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# MEGGER GROUP LIMITED

Report and Accounts

30 November 2003

# Megger Group Limited

Registered No. 2582519

**DIRECTORS**
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 2003.

**RESULTS AND DIVIDENDS**

The underlying level of business was similar to last year. However, reported revenues have declined by £6.4m as a result of two main factors (1) revenues for 2002 were bolstered by £2.0m of shipments out of opening backlog, compared to only £0.4m in 2003; (2) two of the Group's three manufacturing plants are located in the USA and the translation of their results into sterling equivalents for consolidation has been adversely affected by the significant fall in the value of the US dollar.

Despite this fall in reported revenues, management actions to restructure the various plants and reduce their cost base has meant that group profit for the year after taxation amounted to £0.9m - only £0.1m less than the £1.0m reported in 2002.

An amount of £0.9m was transferred to reserves (2002 - £1.0m transferred to reserves). No dividend was declared for the year (2002 – nil declared but £3.1m paid in respect of prior year).

**PRINCIPAL ACTIVITIES**

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 (resigned 31st August 2003)
P H Frank
A R Hardie

There were no directors' interests requiring disclosure under 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.

**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 (2002 - 61 days) of average annual purchases.

**AUDITORS**

The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly Ernst & Young LLP will be deemed to be appointed at the next date for the appointment of auditors.

*By order of the board*

Secretary
12th March 2004

## 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.

# INDEPENDENT AUDITORS' REPORT
To the members of Megger Group Limited

We have audited the group's accounts for the year ended 30 November 2003, 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 28. These accounts 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 accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the accounts 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 accounts, 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. 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 the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 and of the group as at 30 November 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London
22 March 2004

# PROFIT AND LOSS ACCOUNT
for the year ended 30 November 2003

| | Notes | *2003* *£000* | *2002* *£000* |
|---|---|---|---|
| **TURNOVER** | 2 | 43,314 | 49,705 |
| Cost of sales | | (25,525) | (28,725) |
| Gross profit | | 17,789 | 20,980 |
| Distribution costs | | (9,602) | (10,350) |
| Administrative expenses | | (5,619) | (7,299) |
| Other operating expenditure | | (1,019) | (1,055) |
| **OPERATING PROFIT** | 3 | 1,549 | 2,276 |
| Interest receivable and similar income | 6 | 7 | 52 |
| Interest payable and similar charges | 7 | (24) | (73) |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE TAX** | | 1,532 | 2,255 |
| Tax on profit on ordinary activities | 8 | (639) | (1,252) |
| **PROFIT FOR THE FINANCIAL YEAR** | | 893 | 1,003 |

# STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| | *2003* *£000* | *2002* *£000* |
|---|---|---|
| Profit for the financial year | 893 | 1,003 |
| Currency translation differences on foreign currency net investments | (981) | (1,570) |
| **TOTAL RECOGNISED LOSSES RELATING TO THE YEAR** | (88) | (567) |

# GROUP BALANCE SHEET
at 30 November 2003

| | Notes | 2003 £000 | 2002 £000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 10 | 7,653 | 5,814 |
| Tangible assets | 11 | 6,927 | 7,952 |
| | | 14,580 | 13,766 |
| **CURRENT ASSETS** | | | |
| Stocks and work in progress | 14 | 5,828 | 7,939 |
| Debtors | 15 | 9,566 | 9,418 |
| Cash at bank and in hand | | 2,300 | 857 |
| | | 17,694 | 18,214 |
| **CREDITORS:** amounts falling due within one year | 16 | (6,705) | (7,053) |
| **NET CURRENT ASSETS** | | 10,989 | 11,161 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 25,569 | 24,927 |
| **CREDITORS:** amounts falling due after more than one year | 17 | (29) | (30) |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | | | |
| Deferred tax | 18 | (2,291) | (1,560) |
| | | 23,249 | 23,337 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 21 | 34,785 | 34,785 |
| Other reserves | 22 | (25,997) | (25,997) |
| Profit and loss account | 22 | 14,461 | 14,549 |
| **EQUITY SHAREHOLDERS' FUNDS** | 22 | 23,249 | 23,337 |

Director
12th March 2004

## COMPANY BALANCE SHEET
at 30 November 2003

| | Notes | 2003 £000 | 2002 £000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Investments in group undertakings | 12 | 42,238 | 42,238 |
| **CREDITORS:** amounts falling due within one year | 16 | (6,479) | (6,806) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 35,759 | 35,432 |
| **PROVISIONS FOR LIABILITIES AND CHARGES** - Deferred tax | 18 | (23) | - |
| | | 35,736 | 35,432 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 21 | 34,785 | 34,785 |
| Profit and loss account | 22 | 951 | 647 |
| **EQUITY SHAREHOLDERS' FUNDS** | | 35,736 | 35,432 |

Director
12th March 2004

# GROUP STATEMENT OF CASH FLOWS
for the year ended 30 November 2003

| | Notes | *2003* *£000* | *2002* *£000* |
|---|---|---|---|
| **NET CASH INFLOW FROM OPERATING ACTIVITIES** | 23 | 4,761 | 6,250 |
| **RETURNS ON INVESTMENTS AND SERVICING OF FINANCE** | | | |
| Interest paid | | (23) | (73) |
| Interest element of finance lease rentals | | (1) | - |
| Interest received | | 7 | 52 |
| **NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE** | | (17) | (21) |
| **TAXATION** | | (298) | (488) |
| **CAPITAL EXPENDITURE** | | | |
| Payments to acquire tangible fixed assets | | (943) | (813) |
| Receipts from sales of tangible fixed assets | | 654 | 8 |
| Capitalised research and development costs | | (3,105) | (2,618) |
| **CASH OUTFLOW FROM CAPITAL EXPENDITURE** | | (3,394) | (3,423) |
| **EQUITY DIVIDENDS PAID** | | - | (3,100) |
| **FINANCING** | | | |
| Payments of the capital element of finance leases | 24 | (1) | (1) |
| New finance leases entered into during the year | 24 | 30 | - |
| **CASH (OUTFLOW)/INFLOW FROM FINANCING** | | 29 | (1) |
| **INCREASE/(DECREASE) IN CASH IN THE PERIOD** | | 1,081 | (783) |

GROUP STATEMENT OF CASH FLOWS
for the year ended 30 November 2003

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**

| | Notes | 2003 £000 | 2002 £000 |
|---|---|---|---|
| **INCREASE/(DECREASE) IN CASH** | | 1,081 | (783) |
| Repayment of capital element of finance lease | | - | 1 |
| Change in net debt resulting from cash flows | | 1,081 | (782) |
| Translation difference | | 362 | 150 |
| Other | | (29) | - |
| **MOVEMENT IN NET FUNDS IN THE YEAR** | | 1,414 | (632) |
| **NET FUNDS AT 1 DECEMBER** | 20 | 857 | 1,489 |
| **NET FUNDS AT 30 NOVEMBER** | 20 | 2,371 | 857 |

## 1. ACCOUNTING POLICIES

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

***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 tangible 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.

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

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

## 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 with the following exceptions:

- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

Deferred tax is measured at the 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.

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 of 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 scheme was closed to new employees on 4 April 2000 and then, following full consultation with its employees, the company has decided to suspend all future accrual of benefit under the scheme with effect from 31st December 2003. The fund will continue to be valued by professionally qualified independent actuaries, and 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.

A UK defined contribution scheme, contracted in to the UK State scheme was opened on 1 October 2000 to both existing and new employees. However, following full consultation with its employees, the company has decided to close the scheme with effect from 31st December 2003

AVO International Inc 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 contributed 4% of eligible earnings until 31st August 2003, after which time the scheme was closed to future accrual of benefit. 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 2003 and 2002 were approximately $308,000 and $351,000, respectively.

2. **TURNOVER 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 continuing business. The turnover and profit before tax of this activity is set out in the consolidated profit and loss account on page 5.

An analysis of turnover by geographical market is given below:

| | *2003* | *2002* |
|---|---|---|
| | *£000* | *£000* |
| United Kingdom | 7,098 | 5,933 |
| Europe (excluding the UK) | 4,361 | 5,658 |
| The Americas | 25,222 | 31,402 |
| Rest of World | 6,633 | 6,712 |
| | 43,314 | 49,705 |

## 3. OPERATING PROFIT

This is stated after charging/(crediting):

| | | 2003 | 2002 |
|---|---|---|---|
| | | *£000* | *£000* |
| Amortisation of goodwill | | 674 | 1,122 |
| Amortisation of development expenditure | | 327 | 43 |
| Depreciation of tangible fixed assets | - owned assets | 1,185 | 1,658 |
| | - under finance leases | 2 | 2 |
| Hire of plant and equipment | | 347 | 372 |
| Other operating leases | - land and buildings | 398 | 558 |
| | - motor cars and office equipment | 349 | 341 |
| Redundancy and re-organisation costs | | 425 | 333 |
| Auditors' remuneration | - audit services | 65 | 55 |
| (Loss)/profit on sale of tangible fixed assets | | (106) | - |
| Research and development expenditure | | 4,420 | 4,868 |

## 4. DIRECTORS' REMUNERATION

| | *2003* | *2002* |
|---|---|---|
| | *£000* | *£000* |
| Aggregate emoluments (excluding payments to the group's defined benefit pension scheme) | 304 | 157 |
| Company contributions to money purchase pension schemes | 3 | 2 |

| | *No.* | *No.* |
|---|---|---|
| Members of defined benefit pension schemes | 1 | 1 |
| Members of money purchase pension schemes | - | 1 |

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

| | *2003* | *2002* |
|---|---|---|
| | *£000* | *£000* |
| Aggregate emoluments (excluding payments to the group's defined benefit pension scheme) | 226 | 96 |
| Accrued pension (under the group's defined benefitpension scheme) at the end of the year | - | 5 |

## 5. STAFF COSTS

| | 2003 | 2002 |
|---|---|---|
| | £000 | £000 |
| Wages and salaries | 13,727 | 15,197 |
| Social security costs | 1,225 | 1,284 |
| Other pension costs | 945 | 773 |
| | 15,897 | 17,254 |

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

| | 2003 | 2002 |
|---|---|---|
| | No. | No. |
| USA | 268 | 317 |
| United Kingdom | 206 | 220 |
| Canada | 12 | 12 |
| France | 11 | 11 |
| Australia | 1 | - |
| | 498 | 560 |

## 6. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2003 | 2002 |
|---|---|---|
| | £000 | £000 |
| Bank interest receivable | 7 | 52 |

## 7. INTEREST PAYABLE AND SIMILAR CHARGES

| | 2003 | 2002 |
|---|---|---|
| | £000 | £000 |
| Charges on finance leases | 1 | - |
| Interest payable on bank loans and overdrafts | 23 | 73 |
| | 24 | 73 |

**8. TAX ON PROFIT ON ORDINARY ACTIVITIES**

(a) Analysis of charges for the year:

| | 2003 | 2002 |
|---|---|---|
| | £000 | £000 |
| *Current tax:* | | |
| UK corporation tax - current year | 645 | 694 |
| - prior year adjustment | (29) | - |
| Overseas tax | (689) | (151) |
| | (73) | 543 |
| *Deferred tax* (note 18) | | |
| Origination and reversal of timing differences | 712 | 815 |
| Adjustment in respect of prior years | - | (106) |
| Tax on profit on ordinary activities | 639 | 1,252 |

(b) Factors affecting current tax (credit)/charge for the year:

| | 2003 | 2002 |
|---|---|---|
| | £000 | £000 |
| Profit on ordinary activities before tax: | 1,532 | 2,255 |
| Profit on ordinary activities multiplied by standard rate of corporation tax of 30% (2002 30%) | 460 | 676 |
| *Effect of:* | | |
| Expenses not deductible for tax purposes | 339 | 560 |
| Capital allowances for period in excess of depreciation | (766) | (776) |
| Prior year adjustments | 58 | - |
| Overseas tax rates in excess of 30% | (164) | 83 |
| | (73) | 543 |

**9. 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 £304,000 (2002- £171,000)

## 10. INTANGIBLE FIXED ASSETS

*Group*

| | Goodwill | Capitalised development | Total |
|---|---|---|---|
| | *£000* | *£000* | *£000* |
| Cost: | | | |
| At 1 December 2002 | 9,026 | 5,405 | 14,431 |
| Translation adjustments | (157) | (352) | (509) |
| Current year additions | - | 3,105 | 3,105 |
| At 30 November 2003 | 8,869 | 8,158 | 17,027 |
| Amortisation: | | | |
| At 1 December 2002 | (7,001) | (1,616) | (8,617) |
| Translation adjustments | 118 | 126 | 244 |
| Amortisation for the year | (674) | (327) | (1,001) |
| At 30 November 2003 | (7,557) | (1,817) | (9,374) |
| Net book value: | | | |
| At 30 November 2003 | 1,312 | 6,341 | 7,653 |
| At 1 December 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.

## 11. TANGIBLE FIXED ASSETS

*Group*

| | *Freehold land and buildings* *£000* | *Plant, equipment and motor vehicles* *£000* | *Total* *£000* |
|---|---|---|---|
| Cost: | | | |
| At 1 December 2002 | 8,879 | 17,245 | 26,124 |
| Additions | 68 | 875 | 943 |
| Disposals | (1,093) | (262) | (1,355) |
| *Translation adjustments* | (239) | (615) | (854) |
| At 30 November 2003 | 7,615 | 17,243 | 24,858 |
| Depreciation: | | | |
| At 1 December 2002 | (3,900) | (14,272) | (18,172) |
| Provided during the year | (209) | (978) | (1,187) |
| Disposals | 568 | 239 | 807 |
| Translation adjustments | 129 | 492 | 621 |
| At 30 November 2003 | (3,412) | (14,519) | (17,931) |
| Net book value: | | | |
| At 30 November 2003 | 4,203 | 2,724 | 6,927 |
| At 1 December 2002 | 4,979 | 2,973 | 7,952 |

The net book value of plant, equipment and motor vehicles above includes an amount of £29,000 (2002 - £nil) in respect of assets held under finance leases and hire purchase contracts.

*Company*

The company does not own any tangible fixed assets.

## 12. INVESTMENTS IN GROUP UNDERTAKINGS

| *Company* | *2003* |
|---|---|
| | *£000* |
| Cost: | |
| At 1 December 2002 and 30 November 2003 | 42,238 |

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

| *Name of company* | *Country of incorporation if not Great Britain* | *Shares held* | *Proportion of nominal value of shares and voting rights held directly by Company* | *Subsidiaries* | *Shareholders' funds £* | *Profit/ loss £* | *Nature of Business* |
|---|---|---|---|---|---|---|---|
| AVO Limited | | Ordinary £1 | 100% | - | 31,835 | 10 | Investment holding company |
| | | Preference £1 | 100% | - | | | |
| Megger Limited | | Ordinary £1 | - | 100% | 11,722 | 1,907 | Manufacturers of electrical and electronic measurement instruments |
| Megger SARL | France | Ordinary € | - | 100% | 177 | 11 | Distributors of test and measurement equipment |
| AVO International Inc | USA | Ordinary | - | 100% | 14,972 | (527) | Manufacturers of electrical and electronic measurement instruments |
| Megger Limited | Canada | Ordinary | - | 100% | 560 | 297 | Distributors of test and measurement equipment |
| Megger PTY Limited | Australia | Ordinary | - | 100% | 2 | 3 | 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.

## 13. CAPITAL EXPENDITURE COMMITMENTS

*Group*

| | 2003 £000 | 2002 £000 |
|---|---|---|
| Approved expenditure outstanding | 84 | 91 |

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

## 14. STOCKS

The amounts attributable to the different categories are as follows:

| | Group 2003 £000 | Group 2002 £000 | Company 2003 £000 | Company 2002 £000 |
|---|---|---|---|---|
| Raw materials and consumables | 3,501 | 4,906 | - | - |
| Work in progress | 359 | 748 | - | - |
| Finished goods and goods for resale | 1,968 | 2,285 | - | - |
| | 5,828 | 7,939 | - | - |

## 15. DEBTORS: amounts falling due within one year

| | Group 2003 £000 | Group 2002 £000 | Company 2003 £000 | Company 2002 £000 |
|---|---|---|---|---|
| Trade debtors | 8,121 | 8,283 | - | - |
| Other assets | 27 | 56 | - | - |
| Prepayments and other debtors | 588 | 791 | - | - |
| Corporation tax recoverable | 830 | 288 | - | - |
| | 9,566 | 9,418 | - | - |

## 16. CREDITORS: amounts falling due within one year

| | Group 2003 £000 | Group 2002 £000 | Company 2003 £000 | Company 2002 £000 |
|---|---|---|---|---|
| Trade creditors | 4,053 | 4,270 | - | - |
| Amounts owed to subsidiary undertakings | - | - | 6,294 | 6,537 |
| Corporation tax | 554 | 396 | 126 | 239 |
| Other taxes including VAT and social security costs | 81 | 99 | - | - |
| Other creditors and accruals | 2,017 | 2,288 | 59 | 30 |
| | 6,705 | 7,053 | 6,479 | 6,806 |

**17. CREDITORS:** amounts falling due after more than one year

| | *Group* | | *Company* | |
|---|---|---|---|---|
| | *2003* | *2002* | *2003* | *2002* |
| | *£000* | *£000* | *£000* | *£000* |
| Obligations under finance leases (note 24) | 29 | - | - | - |
| Other creditors and accruals | - | 30 | - | - |
| | 29 | 30 | - | - |

A revolving credit line amounting to US$6 million (2002 - US$6 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 2003, amounted to £nil (2001 - £nil). 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.

**18. PROVISIONS FOR LIABILITIES AND CHARGES**

| Deferred tax | *Group* | *Company* |
|---|---|---|
| | *£000* | *£000* |
| At 1 December 2001 | 868 | - |
| Translation adjustments | (17) | - |
| Debited to the profit and loss account (note 8) | 709 | - |
| At 30 November 2002 | 1,560 | - |
| Translation adjustments | 19 | - |
| Debited to the profit and loss account (note 8) | 712 | 23 |
| At 30 November 2003 | 2,291 | 23 |

**19. DEFERRED TAX**

| *Group* | *Full potential liability* | | *Provision made* | |
|---|---|---|---|---|
| | *2003* | *2002* | *2003* | *2002* |
| | *£000* | *£000* | *£000* | *£000* |
| Accelerated capital allowances | 535 | 830 | 535 | 830 |
| Other timing differences | 1,756 | 730 | 1,756 | 730 |
| | 2,291 | 1,560 | 2,291 | 1,560 |

## 19. DEFERRED TAX (continued)

*Company*

| | *Full potential liability* | | *Provision made* | |
|---|---|---|---|---|
| | *2003* | *2002* | *2003* | *2002* |
| | *£000* | *£000* | *£000* | *£000* |
| Accelerated capital allowances | - | - | - | - |
| Other timing differences | 23 | - | 23 | - |
| | 23 | - | 23 | |

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.

## 20. ANALYSIS OF NET FUNDS

| | *At 1 December 2002* | *Cash flow* | *Non cash movement* | *Exchange movement* | *At 30 November 2003* |
|---|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* | *£000* |
| Cash at bank | 857 | 1,081 | - | 362 | 2,300 |
| Finance leases | - | - | (29) | - | (29) |
| Balance at end of year | 857 | 1,081 | (29) | 362 | 2,271 |

## 21. SHARE CAPITAL

| | *Authorised* | | *Allotted, called up and fully paid* | |
|---|---|---|---|---|
| | *2003* | *2002* | *2003* | *2002* |
| | *£000* | *£000* | *£000* | *£000* |
| Ordinary shares of £1 each | 36,000 | 36,000 | 34,785 | 34,785 |

## 22. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

*Group*

| | *Called up share capital £000* | *Other reserves £000* | *Profit and loss account £000* | *Total £000* |
|---|---|---|---|---|
| At 1 December 2001 | 34,785 | (25,997) | 15,116 | 23,904 |
| Profit for the financial year | - | - | 1,003 | 1,003 |
| Currency translation differences | - | - | (1,570) | (1,570) |
| At 30 November 2002 | 34,785 | (25,997) | 14,549 | 23,337 |
| Profit for the financial year | - | - | 893 | 893 |
| Currency translation differences | - | - | (981) | (981) |
| At 30 November 2003 | 34,785 | (25,997) | 14,461 | 23,249 |

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.

*Company*

| | *Called up share capital £000* | *Profit and loss account £000* | *Total £000* |
|---|---|---|---|
| At 1 December 2001 | 34,785 | 476 | 35,261 |
| Profit for the financial year (note 9) | - | 171 | 171 |
| At 30 November 2002 | 34,785 | 647 | 35,432 |
| Profit for the financial year (note 90) | - | 304 | 304 |
| At 30 November 2003 | 34,785 | 951 | 35,736 |

## 23. NOTES TO THE STATEMENT OF CASH FLOWS

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

| *Group* | *2003 £000* | *2002 £000* |
|---|---|---|
| Operating profit | 1,549 | 2,276 |
| Add back non-cash items included in operating profit | | |
| Amortisation of goodwill | 674 | 1,122 |
| Amortisation of development expenditure | 327 | 43 |
| Depreciation | 1,187 | 1,660 |
| Profit on sale of tangible fixed assets | (106) | - |
| Decrease in stocks | 1,695 | 757 |
| (Increase)/decrease in debtors | (227) | 118 |
| (Decrease)/increase in creditors | (338) | 274 |
| | 4,761 | 6,250 |

## 24. FINANCE LEASE COMMITMENTS

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

| *Group* | *2003* | *2002* |
|---|---|---|
| | *£000* | *£000* |
| Finance leases which expire: | | |
| between one and five years inclusive | 27 | - |
| Finance charge allocated to future periods | 2 | - |
| | 29 | - |

*Company*

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

## 25. OPERATING LEASE COMMITMENTS

| *Group* | *2003* | *2002* |
|---|---|---|
| | *£000* | *£000* |
| Land and buildings - operating leases which expire: | | |
| within one year | 82 | 57 |
| between one and five years inclusive | 4 | 356 |
| over five years | 1,842 | - |
| | 1,928 | 413 |
| Motor cars and office equipment - operating leases which expire: | | |
| within one year | 126 | 88 |
| between one and five years inclusive | 497 | 440 |
| | 623 | 528 |

*Company*

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

## 26. 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.

Following full consultation with its employees, the company has decided to suspend all future accrual of benefit under the scheme with effect from 31st December 2003. The group is committed to funding the pension scheme deficit, but has not guaranteed that funding will continue indefinitely. The current level of funding agreed with the independent actuary is £336,000 per annum.

The charge for the US pension scheme held for US employees was £185,000 (2002- £221,000).

**26. PENSIONS** (continued)

***Defined benefit scheme in the UK – valuation under FRS17***

| | *2003* | *2002* |
|---|---|---|
| Discount rate | 6.00% | 5.50% |
| Inflation assumption | 3.00% | 2.50% |
| Rate of increase in salaries | 4.00% | 3.50% |
| Rate of increase to pensions | | |
| Pre retirement | 3.00% | 2.50% |
| Post retirement (pre 4/97) | 2.75% | 2.25% |
| Post retirement (pre 4/97) | 3.00% | 2.50% |

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

| | *Expected long term rate of return %* | *Value at 30 November 2003 £000* |
|---|---|---|
| Equities | 7.0 | 5,940 |
| Gilts | 5.0 | 1,455 |
| Bonds | 6.0 | 1,357 |
| Cash | | 132 |
| Total market value of scheme assets | | 8,884 |
| Present value of scheme liabilities | | (10,520) |
| Deficit in the scheme | | (1,636) |
| Deferred tax asset | | 491 |
| Net pension liability | | (1,145) |

***Defined benefit scheme in the US – valuation under FRS17***
The principal disclosures for the defined benefit scheme in the US are as follows

| | *2003* | *2002* |
|---|---|---|
| Discount rate | 6.0% | 6.5% |
| Inflation assumption | 3.0% | 3.0% |
| Rate of increase in salaries | 3.0% | 3.0% |
| Rate of increase to pensions | 3.0% | 3.0% |

**26. PENSIONS** (continued)

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

| | *Expected long term rate of return* | *Value at 30 November 2003* |
|---|---|---|
| | *%* | *£000* |
| Equities | 9.0 | 1,289 |
| Bonds | 5.8 | 383 |
| Cash | 4.0 | 1,179 |
| Total market value of scheme assets | | 2,851 |
| Present value of scheme liabilities | | (2,603) |
| Surplus in the scheme | | 248 |
| Deferred tax asset | | (95) |
| Net pension asset | | 153 |

***Analysis of the defined benefit cost for the year ended 30 November 2003 is as follows***

| *Group* | *UK* | *USA* |
|---|---|---|
| | *£000* | *£000* |
| Current service cost | (295) | (191) |
| Effect of curtailment | 139 | 68 |
| Total operating charge | (156) | (123) |
| Expected return on pension scheme assets | 475 | 196 |
| Interest on pension scheme liabilities | (558) | (151) |
| Total other finance income | (83) | 45 |
| Actual return less expected return on pension scheme assets | 263 | 27 |
| Experience losses arising on scheme liabilities | (93) | (171) |
| Loss arising from changes in assumptions underlying present value of scheme liabilities | 118 | (255) |
| Total other finance income | 288 | (399) |

**26. PENSIONS** (continued)

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

| *Group* | *UK* | *USA* |
|---|---|---|
| | *£000* | *£000* |
| At 1 December 2002 | (2,173) | 786 |
| Total operating charge | (156) | (123) |
| Total other finance income | (83) | 45 |
| Actuarial gain/(loss) | 288 | (399) |
| Exchange difference | - | (61) |
| Contributions | 488 | - |
| At 30 November 2003 | (1,636) | 248 |

***History of experience gains and losses:***

| *Group* | *UK* | *USA* |
|---|---|---|
| Difference between expected return and actual return on pension scheme assets | | |
| - amount (£'000) | 263 | 27 |
| - % of scheme assets | 3.0% | 0.9% |
| Experience (losses)/gains arising on scheme liabilities | | |
| - amount (£'000) | (93) | (171) |
| - % of present value of scheme liabilities | (0.9%) | (6.6%) |
| Total actuarial (loss)/gain recognised in the statement of total recognised gains and losses. | | |
| - amount (£'000) | 288 | (399) |
| - % of present value of scheme liabilities | 2.7% | (15.3%) |

**27. 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.

**28. ULTIMATE PARENT COMPANY**

TBG Holdings NV, Landhuis Joonchi, Kaya Richard J. Beaujon z/n, PO Box 883, Curacao, Netherlands Antilles 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