Megger equipment. This claim has now been settled and no further provisions are required.

29. PENSIONS

An independent actuarial valuation of the UK pension scheme was carried out as at 6 April 2002 using the Projected Unit Method. The valuation assumed that the investment return would be 1.5% per annum more than the rate of increase in salaries and that present and future pensions would increase at the rate of 2.5% per annum. The market value of the scheme investments at the valuation date was £9,062,000 and the valuation showed that the actuarial value of these assets represented a deficit of £2,886,000 below the benefits that had accrued to members at the valuation date after allowing for expected future increases in salaries. The actuary recommended that the rates of contribution should be increased by the employers to 32.5% whilst the rates of contribution for employees remain at 7% until the next valuation date of 6 April 2005.

The charge for the US pension scheme held for US employees was £109,000 (2001 - £109,000).

The group has continued to account for pensions in accordance with SSAP 24

Defined benefit scheme in the UK – valuation under FRS17

Discount rate	5.5%
Inflation assumption	2.5%
Rate on increase in salaries	3.5%
Rate of increase to pensions	
Pre retirement	2.5%
Post Retirement (pre 4/97)	2.25%
Post Retirement (pre 4/97)	2.5%

Megger Group Limited (Formerly AVO International Holdings Limited)

NOTES TO THE ACCOUNTS at 30 November 2002

29. PENSIONS (continued)

The plan assets in the scheme and the expected rate of return were:

	<i>Expected long term rate of return %</i>	<i>Value at 30 November 2002 £000</i>
Equities	6.5	5,152
Gilts	4.5	1,447
Bonds	5.5	1,349
Cash		31
Total market value of scheme assets		7,979
Present value of scheme liabilities		(10,152)
Deficit in the scheme		(2,173)
Deferred tax asset		652
Net pension liability		(1,521)

Defined benefit scheme in the US – valuation under FRS17

The principal disclosures for the defined benefit scheme in the US are as follows:

Discount rate	6.5%
Inflation assumption	3.0%
Rate on increase in salaries	3.0%
Rate of increase to pensions	3.0%

The plan assets in the scheme and the expected rate of return were:

	<i>Expected long term rate of return %</i>	<i>Value at 30 November 2002 £000</i>
Equities	9.2	1,354
Bonds	6.5	547
Cash	4.25	1,596
Total market value of scheme assets		3,497
Present value of scheme liabilities		(2,711)
Surplus in the scheme		786
Deferred tax liability		(275)
Net pension asset		511

Megger Group Limited (Formerly AVO International Holdings Limited)

NOTES TO THE ACCOUNTS at 30 November 2002

29. PENSIONS (continued)

Analysis of the defined benefit cost for the year ended 30 November 2002 is as follows

	<i>Group UK £000</i>	<i>Group USA £000</i>
Current service cost	(296)	(245)
Past service cost	-	-
Total operating charge	(296)	(245)
Expected return on pension scheme assets	536	353
Interest on pension scheme liabilities	(555)	(168)
Total other finance income	(19)	185
Actual return less expected return on pension scheme assets	(1,636)	(700)
Experience losses arising on scheme liabilities	588	(106)
Loss arising from changes in assumptions underlying present value of scheme liabilities	-	(100)
Total other finance income	(1,048)	(906)

Analysis of movements in surplus/(deficit) during the year

	<i>Group UK £000</i>	<i>Group USA £000</i>
At 1 December 2001	(1,115)	1,916
Total operating charge	(296)	(245)
Total other finance income	(19)	185
Actuarial (loss)/gain	(1,048)	(906)
Exchange difference	-	(164)
Contributions	305	-
At 30 November 2002	(2,173)	786

Megger Group Limited (Formerly AVO International Holdings Limited)

NOTES TO THE ACCOUNTS

at 30 November 2002

29. PENSIONS (continued)

History of experience gains and losses:

	<i>Group UK</i>	<i>Group USA</i>
Difference between expected return and actual return on pension scheme assets		
- amount (£'000)	(1,636)	(700)
- % of scheme assets	(20.5)	(20.0)
Experience (losses)/gains arising on scheme liabilities		
- amount (£'000)	588	(106)
- % of present value of scheme liabilities	5.8	(3.7)
Total actuarial (loss)/gain recognised in the statement of total recognised gains and losses.0		
- amount (£'000)	(1,048)	(906)
- % of present value of scheme liabilities	(10.3)	(31.8)

30. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the 90% owned subsidiary exemption available under FRS 8 not to disclose related party transactions with any members of the TBG Holdings NV groups.

There are no other related party transactions.

31. ULTIMATE HOLDING COMPANY

TBG Holdings NV incorporated in the Netherlands Antilles is the parent of the largest group of which the Company is a member and for which group accounts are prepared, and is regarded by the directors as the ultimate parent company. NV Hollandsch-Amerikaansche Beleggingsmaatschappij Holland-American Investment Corporation incorporated in the Netherlands is the parent of the smallest group for which group accounts are prepared. Copies of the accounts of NV HAIC can be obtained from NV Hollandsch-Amerikaansche Beleggingsmaatschappij Holland American Investment Corporation, P.O.Box 218, 1180 AE Amstelveen, Netherlands