Denison Mayes Group Limited

Directors' report and financial statements

Registered number 3598085

For the eighteen months ended 31 December 1999

7/6/00 326

Contents

Directors' report

The directors present their annual report and the audited financial statements for the 18 month period ended 31 December 1999. The company was incorporated on 9 July 1998 and commenced trading on 1 October 1998.

Principal activities

The company is principally engaged in the manufacture, repair, servicing and distribution of materials testing equipment.

Business review

On 30 September 1999 the company purchased the business, assets and liabilities of Samuel Denison Limited. The results for the period are shown in the profit and loss account on page 5.

The company recorded operating profits of £342,928 before amortisation charges to write down the goodwill and costs of the Management Buy Out of £51,406 which was completed during the period. Without these charges the company would have shown profits before taxation of £116,714.

Year 2000

As reported last year, the company had prepared for the change in date into 2000 and did not experience any major disruption to its business or operations during January 2000.

Given the complexity of the issue, it is impossible to guarantee that no year 2000 problems will arise.

Proposed dividend and transfer to reserves

A dividend of £15,709 was paid to the preference shareholders and a further dividend of £29,849 is proposed.

Directors and directors' interests

The directors who held office during the period and their shareholding were as follows:

Name	Date of appointment	Shareholding ordinary shares
R P Rothera	9 July 1998	50,000
IB McGargle	9 July 1998	20,000
DN Little	9 July 1998	20,000
R Evison	9 July 1998	20,000
NM Barraclough	20 August 1998	-

British Smaller Company VCT owns 125,000 ordinary shares and all of the preference shares.

Directors' report *(continued)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

IB McGargle
Director

Moor Road
Leeds
LS10 2DE

14 April 2000

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

Marlborough House
Fitzalan Court
Fitzalan Road
Cardiff
CF24 0TE
United Kingdom

Report of the auditors to the members of Denison Mayes Group Limited

We have audited the financial statements on pages 5 to 17.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3 the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. 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 company is not disclosed.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the group and the company's affairs as at 31 December 1999 and of the group's result for the period from incorporation on 9 July 1998 to 31 December 1999 and have been properly prepared in accordance with the Companies Act 1985.

KPMG

Chartered Accountants
Registered Auditors

9 May 2000

Profit and loss account

for the period ended 31 December 1999

	Note	£	18 month period ended 31 December 1999 £
Turnover	*2*		**4,454,388**
Cost of sales			**(1,950,976)**
Gross profit			**2,503,412**
Distribution costs			**(460,237)**
Administrative expenses			**(1,751,653)**
Operating profit	*5*		**291,522**
Interest payable	*4*		**(226,214)**
Profit on ordinary activities before taxation			**65,308**
Taxation	*6*		**(19,750)**
Profit on ordinary activities after taxation being profit for the financial period			**45,558**
Dividends			
Non equity dividend paid		15,709	
Non equity dividend proposed		29,849	
Additional finance costs - non-equity		11,401	
			(56,959)
Result for the financial period being retained loss for the financial period			**(11,401)**
Appropriation between equity and non-equity interests as above			**11,401**
			-

The above represents the total recognised gains and losses for the period.

Balance sheet
at 31 December 1999

	Note	Consolidated		Company	
		£	£	£	£
Fixed assets					
Tangible assets	*7*		1,164,872		1,164,872
Intangible assets	*8*		141,153		141,153
Goodwill	*9*		484,616		484,616
Investment	*10*		-		2,465,000
			1,790,641		4,255,641
Current assets					
Stocks	*11*	859,115		859,115	
Debtors	*12*	785,578		785,578	
Cash at bank and in hand		10,561		10,561	
		1,655,254		1,655,254	
Creditors: amounts falling due within one year	*13*	(1,408,395)		(1,573,395)	
Net current assets			246,859		81,859
Total assets less current liabilities			2,037,500		4,337,500
Creditors: amounts falling due after more than one year	*14*		(1,487,500)		(3,787,500)
Net assets			550,000		550,000
Capital and reserves					
Called up share capital	*18*		550,000		550,000
Profit and loss account			-		-
Attributable to:					
Equity interests		263,599		263,599	
Non equity interests		286,401		286,401	
Shareholders' funds			550,000		550,000

These financial statements were approved by the board of directors on 14 April 2000 and were signed on its behalf by:

IB McGargle
Director

Cash flow statement

for the period ended 31 December 1999

	1999 £
Net outflow from operating activities	**598,971**
Returns on investment and servicing of finance	**(154,196)**
Capital expenditure	**(204,733)**
Equity dividend paid	**(15,709)**
Acquisition and Disposals	**(2,300,000)**
Cash inflow before financing	**(2,075,667)**
Financing	**2,103,958**
Increase in cash in the period	**28,291**

Reconciliation of net cash flow to movement in net debt (Note 17)

	1999 £
Increase in cash in the period	**28,291**
Cash inflow from financing	**(1,553,958)**
Change in net debt resulting from cash flows	**(1,525,667)**
Net debt acquired with subsidiary	**(395,234)**
Net debt at 31 December	**(1,920,901)**

Reconciliation of operating profit to net cash inflow from operating activities

	1999 £
Operating profit	**291,522**
Depreciation and amortisation charges	**223,524**
Decrease in stocks	**103,480**
Decrease in debtors	**421,247**
Decrease in creditors	**(431,443)**
Profit on disposal of tangible fixed assets	**(9,359)**
Net cash outflow from operating activities	**598,971**

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified for revaluation of freehold land and buildings.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	50 years (see below)
Plant and machinery	-	up to 7 years as appropriate to individual items
Motor vehicles	-	up to 4 years as appropriate to individual items
Fixtures and fittings	-	up to 6 years as appropriate to individual items
Goodwill	-	20 years
Intangible assets	-	4 - 7 years

No depreciation is provided on freehold land.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction [or, if hedged forward, at the rate of exchange under the related forward currency contract]. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

Notes *(continued)*

1 Accounting policies *(continued)*

Leases (continued)

All other leases are accounted for as 'operating leases' and the rentals are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Research and development

Expenditure on research and development is written off against profits in the year in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. For work in progress and finished goods manufactured by the company, cost is taken as production cost.

Taxation

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

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period.

2 Analysis of turnover

	18 month period ended 31 December 1999
	£
By geographical market	
United Kingdom	**4,144,921**
Overseas	**309,467**
	4,454,388

Notes *(continued)*

3 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period analysed by category, was as follows:

	Number of employees 18 month period ended 31 December 1999
Management	4
Administration	35
Direct operatives	26
	65

The aggregate payroll costs of these persons were as follows:

	18 month period ended 31 December 1999 £
Wages and salaries	1,699,375
Social security costs	159,791
Other pension costs	66,239
	1,925,405

4 Interest payable

	18 month period ended 31 December 1999 £
On bank loans, overdrafts and other loans repayable:	
Within five years	165,203
Over five years	57,733
Finance lease charges and hire purchase interest	3,278
	226,214

Notes *(continued)*

5 Profit on ordinary activities

	18 month period 31 December 1999 £
Profit on ordinary activities is stated after charging/(crediting)	
Auditors' remuneration:	
Audit	**15,000**
Other services	
Depreciation and other amounts written off tangible fixed assets:	
Owned	**112,159**
Leased	**59,959**
Amortisation of goodwill and intangible assets	**51,406**
Hire of assets - operating leases	**81,072**
Profit on sale of fixed assets	**(9,350)**
Directors' emoluments (including pension contribution)	**258,718**

6 Taxation

	£
UK corporation tax at 21%	**19,750**

The tax charges is higher than expected because the amortisation of goodwill is not tax deductable.

Notes *(continued)*

7 Tangible fixed assets

	Freehold land and buildings	Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Total
	£	£	£	£	£
Cost or valuation					
Transfer from subsidiary undertaking	975,000	356,517	494,756	273,303	2,099,576
Additions during the period	9,766	22,120	46,779	-	78,665
Disposals	-	-	-	(74,619)	(74,619)
At end of year	984,766	378,637	541,535	198,684	2,103,622
Depreciation					
Transfer from subsidiary undertaking	25,469	279,602	370,621	137,066	812,758
Charge for period	23,880	40,161	37,755	70,322	172,118
On disposals	-	-	-	(46,126)	(46,126)
At end of period	49,349	319,763	408,376	161,262	938,750
Net book value					
At 31 December 1999	**935,417**	**58,874**	**133,159**	**37,422**	**1,164,872**

8 Intangible assets

Balance relates to cost incurred when establishing and carrying out the management by out of Samuel Denison Limited.

	£
Cost	163,920
Amortisation in period	(22,767)
Net book value at 31 December 1999	**141,153**

Notes *(continued)*

9 Goodwill

At close of business on 30 September 1999, Denison Mayes Group Limited purchased the business, assets and liabilities of Samuel Denison Limited at the same rate that the company was acquired from the previous shareholders. The transaction was as follows:

	£
Purchase consideration	2,300,000
Net book value of assets acquired	(1,786,745)
Goodwill	513,255

	£
Cost (as note above)	513,255
Amortisation in period	(28,639)
Net book value at 31 December 1999	**484,616**

Net current assets acquired comprised:

	£
Fixed assets	1,287,933
Investments	165,000
Stock	962,595
Debtors	1,206,825
Cash	697
Creditors	(1,836,305)
	1,786,745

10 Investment in subsidiary undertakings

There are the following non trading wholly owned subsidiary undertakings, incorporated in England and Wales.

Samuel Denison Limited

WH Mayes & Sons (UK) Limited

Notes *(continued)*

11 Stocks

	1999 £
Raw materials and consumables	830,520
Work in progress	12,203
Finished goods and goods for resale	16,392
	859,115

12 Debtors

	1999 £
Trade debtors	615,785
Other debtors	46,768
Prepayments and accrued income	123,025
	785,578

13 Creditors: amounts falling due within one year

	Consolidated 1999 £	Company 1999 £
Bank loan and overdrafts (secured) (see note 14)	433,126	433,126
Amounts owed to subsidiary undertaking	-	159,555
Obligations under finance leases and hire purchase contracts	10,836	10,836
Trade creditors	276,743	276,743
Taxation and social security	142,236	142,236
Accruals	72,929	78,374
Deferred income	406,802	406,802
Other creditors	7,884	7,884
Customer deposits	38,089	38,089
Corporation tax	19,750	19,750
	1,408,395	1,573,395

Bank borrowings were secured by a specific equitable charge against the freehold property, a specific charge over all book and other debts, and a floating charge over the undertaking and all other property and assets.

Notes *(continued)*

14 Creditors: amounts falling due after more than one year

	Consolidated 1999 £	Company 1999 £
Bank loan:		
Due from one to five years	300,000	300,000
Due over five years	450,000	450,000
More than five years	737,500	737,500
	1,487,500	1,487,500
Amount due to subsidiary undertaking	-	2,300,000
	1,487,500	3,787,500

Bank loans are secured by fixed and floating charges over the assets of the company and bear interest at approximately 4% over LIBOR.

15 *Deferred taxation*

The potential liability for deferred taxation at the rate of 21% is £33,000 and arises because capital allowances exceed the annual depreciation charge.

16 Gross cash flows

	1999 £
Returns on investment and servicing of finance	
Interest element of finance lease rental payments	(3,278)
Interest paid	(150,918)
	(154,196)
Capital expenditure and financial investment	
Payment to acquire intangible fixed assets	(163,920)
Payments to acquire tangible fixed assets	(78,665)
Proceeds from sale of tangible fixed assets	37,852
	(204,733)
Financing	
Loan received	1,750,000
Loan repayments	(112,500)
Capital element of finance lease rental payments	(83,542)
Share capital issued in period	550,000
	2,103,958

Notes *(continued)*

17 Analysis of changes in net debt

	Acquired from subsidiary undertaking	Cash flows	Other changes	At 31 December 1999
		£	£	£
Cash in hand, at bank	697	9,864	-	10,561
Overdrafts	(301,553)	18,427	-	(283,126)
Debt due within one year	-	(150,000)	-	(150,000)
Debt due after one year	-	(1,487,500)	-	(1,487,500)
Finance leases	(94,378)	83,542	-	(10,836)
	(395,234)	(1,525,667)	-	(1,920,901)

18 Called up share capital

	1999
	£
Authorised, issued and fully paid	
275,000 ordinary shares of £1 each	275,000
275,000 preference shares of £1 each	275,000
	550,000

Preference shares are entitled to a cumulative dividend of 15% of the nominal value and have priority in winding up.

19 Reconciliation of movements in shareholders' funds

	Shareholders' funds 1999
	£
Share capital issued in period	550,000
Result for the financial period	-
Balance at 31 December 1999	550,000

20 Commitments

Annual commitments under non-cancellable operating leases for land and buildings are as follows:

	1999
	£
Operating leases which expire:	
In the second to fifth years inclusive	81,072

Notes *(continued)*

21 Pension scheme

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £51,329. The company also contributes to the personal pension schemes of certain employees. The pension cost charge represents contributions payable by the company and amounted to £15,000.