

Denison Mayes Group Limited

**Directors' report and financial
statements**

Registered number 3598085

31 December 2000



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2000. 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 31 August 2001 the directors and senior managers completed the purchase of the shares previously held by British Smaller Companies VCT plc. The directors and senior management now own 100% of the company's share capital.

The directors view this as an extremely exciting opportunity for the company as money previously earmarked for the repayment of interest and preference share dividends on the formerly held loans will now be available for direct investment in the company's growth.

The directors are looking forward to the exiting and challenging developments ahead.

The company recorded operating profits of £90,775 (1999: £342,928) before amortisation charges to write down the goodwill and costs of the Management Buy Out of £40,841 (1999: £51,406) which was completed in 1998. Without these charges the company would have shown a loss before taxation of £106,098 (1999: profit of £116,714).

Proposed dividend and transfer to reserves

A dividend of £Nil (1999: £15,709) was paid to the preference shareholders and a further dividend of £41,250 (1999: £29,849) is proposed but cannot be paid until there are distributable reserves.

Directors and directors' interests

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

Name		Ordinary shares at start of year	Ordinary shares at end of year
R P Rothera		50,000	57,692
IB McGargle		20,000	23,077
DN Little	(resigned 9 August 2000)	20,000	-
R Evison		20,000	23,077
NM Barraclough	(resigned 4 August 2000)	-	-

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

30 October 2001

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.



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

Independent Auditors' report 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 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 company is not disclosed.

Basis of audit 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's affairs as at 31 December 2000 and of its loss for the year ended 31 December 2000 and have been properly prepared in accordance with the Companies Act 1985.


Chartered Accountants
Registered Auditors

30 October 2001

Profit and loss account
for the year ended 31 December 2000

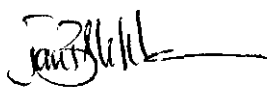
	Note	Year ended 31 December 2000	18 month period ended 31 December 1999
		£	£
Turnover	2	3,025,935	4,454,388
Cost of sales		(1,175,356)	(1,950,976)
Gross profit		1,850,579	2,503,412
Distribution costs		(341,131)	(460,237)
Administrative expenses		(1,459,514)	(1,751,653)
Operating profit	6	49,934	291,522
Interest payable	5	(196,873)	(226,214)
(Loss)/profit on ordinary activities before taxation		(146,939)	65,308
Taxation	7	16,313	(19,750)
(Loss)/profit on ordinary activities after taxation being profit for the financial period		(130,626)	45,558
Dividends			
Non equity dividend paid		-	15,709
Undeclared non equity preference dividend		41,250	-
Non equity dividend proposed		-	29,849
Additional finance costs - non-equity		-	11,401
		(41,250)	(56,959)
Result for the financial period being retained loss for the financial period		(171,876)	(11,401)
Appropriation between equity and non-equity interests as above		41,250	11,401
Operating profit and loss account		(130,626)	-
Closing profit and loss account		(130,626)	-

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

Balance sheet
at 31 December 2000

		2000		1999	
	Note	Consolidated £	Company £	Consolidated £	Company £
Fixed assets					
Tangible assets	8	1,150,621	1,150,621	1,164,872	1,164,872
Intangible assets	9	125,975	125,975	141,153	141,153
Goodwill	10	458,953	458,953	484,616	484,616
Investment	11	-	2,465,000	-	2,465,000
		<hr/>	<hr/>	<hr/>	<hr/>
		1,735,549	4,200,549	1,790,641	4,255,641
Current assets					
Stocks	12	995,362	995,362	859,115	859,115
Debtors	13	1,014,065	1,014,065	785,578	785,578
Cash at bank and in hand		5,515	5,515	10,561	10,561
		<hr/>	<hr/>	<hr/>	<hr/>
		2,014,942	2,014,942	1,655,254	1,655,254
Creditors: amounts falling due within one year	14	(2,013,292)	(2,178,292)	(1,408,395)	(1,573,395)
		<hr/>	<hr/>	<hr/>	<hr/>
Net current assets/(liabilities)		1,650	(163,350)	246,859	81,859
		<hr/>	<hr/>	<hr/>	<hr/>
Total assets less current liabilities		1,737,199	4,037,199	2,037,500	4,337,500
Creditors: amounts falling due after more than one year	15	(1,317,825)	(3,617,825)	(1,487,500)	(3,787,500)
		<hr/>	<hr/>	<hr/>	<hr/>
Net assets		419,374	419,374	550,000	550,000
		<hr/>	<hr/>	<hr/>	<hr/>
Capital and reserves					
Called up share capital	19	550,000	550,000	550,000	550,000
Profit and loss account		(130,626)	(130,626)	-	-
Attributable to:					
Equity interests		91,723	91,723	263,599	263,599
Non equity interests		327,651	327,651	286,401	286,401
		<hr/>	<hr/>	<hr/>	<hr/>
	20	419,374	419,374	550,000	550,000
		<hr/>	<hr/>	<hr/>	<hr/>

These financial statements were approved by the board of directors on 30 October 2001 and were signed on its behalf by:



IB McGargle
Director

Cash flow statement
for the year ended 31 December 2000

	Year ended 31 December 2000 £	18 months ended 31 December 1999 £
Net cash inflow from operating activities	78,490	598,971
Returns on investment and servicing of finance	(189,840)	(154,196)
Capital expenditure	(15,462)	(204,733)
Equity dividend paid	-	(15,709)
Acquisition and Disposals	-	(2,300,000)
	<hr/>	<hr/>
Cash (outflow) before financing	(126,812)	(2,075,667)
Financing	(182,454)	2,103,958
	<hr/>	<hr/>
(Decrease)/increase in cash in the year	(309,266)	28,291

Reconciliation of net cash flow to movement in net debt (Note 18)

	Year ended 31 December 2000 £	18 months ended 31 December 1999 £
(Decrease)/increase in cash in the year	(309,266)	28,291
Cash outflow/(inflow) from financing	182,454	(1,553,958)
	<hr/>	<hr/>
Change in net debt resulting from cash flows	(126,812)	(1,525,667)
Inception of new finance leases	(78,000)	-
Net debt acquired with subsidiary	-	(395,234)
Net debt at 1 January	(1,920,901)	-
	<hr/>	<hr/>
Net debt at 31 December	(2,125,713)	(1,920,901)

Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 December 2000 £	18 months ended 31 December 1999 £
Operating profit	49,934	291,522
Depreciation and amortisation charges	154,156	223,524
(Increase)/decrease in stocks	(136,247)	103,480
(Increase)/decrease in debtors	(228,487)	421,247
Increase/(decrease) in creditors	244,736	(431,443)
Profit on disposal of tangible fixed assets	(5,602)	(9,359)
	<hr/>	<hr/>
Net cash inflow from operating activities	78,490	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.

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.

Notes (continued)

1 Accounting policies (continued)

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

	Year ended 31 December 2000 £	18 months ended 31 December 1999 £
<i>By geographical market</i>		
United Kingdom	2,776,696	4,144,921
Overseas	249,239	309,467
	<hr/>	<hr/>
	3,025,935	4,454,388
	<hr/>	<hr/>

Notes (continued)

3 Remuneration of directors

	Year ended 31 December 2000 £	18 months ended 31 December 1999 £
Directors emoluments:		
Remuneration as executing (including benefits in kind and pension contributions)	190,546	258,718
Compensation for loss of office	28,722	-
	<u>219,268</u>	<u>258,718</u>

During the year 3 directors (1999: 3 directors) participated in a defined contribution scheme.

Compensation for loss of office relates to payments made to DN Little who resigned on 9 August 2000.

4 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 Year ended 31 December 2000	18 months ended 31 December 1999
Management	4	4
Administration	35	35
Direct operatives	22	26
	<u>61</u>	<u>65</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2000 £	18 months ended 31 December 1999 £
Wages and salaries	1,318,606	1,699,375
Social security costs	123,159	159,791
Other pension costs	52,647	66,239
	<u>1,494,412</u>	<u>1,925,405</u>

Notes (continued)

5 Interest payable

	Year ended 31 December 2000 £	18 months ended 31 December 1999 £
On bank loans, overdrafts and other loans repayable:		
Within five years	142,206	165,203
Over five years	42,323	57,733
Finance lease charges and hire purchase interest	12,344	3,278
	<hr/> 196,873 <hr/>	<hr/> 226,214 <hr/>

6 Profit on ordinary activities

	Year ended 31 December 2000 £	18 months ended 31 December 1999 £
<i>Profit on ordinary activities is stated after charging/(crediting)</i>		
Auditors' remuneration:		
Audit	15,000	15,000
Other services	3,000	3,000
Depreciation and other amounts written off tangible fixed assets:		
Owned	106,440	112,159
Leased	6,875	59,959
Amortisation of goodwill and intangible assets	40,841	51,406
Hire of assets - operating leases	75,319	81,072
Profit on sale of fixed assets	(5,602)	(9,350)
Directors' emoluments (including pension contribution)	190,546	258,718
	<hr/>	<hr/>

7 Taxation

	£	£
UK corporation tax recoverable/(payable) at 20%	16,313	(19,750)
	<hr/>	<hr/>

The tax credit/charge is not at the expected tax rate because the amortisation of goodwill is not tax deductible.

Notes (continued)

8 Tangible fixed assets

	Freehold land and buildings £	Plant and machinery £	Fixtures, fittings and equipment £	Motor vehicles £	Total £
Cost					
At beginning of year	984,766	378,637	541,535	198,684	2,103,622
Additions during the year	-	6,200	93,338	-	99,538
Disposals	-	-	(1,410)	(23,411)	(24,821)
At end of year	984,766	384,837	633,463	175,273	2,178,339
Depreciation					
At beginning of year	49,349	319,763	408,376	161,262	938,750
Charge for year	19,104	5,265	58,631	30,315	113,315
On disposals	-	-	(1,410)	(22,937)	(24,347)
At end of year	68,453	325,028	465,597	168,640	1,027,718
Net book value					
At 31 December 2000	916,313	59,809	167,866	6,633	1,150,621
At 31 December 1999	935,417	58,874	133,159	37,422	1,164,872

Freehold land with a cost of £49,998 (1999: £49,998) is not depreciated.

The net book value of fixed assets includes assets held under finance leases of £71,125 (1999: £12,896) on which the depreciation charge in the year was £6,875 (1999: £59,959).

9 Intangible assets

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

	£
Cost at beginning and end of year	163,920
Amortisation	
At beginning of year	22,767
Charge for year	15,178
At end of year	37,945
Net book value	
At 31 December 2000	125,975
At 31 December 1999	141,153

Notes (continued)

10 Goodwill

Goodwill arose on the purchase of the business, assets and liabilities of Samuel Denison Limited on 30 September 1998.

	£
Costs at beginning and end of year	513,255
Amortisation	
At beginning of year	28,639
Charge for year	25,663
At end of year	54,302
Net book value	
At 31 December 2000	458,953
At 31 December 1999	484,616

11 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

12 Stocks

	2000 £	1999 £
Raw materials and consumables	363,750	830,520
Work in progress	439,690	12,203
Finished goods and goods for resale	191,922	16,392
	995,362	859,115

Notes (continued)

15 Creditors: amounts falling due after more than one year

	Consolidated 2000 £	Company 2000 £	Consolidated 1999 £	Company 1999 £
Bank loan:				
Due within one year	200,000	200,000	300,000	300,000
Due within two to five years	450,000	450,000	450,000	450,000
More than five years	637,500	637,500	737,500	737,500
	<hr/>	<hr/>	<hr/>	<hr/>
	1,287,500	1,287,500	1,487,500	1,487,500
Amount due to subsidiary undertaking	-	2,300,000	-	2,300,000
Finance leases	30,325	30,325	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,317,825	3,617,825	1,487,500	3,787,500
	<hr/>	<hr/>	<hr/>	<hr/>

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

16 Deferred taxation

The potential liability for deferred taxation at the rate of 20% is £29,000 (1999: £33,000) and arises because capital allowances exceed the annual depreciation charge.

17 Gross cash flows

	2000 £	1999 £
Returns on investment and servicing of finance		
Interest element of finance lease rental payments	(12,344)	(3,278)
Interest paid	(177,496)	(150,918)
	<hr/>	<hr/>
	(189,840)	(154,196)
	<hr/>	<hr/>
Capital expenditure and financial investment		
Payment to acquire intangible fixed assets	-	(163,920)
Payments to acquire tangible fixed assets	(21,538)	(78,665)
Proceeds from sale of tangible fixed assets	6,076	37,852
	<hr/>	<hr/>
	(15,462)	(204,733)
	<hr/>	<hr/>
Financing		
Loan received	-	1,750,000
Loan repayments	(150,000)	(112,500)
Capital element of finance lease rental payments	(32,454)	(83,542)
Share capital issued in period	-	550,000
	<hr/>	<hr/>
	(182,454)	2,103,958
	<hr/>	<hr/>

Notes (continued)

13 Debtors

	2000 £	1999 £
Trade debtors	815,863	615,785
Other debtors	70,160	46,768
Prepayments and accrued income	128,042	123,025
	<hr/> 1,014,065	<hr/> 785,578

14 Creditors: amounts falling due within one year

	Consolidated 2000 £	Company 2000 £	Consolidated 1999 £	Company 1999 £
Bank loan and overdrafts (secured) (see note 15)	787,346	787,346	433,126	433,126
Amounts owed to subsidiary undertaking	-	159,555	-	159,555
Obligations under finance leases and hire purchase contracts	26,057	26,057	10,836	10,836
Trade creditors	314,042	314,042	276,743	276,743
Taxation and social security	106,448	106,448	142,236	142,236
Accruals	133,129	138,574	72,929	78,374
Deferred income	411,734	411,734	406,802	406,802
Other creditors	7,657	7,657	7,884	7,884
Customer deposits	223,442	223,442	38,089	38,089
Corporation tax	3,437	3,437	19,750	19,750
	<hr/> 2,013,292	<hr/> 2,178,292	<hr/> 1,408,395	<hr/> 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)

21 Commitments

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

	2000 £	1999 £
Operating leases which expire:		
In the second to fifth years inclusive	93,675	81,072

22 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 £40,647 (1999: £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 £12,000 (1999: £15,000).

23 Related party transactions

During the year £10,000 (1999: £13,651) was paid to Yorkshire Fund Managers in respect of management charges and £59,403 (1999: £36,405) in interest charges were incurred on a loan provided by Yorkshire Fund Managers. The loan amounted to £300,000. The balance outstanding on these transactions at the year end amounted to £379,608 (1999: £320,203). No amounts have been written off during the year. Yorkshire Fund Managers own all of the preference shares (£275,000).

Notes (continued)

18 Analysis of changes in net debt

	At 1 January 2000	Cash flows £	Other changes £	At 31 December 2000 £
Cash in hand, at bank	10,561	(5,046)	-	5,515
Overdrafts	(283,126)	(304,220)	-	(587,346)
Debt due within one year	(150,000)	150,000	(200,000)	(200,000)
Debt due after one year	(1,487,500)	-	200,000	(1,287,500)
Finance leases	(10,836)	32,454	(78,000)	(56,382)
	<u>(1,920,901)</u>	<u>(126,812)</u>	<u>(78,000)</u>	<u>(2,125,713)</u>

19 Called up share capital

	2000 £	1999 £
<i>Authorised, issued and fully paid</i>		
275,000 ordinary shares of £1 each	275,000	275,000
275,000 preference shares of £1 each	275,000	275,000
	<u>550,000</u>	<u>550,000</u>

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

20 Reconciliation of movements in shareholders' funds

	2000 £	1999 £
Opening shareholders' funds	550,000	-
Share capital issued	-	550,000
(Loss)/profit for the period	(130,626)	45,558
Dividends	-	(45,558)
	<u>419,374</u>	<u>550,000</u>
Closing shareholders' funds		

Analysis of equity and non-equity interests:

	Equity £	Non-equity £
At beginning of year	263,599	286,401
Loss for the financial year	(130,626)	-
Appropriation from equity to non-equity interests	(41,250)	41,250
	<u>91,723</u>	<u>327,651</u>
At end of year		