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SENIOR ENGINEERING GROUP plc

REPORT & ACCOUNTS 1994

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1995 FINANCIAL CALENDAR

ANNUAL RESULTS 1994

Preliminary announcement 29th March

ANNUAL REPORT AND ACCOUNTS 1994

Published 20th April

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5th June

INTERIM RESULTS FOR 1995

August

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November

CORPORATE STATEMENT

Senior is a specialist, international engineering group organised into three clearly focused Divisions–
Engineered Products, Thermal Engineering and Construction Services.

Senior's Divisions are comprised of groups of related businesses, each with autonomous management teams and individual profit responsibility.
Senior's individual businesses supply specialised products to a wide range of industrial sectors, including many niche markets, with a balance between contracting and short-term activities.
Senior has a policy of continuous business development. New and improved products are introduced arising from market opportunities and technological developments, often in association with customers, and from "bolt on" acquisitions. Investment in new plant is sustained at high levels to obtain improved manufacturing efficiency and quality, thereby maintaining international competitiveness.
Senior recognises the importance of its employees in achieving its objectives and has a strong commitment to training and employee development at all levels.
Senior pursues a policy of organic and acquisitional growth in core businesses, and of increasing the already significant level of overseas earnings.
Senior is committed to providing its shareholders with above average long-term growth in earnings per share by maximising the return on investment in each of its businesses.

Quality Businesses – Quality Products

GROUP FINANCIAL HIGHLIGHTS

The Group results are shown on pages 21 to 42, together with pages 44 and 45. The following extract is intended to provide the reader with an overview of the operations of the Group.

	1994 £000's	1993 £000's
PROFIT AND LOSS ACCOUNT		
Turnover	393,600	390,039
Profit on Ordinary Activities before Interest and Taxation	18,513	25,447
Interest Payable, net	(403)	(1,263)
Profit before Taxation	18,110	24,184
Earnings per Share	4.38p	6.95p*
Underlying Earnings per Share	5.36p	6.92p*
Dividends per Share	3.40p	3.27p*

*Adjusted to reflect the Rights Issue in April 1994.

	1994 £000's	1993 £000's
BALANCE SHEET		
Share Capital and Reserves	145,347	86,299
Net Funds (1993 – Net Borrowings) –		
Cash and Bank Deposits	70,886	32,205
Loans and Finance Leases	(49,237)	(51,095)
Bank Overdrafts	(2,669)	(2,031)
	18,980	(20,921)
Gearing, net	–	24.2%
CASH FLOW		
Cash Inflow from Operating Activities	19,492	20,444
Tax Payments	(4,513)	(7,105)
Dividends and Interest Payments, net	(9,899)	(9,037)
Net Cash Generated prior to Investments and Financing	5,080	4,302
Capital Expenditure less Disposals	(15,866)	(13,798)
Acquisitions less Disposals	(19,468)	(5,749)
Proceeds from Share Issues	67,799	1,043
Increase in Bank Deposits	(49,400)	–
Increase/(Decrease) in Loans	261	(9,770)
Decrease in Cash and Cash Equivalents	(11,594)	(23,972)

BOARD OF DIRECTORS, OFFICERS & ADVISERS

DIRECTORS

D.D. McFARLANE*
Non-Executive Chairman
Age 62

Joined in 1969, appointed Group Finance Director in 1970, Group Managing Director in 1985 and Chairman in 1992. He also holds several directorships of other public companies.

A.J. BELL**
Chief Executive
Age 51

Joined the Group in 1976, operated at local and divisional board level for a number of Group companies until appointed to the Board in 1985. Appointed Chief Executive in 1992.

T.B. GARTHWAITE
Group Finance Director
Age 48

Qualified as a chartered accountant and held several senior positions within Foseco Minsep plc before joining as Group Finance Director in 1989.

K.G.A. GAMBLE
Executive Director
Age 47

Joined in 1992 having been with GEC plc responsible for their Power Station Projects Division and finally as Managing Director, Express Lifts.

N.V. TURNBULL
Executive Director
Age 47

Joined in 1992 having held several senior positions within TI Group plc and finally as Divisional Managing Director within Bullough plc.

SIR ROBERT EVANS CBE*
Non-Executive Director
Age 67

Formerly Chairman of British Gas plc. Joined the Board in 1987.

J.L. HUDSON*
Non-Executive Director
Age 50

Group Chief Executive of Wagon Industrial Holdings plc. Joined the Board in 1991.

DR. A.K. WATKINS*
Non-Executive Director
Age 56

Joined in 1994 having held senior positions with Lucas Industries plc, Hawker Siddeley and London Transport.

HONORARY PRESIDENT

PROFESSOR SIR ROLAND SMITH
Age 66

Emeritus professor of management science in the University of Manchester, a Director of the Bank of England and holds several directorships of other public companies. He retired as Chairman in 1992 after 20 years' service with the Group.

* Member of the Audit and Remuneration Committees

** Member of the Remuneration Committee

SECRETARY AND REGISTERED OFFICE

F. H. Fermor
Senior House, 59/61 High Street,
Rickmansworth, Herts., WD3 1RH
Registered in England No. 282772

REGISTRARS

Lloyds Bank PLC, Registrar's Dept.
The Causeway, Worthing,
West Sussex, BN99 6DA

AUDITORS

Arthur Andersen, Chartered Accountants
1 Surrey Street, London, WC2R 2PS

SOLICITORS

Slaughter and May
35 Basinghall Street, London, EC2V 5DB

BANKERS

Midland Bank plc
PO Box 125, 27-32 Poultry,
London, EC2P 2BX

National Westminster Bank plc
City and West End Region,
21 Lombard Street,
London, EC2P 3AR

MERCHANT BANKERS

J. Henry Schroder Wagg & Co. Limited
120 Cheapside, London, EC2V 6DS

BROKERS

Hoare Govett Corporate Finance Limited
4 Broadgate,
London, EC2M 7LE

Albert E. Sharp & Co.
Edmund House,
12 Newhall Street,
Birmingham, B3 3ER

CHAIRMAN'S STATEMENT

GENERAL REVIEW

1994 was a year when Senior's progress in developing and investing in its more successful operations was overshadowed by the need to implement structural and management changes in Thermal Engineering, where problems emerging showed that the Group needed fundamentally to reappraise those operations.

Pre-tax profit for the year was £18.1 million on a turnover of £393.6 million compared with £24.2 million and £390.0 million respectively for the previous year. The 1994 figures include the results of acquisitions made during the year which contributed £2.4 million to profit on a turnover of £21.0 million and are after a charge of £3.6 million in respect of losses incurred mainly on operations discontinued in 1992. During the year the South African subsidiary and the trade and assets of Senior Phoenix Rollformed Sections were sold and a loss of £0.6 million was incurred which has also been charged against profit in 1994. Earnings per share have, therefore, fallen from 6.95p in 1993 to 4.38p in 1994.

Despite the reduction in earnings in 1994 your Board is recommending maintenance of the final dividend at the same level as last year, ie. 2.10p per share which with the increased interim dividend paid in November 1994 gives a total distribution for the year of 3.40p compared with 3.27p in 1993 (after adjusting for the effects of the Rights Issue). The dividend is covered 1.2 times compared with our established policy of maintaining a twice covered position. We believe, however, that the circumstances which contributed to the reduction in profit in 1994 were highly unusual and we will be able quickly to return to a far more satisfactory dividend cover position.

The Balance Sheet is in a strong position. At the end of 1994 shareholders' funds stood at £145.3 million compared to £86.3 million at 31st December, 1993. Net cash amounted to £19.0 million resulting from the Rights Issue in April 1994 compared with a gearing of 24% at the end of the previous year.

I will now try to explain the events which have had such an effect on the outcome for the year and which were not expected at the time of my Statement last year. The Group started 1994 in a confident manner with trading in the U.S.A. and the U.K. showing very satisfactory trends particularly in our Engineered Products companies. By midsummer we were experiencing a shortfall in orders in two of our Thermal Engineering companies although this, on its own, was not considered of significance as orders tend to be volatile in this business. I referred to this situation in the Interim Report. In September 1994 the Board became aware of a serious situation in our Thermal Construction company where the management had taken on a contract outside of its normal business. The contract was significantly under estimated mainly due to the lack of experience in this type of contract and this was exacerbated by poor contract management controls which also had the effect of delaying communication of the situation to your Board. An immediate review of both the order position and the rogue contract was carried out during September and resulting from this your Board approved the Trading Statement issued on 14th October, 1994.

In addition to the problems experienced within "Continuing Operations" we have now also had to provide for the cost of warranty work on a major contract originally taken on by the Power Division of Thermal Engineering, a business which was discontinued in 1992. This item is shown under "Discontinued Operations" in the Profit and Loss Account. As stated in the Trading Update issued on 10th February, 1995, I would repeat that your Board's current view is that appropriate account has been taken of this matter but we are aware that the future progress of the contract and the consequences of any litigation cannot be predicted with certainty.

I would like to stress that the combination of the circumstances contributing to the significant reduction in profit, which all arise in the Thermal Engineering area, is most unusual but I would also stress that the poor management and inadequate control procedures involved have been recognised. Significant management changes have been made at various levels and a complete review of our control procedures has been carried out.

Turning now to the more encouraging parts of the Group it is very pleasing to report that within our Engineered Products Division the flexible connector businesses produced excellent results in 1994 with United Flexible in the U.K. and Senior Flexonics in the U.S.A. making substantial progress. I would also remind shareholders of the acquisitions in April 1994 of Berghöfer in Germany and Metal Bellows in the U.S.A. which has given further impetus to growth in our flexible connector businesses. Both companies have proved to be very satisfactory acquisitions. Significant investment in plant and machinery has also been made in this area of the Group in 1994 and this will continue in the current year. Our U.K. based precision tube companies also made very satisfactory progress in 1994. Current indications are that our Engineered Products companies will again make an increased contribution to profits in the current year.

Our Construction Services companies had a satisfactory year bearing in mind the level of activity in the construction industry. There would now appear to be some signs of an improvement in the U.K. construction industry and this, combined with our investment in companies in Germany which service the European market, should produce a satisfactory result in 1995.

PERSONNEL

I am pleased to report that overall we saw a stabilisation in employment levels in the U.K. in 1994 although there were some job losses due to rationalisation programmes which were offset by job creation elsewhere. Our employees have again contributed at a high level of dedication and I would like to record our appreciation of their efforts which, through no fault of theirs, are not reflected in the results for the year.

BOARD

I referred last year to changes in the responsibilities of David Bebb and Kevin Gamble. Since returning to Australia David Bebb has resigned from the Group. Developments in Asia Pacific will continue on a divisional basis and the Chief Executive refers in his report to the increased activity in this area.

STRATEGY

Senior's strategy is to expand its core activities into international markets, attain influential positions in those markets, and further develop the Group's range of specialised products. This strategy involves a commitment to high levels of investment, to continual improvement in manufacturing processes and efficiency, and to increased focus to areas of high growth by means of acquisitions and disposals where necessary.

TRADING PROSPECTS

There are good reasons for expecting a return in the current year to previous levels of profitability. The Thermal Engineering problems we believe have been tackled and should not be repeated. We are also anticipating further progress in our Engineered Products Division which is based on a very satisfactory level of activity in both the U.S.A. and the U.K. Stability in the U.K. construction industry would also appear to be more likely. The combination of these factors and the Group's strong financial position lead us to believe that 1995 will be a much better year for your Group.

D.D. McFarlane
Chairman
29th March, 1995

CHIEF EXECUTIVE'S REVIEW

REVIEW OF OPERATIONS

After such a promising start to 1994 the outcome of the year's trading represents a setback to the Group's real progress and development achieved in recent years. Whilst the surprise shortfall in profits came from within the Thermal Engineering Division the performance of the other Divisions exceeded expectations. In the case of Engineered Products these expectations were significantly ahead of the prior year's achievement.

The segmental analysis provided as Note 2 on page 27 highlights both the divisional and geographic performance of the Group.

Engineered Products

Engineered Products had an excellent year with sales growing 33% over 1993's figures to £218.5 million, and operating profits of £17.3 million, up 68% from £10.4 million in 1993, reflecting the continuing success of both Flexonics and the Precision Tube group.

Flexonics achieved further progress over the year, reflecting its focus on specialised areas of automotive, medical, aerospace and industrial product applications and the international spread of its businesses.

Robotic welding a Flexonics automotive flexible connector

CHIEF EXECUTIVE'S REVIEW

continued

In the Automotive sector, the variety of flexible connectors specifically designed and developed for individual vehicles, both passenger and commercial, is continuing to increase. Manufacturing and investment programmes have been established with vehicle manufacturers in the U.S.A., Europe and Australasia and particular growth is envisaged in the second half of 1995 in line with new model launches. New products are also under development which concentrate on the growth areas of safety and environmental performance.

In the Medical sector, the number of major Flexonics customers has increased, and in Aerospace, there has been involvement in several new programmes. Recession has affected the Industrial Products sector, but prospects are set to improve as key economies recover.

The returns generated from Flexonics' activities and its future potential fully justify continued global expansion; development in this area is expected to continue, with both further investment in bolt on acquisitions and investment in plant and equipment under active consideration.

Precision Tube continued to recover from recession and produced improved profits despite continual pressure on margins from steel price increases; the beginning of 1995 has seen the trend continuing. The product range of this group is extensive and the addition of a stockist/distributor business is bringing the manufacturing businesses closer to its markets.

Heart surgery – blood oxygenator unit using a Flexonics heat exchanger (above)
Video measurement of a Flexonics medical heat exchanger (left)

The engines in the C130 series Hercules aircraft are fitted with Flexonics bleed air de-icing systems

CHIEF EXECUTIVE'S REVIEW

continued

Construction Services

The division recorded an operating profit of £3.3 million on a turnover of £53.3 million compared with £6.2 million on £57.1 million in 1993. It exceeded expectations despite the continuing recession in the U.K. building industry. Sales of ducting products through trade sales were at a record level and two new trade centres were opened. However, profit was reduced in 1994 with major contracts having been succesfully completed in 1993 and in the first half of 1994.

During the course of the year, the division was more clearly focused on its niche Heating, Ventilation and Air Conditioning businesses by the sale of Phoenix Rollformed Sections and the acquisition of KesslerTech in Germany. KesslerTech produces a range of air handling and air outlet units similar to those of Senior Moducel and Senior Colman, and its addition to the Group will continue to increase the geographic scope of the division's activities.

A Digitiser used in air transfer estimating at Hargreaves (above) Le Shuttle is equipped with Senior ventilation products (right)

A Senior Green condenser for a U.K. Power Station

Thermal Engineering

Thermal Engineering in 1994 faced difficulties due to major structural changes occurring in some of its market places and exceptional problems on one major contract. As a result sales for the year were £118.8 million (1993 - £157.2 million), with operating profit of £1.7 million (1993 - £8.7 million).

The events of 1994 have given rise to a number of management changes and the division has a new Chief Executive with extensive experience in the industry.

In order to address the rapidly-changing nature of the markets for Senior's products, the division has repositioned its global activities into two areas – Boiler Efficiency Products and Turbine Cycle Efficiency Products.

Boiler Efficiency Products had an excellent year, completing a major order of spiral fin modules for Mitsubishi in Syria, and commencing the shipment of eight waste heat recovery units to Puerto Rico. The Asia Pacific Region was also active with the first order from the new Japanese subsidiary and with increasing business from deliveries to the Indonesian and Fijian sugar industries supplied from its Australian operations.

Turbine Cycle Efficiency Products had a more difficult year, in particular experiencing a drop in demand from traditional utility markets in the U.S.A. International opportunities, however, helped to sustain the sector with condensers and other products supplied to major customers in Indonesia, Singapore, China and Korea as well as for combined cycle power stations in the U.K.

In our regional businesses, U.K. Thermal Construction has traditionally depended on the coal-fired power station summer outage programmes and has been affected by the restructuring of the U.K. power industry. U.K. Industrial Boilers similarly suffered a drop-back in demand and profitability, and as a consequence the top management of the two businesses has been combined and changed. In the last part of 1994, however, several significant orders were received, including one for waste heat recovery boilers on Thames Water's sludge incineration scheme. The company enters 1995 with a healthy order book.

CHIEF EXECUTIVE'S REVIEW

continued

Metal treatment in an Annealing Furnace

Senior Heat Treatment has made significant progress in 1994 and produced a further improvement in profitability. Not only did recovery from recession continue but also a number of new customer partnerships were established. 1995 will see further progress from the increase in the range of metal treatment processes available and from the benefits of the plant modernisation programme now nearing completion.

FINANCIAL

As anticipated at the time of the Rights Issue in April, the cash inflow generated from operations during the year of £19.5 million (1993 - £20.4 million) proved insufficient, after interest payments, taxation and dividends, to fund the growth in Engineered Products. However, through the proceeds of the Rights Issue (£67.6 million) the Group eliminated the existing debt (£20.9 million), acquired Metal Bellows, Berghöfer and KesslerTech totalling £20.7 million and funded another record level of capital expenditure for the Group of £17.0 million (1993 - £14.4 million). At the year end the Group retained £19.0 million in net cash including deposits and anticipates at least a similar capital expenditure requirement in 1995.

TREASURY AND FOREIGN EXCHANGE

With the very significant operations in North America the Board believes it appropriate to finance a major part of these assets with dollar borrowings. This policy effectively provides a hedge against the exchange exposure arising on translating the dollar assets into sterling, and thus minimises the impact of exchange variations on shareholder funds.

Whilst the Board also maintains a policy of covering the exchange exposure that arises through normal trading, it is not the policy to hedge the effects of currency variations on the translation of overseas earnings into sterling.

The Group's net cash position of £19.0 million at the year end comprised £70.9 million of cash, a significant portion being sterling deposits spread across a number of highly rated clearing banks and financial institutions and £51.9 million of borrowings, largely dollar denominated as referred to above.

ACCOUNTING POLICIES

The acquisitions undertaken during this accounting period were negotiated largely in the first quarter of 1994 and economically justified on an assessment of the significant reorganisation provisions that would be required, particularly in regard to relocating Metal Bellows. Had the new accounting standard FRS7 (concerning Fair Values in Acquisition Accounting and applicable for accounting periods commencing on or after 23rd December, 1994) been applied to these results, £1.9 million of such costs would have been charged as exceptional items rather than taken as goodwill.

A.J. Bell
Chief Executive
29th March, 1995

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their Report and the Accounts for the year ended 31st December, 1994.

ACTIVITIES AND BUSINESS REVIEW

Senior Engineering Group plc is a holding company. Its principal subsidiary undertakings are shown on pages 44 and 45 and comments on each Division's results and activities in 1994 are included in the Chief Executive's Review on pages 9 to 15.

ACQUISITIONS AND DISPOSALS

Acquisitions and disposals during 1994 are reported in Note 26 to the Accounts.

RESULTS AND DIVIDENDS

The results for the year are shown in the Group Profit and Loss Account on page 21.
An interim dividend of 1.30p per share, on the increased number of shares in issue following the Rights Issue in April 1994 (1993 – 1.23p), has already been paid and the Directors recommend a final dividend of 2.10p per share (1993 – 2.04p). The figures for dividends per share in 1993 have been restated to reflect the Rights Issue in April 1994. The final dividend, if approved, will be payable on 5th June, 1995 to shareholders on the register at the close of business on 1st May, 1995.

DIRECTORS

A list of the Directors and their interests in the shares of the Company is included in Note 22 to the Accounts.
None of the Directors has any interest in contracts of significance with the Company or its subsidiary undertakings.
Dr. A.K. Watkins, who was appointed to the Board on 4th October, 1994, retires in accordance with Article 77 and, being eligible, offers himself for re-election.
A.J. Bell and J.L. Hudson retire by rotation and, being eligible, offer themselves for re-election.
A.J. Bell has a service agreement with the Company subject to three years' notice. J.L. Hudson has no service agreement with the Company.
R.D. Bebb resigned from the Board on 11th November, 1994.

SHARE CAPITAL

In March 1994, the Directors offered to shareholders on the register on 23rd March, 1994, by way of rights, one new share for every four then held at 115p per share, resulting in the issue of 60,168,820 new shares.
During 1994, options granted under the Executive Share Option Scheme were exercised in respect of 445,406 shares.
Further details concerning share capital are given in Note 20 to the Accounts.

MAJOR SHAREHOLDINGS

At 21st March, 1995 the following shareholders had advised holdings in excess of 3% of the issued share capital of the Company –

Funds held, managed or advised by –		
M & G Group plc	26,363,334	(8.75%)
Newton Investment Management Ltd	16,679,847	(5.53%)
Schroder Investment Management Ltd	15,562,943	(5.16%)
Gartmore Investment Management Ltd	15,405,191	(5.11%)
Barclays de Zoete Wedd Investment Management Ltd	14,093,293	(4.67%)
Scottish Amicable Investment Managers Ltd	11,420,770	(3.79%)
AMP Asset Management plc	10,240,836	(3.40%)
Prudential Portfolio Managers Ltd	10,236,585	(3.39%)
Sun Alliance Investment Management Ltd	9,062,500	(3.01%)

REPORT OF THE DIRECTORS

continued

So far as is known, no other shareholder had a notifiable interest amounting to 3% or more of the share capital of the Company and the Directors believe that the close company provisions of the Income and Corporation Taxes Act 1988 (as amended) do not apply to the Company.

CADBURY CODE OF PRACTICE

The Group has complied with those provisions of the Cadbury Code of Best Practice which have come into effect. Furthermore, the Directors report in connection with paragraph 4.6 of the Code that, after making enquiries, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Accounts.
The guidance for directors on statements relating to the effectiveness of internal control has standard application for accounting periods beginning on or after 1st January, 1995. Accordingly, the Directors do not yet report in relation to paragraph 4.5 of the Code.

GROUP FIXED ASSETS

Information relating to changes in tangible fixed assets is given in Note 11 to the Accounts.

RESEARCH AND DEVELOPMENT

In 1994, the Group expended approximately £2,629,000 (1993 – £2,677,000) on research and development, before recoveries from customers of £1,344,000 (1993 – £1,398,000). The majority of the Group's efforts are devoted towards product development and improved manufacturing techniques.

CHARITABLE AND POLITICAL CONTRIBUTIONS

Charitable donations amounting to £8,000 (1993 – £7,000) were made during the year.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

EMPLOYEE CONSULTATION

Formal and informal meetings are held with the employees at the Group's various locations within each Division and employees are kept informed of developments within the Group and matters affecting them at their place of employment.

SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

Shareholders will see from the Notice of Meeting that they are asked to consider as special business and, if thought fit, to pass resolutions authorising the Directors to allot shares.
Resolutions 6 and 7 will empower the Directors to issue an aggregate nominal amount of £10,000,000 (representing 100,000,000 shares of 10p each and approximately 33% of the total share capital in issue) and to make a rights issue of that amount to existing shareholders in proportion to their shareholdings without the need to comply with the technical requirements of the statutory provisions, which create problems particularly with regard to overseas shareholders. The Directors have no present intention of exercising this authority, other than in connection with the grant of share options. Resolution 7 also allows the Directors to make issues for cash on a non pre-emptive basis amounting to an aggregate nominal amount of £1,500,000 (representing 15,000,000 shares of 10p each and approximately 5% of the total share capital in issue). The authority granted pursuant to Resolution 6 will expire on the date of the next Annual General Meeting and that granted pursuant to Resolution 7 fifteen months after the passing of the resolution or, if earlier, on the date of the next Annual General Meeting (save, in both cases, as set out in the Notice of Meeting).

REPORT OF THE DIRECTORS

continued

AUDITORS

The Directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as Auditors for the ensuing year.

LIABILITY INSURANCE FOR COMPANY DIRECTORS AND OFFICERS

As permitted by the Companies Act 1985 (as amended), the Company has maintained insurance cover against certain liabilities in relation to the Company and its subsidiary undertakings.

By Order of the Board,

F.H. Fermor
Secretary
29th March, 1995

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 Group and of the profit 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 Company and Group and to enable them to ensure that the Accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CORPORATE GOVERNANCE

REPORT BY THE AUDITORS TO SENIOR ENGINEERING GROUP plc

ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the Accounts, we have reviewed the Directors' statement on page 17 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of the Company's corporate governance procedures nor on the ability of the Company to continue in operational existence.

OPINION

With respect to the Directors' statement on going concern on page 17, in our opinion the Directors have provided the disclosures required by paragraph 4.6 of the Code (as supplemented by the related guidance for directors) and such statement is not inconsistent with the information of which we are aware from our audit work on the Accounts.

Based on enquiry of certain Directors and officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on page 17 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Arthur Andersen

Arthur Andersen
Chartered Accountants
and Registered Auditors
29th March, 1995

1 Surrey Street,
London,
WC2R 2PS

AUDITORS' REPORT

To the Shareholders of SENIOR ENGINEERING GROUP plc

We have audited the Accounts on pages 21 to 42, together with pages 44 and 45 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 25 and 26.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 19 the Company's Directors are responsible for the preparation of the Accounts. It is our responsibility to form an independent opinion, based on our audit, on those Accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 circumstances of the Company and of the Group, 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 mis-statement, 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 at 31st December, 1994 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants
and Registered Auditors
29th March, 1995

1 Surrey Street,
London,
WC2R 2PS

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31st December, 1994

	Notes	1994 £000's	1993 £000's
TURNOVER			
Continuing operations		368,785	377,013
Acquisitions		20,989	
		389,774	
Discontinued operations		3,826	13,026
	2, 3	393,600	390,039
OPERATING PROFIT			
Continuing operations		19,995	25,314
Acquisitions		2,374	
		22,369	
Discontinued operations		(3,589)	24
	2, 3	18,780	25,338
Profit on sale of fixed assets in continuing operations		359	109
Loss on disposal of discontinued operations		(626)	–
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		18,513	25,447
Interest receivable		3,227	2,151
Interest payable	4	(3,630)	(3,414)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	18,110	24,184
Tax on profit on ordinary activities	7	(5,639)	(7,021)
PROFIT FOR THE FINANCIAL YEAR	21	12,471	17,163
DIVIDENDS	8, 21	(10,241)	(8,087)
RETAINED PROFIT FOR THE YEAR		2,230	9,076
EARNINGS PER SHARE	9	4.38p	6.95p*
UNDERLYING EARNINGS PER SHARE	9	5.36p	6.92p*
DIVIDENDS PER SHARE	8	3.40p	3.27p*

* The figures for earnings per share and dividends per share in 1993 have been restated to reflect the Rights Issue in April 1994.

The Notes to the Accounts on pages 25 to 42, together with pages 44 and 45 form part of these Accounts.

STATEMENTS OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31st December, 1994

	Group 1994 £000's	Group 1993 £000's	Company 1994 £000's	Company 1993 £000's
PROFIT FOR THE FINANCIAL YEAR	12,471	17,163	5,033	4,402
Currency translation differences on foreign currency net investments	485	(1,302)	2,343	(530)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	12,956	15,861	7,376	3,872

NOTES OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 31st December, 1994

	Group 1994 £000's	Group 1993 £000's	Company 1994 £000's	Company 1993 £000's
REPORTED PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	18,110	24,184	7,462	4,779
Realisation of property revaluation gains of previous years	127	736	–	–
Difference between a historical cost depreciation charge and the actual charge calculated on the revalued amount	27	29	–	–
HISTORICAL COST PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	18,264	24,949	7,462	4,779
HISTORICAL COST PROFIT/(LOSS) RETAINED FOR THE YEAR	2,384	9,841	(5,208)	(3,685)

The Notes to the Accounts on pages 25 to 42, together with pages 44 and 45 form part of these Accounts.

BALANCE SHEETS

at 31st December, 1994

	Notes	Group 1994 £000's	Group 1993 £000's	Company 1994 £000's	Company 1993 £000's
FIXED ASSETS					
Tangible assets	11	79,760	65,983	421	261
Investments	12	–	–	130,801	128,181
		79,760	65,983	131,222	128,442
CURRENT ASSETS					
Stocks	13	53,217	48,442	–	–
Debtors	14	85,691	79,508	6,791	6,547
Investments	15	49,400	–	49,400	–
Cash		21,486	32,205	34,798	24,717
		209,794	160,155	90,989	31,264
CREDITORS: Amounts falling due within one year	16	(117,401)	(112,002)	(36,808)	(37,886)
NET CURRENT ASSETS/(LIABILITIES)		92,393	48,153	54,181	(6,622)
TOTAL ASSETS LESS CURRENT LIABILITIES		172,153	114,136	185,403	121,820
CREDITORS: Amounts falling due after more than one year	17	(23,247)	(26,043)	(19,230)	(20,960)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(3,559)	(1,794)	(379)	–
NET ASSETS		145,347	86,299	165,794	100,860
CAPITAL AND RESERVES					
Called-up share capital	20	30,120	24,058	30,120	24,058
Share premium	21	85,635	23,898	85,635	23,898
Reserves	21	29,592	38,343	50,039	52,904
SHAREHOLDERS' FUNDS	21	145,347	86,299	165,794	100,860

Approved by the Board
on 29th March, 1995

D.D. McFarlane ⎤
A.J. Bell ⎦ Directors

The Notes to the Accounts on pages 25 to 42, together with pages 44 and 45 form part of these Accounts.

GROUP CASH FLOW STATEMENT

for the year ended 31st December, 1994

	Notes	1994 £000's	1994 £000's	1993 £000's	1993 £000's
NET CASH INFLOW FROM OPERATING ACTIVITIES	10 a)		19,492		20,444
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest paid		(3,516)		(3,533)	
Interest received		2,587		2,209	
Dividends paid		(8,970)		(7,713)	
Net cash outflow from returns on investments and servicing of finance			(9,899)		(9,037)
TAXATION					
U.K. corporation tax paid		(2,630)		(4,117)	
Overseas tax paid		(1,883)		(2,988)	
Tax paid			(4,513)		(7,105)
INVESTING ACTIVITIES					
Purchase of tangible fixed assets		(17,047)		(14,369)	
Acquisitions – net cash consideration paid	10 d)	(21,717)		(9,491)	
Sale of property, plant and equipment		1,181		571	
Sale of businesses		2,249		3,742	
Purchase of investments – bank deposits	15	(49,400)		–	
Net cash outflow from investing activities			(84,734)		(19,547)
Net cash outflow before financing			(79,654)		(15,245)
FINANCING					
Proceeds from Rights Issue, net		67,581		–	
Other share issues		218		1,043	
	10 c)		67,799		1,043
New loans initiated by Group		28,925		3,288	
Repayment of existing loans		(28,664)		(13,058)	
Increase/(decrease) in loans	10 c)		261		(9,770)
Decrease in cash and cash equivalents	10 b)		(11,594)		(23,972)

	Notes	1994 £000's	1993 £000's
MOVEMENT IN GROUP NET FUNDS/(BORROWINGS)			
Decrease in cash and cash equivalents	10 b)	(11,594)	(23,972)
(Increase)/decrease in loans	10 c)	(261)	9,770
Purchase of investments – bank deposits	15	49,400	–
Currency variations on net borrowings		2,356	(1,312)
Increase/(decrease) in Group net funds during the year		39,901	(15,514)
Net funds/(borrowings) at 31st December		18,980	(20,921)

The Notes to the Accounts on pages 25 to 42, together with pages 44 and 45 form part of these Accounts.

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

BASIS OF ACCOUNTS

The Accounts are prepared under the historical cost convention, modified to include the revaluation of land and buildings, and in accordance with applicable accounting standards including Financial Reporting Standards Nos. 4 and 5. These policies have been applied consistently throughout the year and the preceding year. Financial Reporting Standards Nos. 6 and 7 will be adopted in 1995.

BASIS OF CONSOLIDATION

The Group accounts consolidate the accounts of Senior Engineering Group plc and all its subsidiary undertakings, including those shown on pages 44 and 45, drawn up to 31st December, 1994. The results of businesses acquired, disposed of or terminated during the year are included in the Group Profit and Loss Account from the date of acquisition or up to the date of disposal or termination.

On the acquisition of a business, fair values are attributed to the net tangible assets. Where the costs of acquisition exceed the values attributed to such net tangible assets, the difference is treated as purchased goodwill and is written off direct to reserves in the year of acquisition. The profit or loss on the disposal or termination of a previously acquired business reflects the attributable amount of purchased goodwill relating to that business.

A business is classified as a discontinued operation if it is clearly distinguishable, has a material effect on the nature and focus of the Group's activities, represents a material reduction in the Group's operating facilities and either its sale is completed or, if a termination, its former activities have ceased permanently prior to the approval of these Accounts.

In the Company's accounts, investments in subsidiary undertakings are stated at cost plus net loans to such undertakings, less amounts written off. Provisions are made for permanent diminutions in value. Provisions for temporary fluctuations in value are not made. Dividends receivable are credited to the Company's Profit and Loss Account when declared.

EXCEPTIONAL ITEMS

Exceptional items are those that need to be disclosed by virtue of their size and incidence. Such items are included within Operating Profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the Group, or profits or losses on the disposal of fixed assets. In these cases, separate disclosure is provided on the face of the Profit and Loss Account after Operating Profit.

TANGIBLE FIXED ASSETS

Freehold and long leasehold land and buildings are shown at cost or valuation. Other fixed assets are shown at cost.

Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset on a straight-line basis over its expected useful life, as follows –

Freehold buildings	2% per annum
Leasehold land and buildings	Over the period of the lease
Plant and equipment	7% – 33% per annum

STOCKS AND LONG-TERM CONTRACTS

Stocks are stated at the lower of cost and net realisable value. Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Cost incurred in bringing each product to its present location and condition is based on –

Raw materials	Purchase cost on a first-in, first-out basis, including transport.
Work-in-progress and finished goods	Cost of direct materials and labour plus an appropriate proportion of manufacturing overheads based on normal levels of activity.

Net costs incurred on long-term work-in-progress in excess of amounts transferred to cost of sales are classified as long-term contract balances. Foreseeable losses are deducted from long-term contract balances. Revenues recognised in excess of amounts billed are included in debtors. Amounts billed in excess of revenues recognised are deducted from related long-term contract balances with any residual balances being classified as payments on account and included in creditors.

Where it is considered that the outcome of a long-term contract can be assessed with reasonable certainty before its conclusion, the prudently calculated attributable profit is recognised in the Profit and Loss Account in accordance with the provisions of SSAP9 "Stocks and Long-term Contracts".

NOTES TO THE ACCOUNTS

continued

1 ACCOUNTING POLICIES continued

TAXATION

Current tax payable is provided on taxable profits at the effective current rate.

Provision is made for deferred taxation using the liability method in respect of material timing differences where, in the opinion of the Directors, there is reasonable probability that a liability or an asset will arise.

The retained earnings of certain overseas subsidiary undertakings would be subject to additional taxation if distributed. These retained earnings are required to finance these subsidiary undertakings and, accordingly, no provision for additional taxation has been made.

PENSION AND OTHER POST RETIREMENT BENEFIT COSTS

Pension and other post retirement benefit (principally US healthcare) costs are charged against profit in a systematic manner over the average service lives of the employees in each scheme. Total costs comprise –

The regular cost, that is the consistent ongoing cost, calculated as a level percentage of the current and expected future payroll.

Variations from the regular cost, arising from scheme surpluses or deficits, allocated over the expected remaining service lives of the employees in each scheme.

Any differences between the amounts charged in the Profit and Loss Account and the amounts payable to the schemes for the year are recorded as provisions or prepayments as appropriate.

RESEARCH AND DEVELOPMENT

Costs are charged against revenue in the year in which they are incurred.

GOVERNMENT GRANTS

Government grants are recognised in the Profit and Loss Account so as to match the grant with the expenditure towards which it is intended to contribute.

FOREIGN CURRENCIES

Transactions denominated in foreign currencies are recorded in sterling at actual exchange rates. Monetary assets and liabilities denominated in foreign currencies at the year-end are translated at the rates of exchange prevailing at the year-end and the gain or loss is recorded in the Profit and Loss Account, except that differences arising on foreign currency borrowings to finance equity investments are dealt with in reserves.

On consolidation, the balance sheets of overseas subsidiary undertakings are translated at the closing rates and the profit and loss accounts at the average rates of exchange for the year. These translation gains or losses are accounted for in reserves.

The exchange rates for the major currencies applied in the translation of results were as follows –

	Average Rates		Year-End Rates	
	1994	1993	1994	1993
U.S. Dollar	1.53	1.50	1.56	1.48
German Mark	2.49	2.49	2.43	2.57
Australian Dollar	2.10	2.21	2.02	2.18

TURNOVER

Turnover, other than that arising on long-term contracts, comprises the external sales value of work invoiced during the year, excluding discounts and sales taxes.

Turnover on long-term contracts represents the proportion of contract activity in the year, ascertained by reference to total contract costs.

LEASES

Assets held under finance leases are initially reported at the present value of the minimum lease payments, with an equivalent liability being included within creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the term of each lease in accordance with the amount outstanding.

Rentals under operating leases are charged on a straight line basis over the lease term.

NOTES TO THE ACCOUNTS

continued

2 SEGMENT INFORMATION

Group turnover, operating profit and net assets are analysed as follows –

a) By class of business –

	Turnover		Operating profit		Net assets	
	1994 £000's	1993 £000's	1994 £000's	1993 £000's	1994 £000's	1993 £000's
Engineered Products	218,494	163,669	17,342	10,351	74,122	58,823
Thermal Engineering	118,831	157,250	1,681	8,730	48,638	41,233
Construction Services	53,277	57,098	3,346	6,233	11,627	10,621
	390,602	378,017	22,369	25,314	134,387	110,677
Inter-segment sales	(828)	(1,004)	–	–	–	–
Total continuing operations	389,774	377,013	22,369	25,314	134,387	110,677
Discontinued operations	3,826	13,026	(3,589)	24	(1,968)	2,155
	393,600	390,039	18,780	25,338	132,419	112,832

The discontinued operations relate primarily to the sale of Senior Engineering (Pty.) Limited and the resulting withdrawal from the South African market, the sale of Senior Phoenix Rollformed Sections, together with warranty provisions relating to the Power Division of Thermal Engineering which was closed in 1992 and treated as a discontinued operation in that year.

The additional operating profit of £2.4 million arising from acquisitions relates substantially to Metal Bellows (£1.0 million) and Berghöfer (£1.3 million) and has been included within Engineered Products.

b) By geographical market –

	Turnover by destination		Turnover by origin		Operating profit by origin		Net assets	
	1994 £000's	1993 £000's	1994 £000's	1993 £000's	1994 £000's	1993 £000's	1994 £000's	1993 £000's
United Kingdom	157,023	193,867	186,007	213,485	7,707	12,252	53,642	48,437
Rest of Europe	70,337	40,678	49,298	29,545	3,075	1,436	16,761	10,122
United States of America	122,021	113,377	143,176	121,197	9,843	9,912	56,108	43,873
Canada	5,865	5,285	3,105	3,713	267	371	771	1,298
Australasia	13,388	13,441	12,630	12,410	1,332	1,302	5,783	5,737
Rest of World	31,713	17,636	2,251	2,367	145	41	1,322	1,210
	400,347	384,284	396,467	382,717	22,369	25,314	134,387	110,677
Inter-segment sales	(10,573)	(7,271)	(6,693)	(5,704)	–	–	–	–
Total continuing operations	389,774	377,013	389,774	377,013	22,369	25,314	134,387	110,677
Discontinued operations	3,826	13,026	3,826	13,026	(3,589)	24	(1,968)	2,155
	393,600	390,039	393,600	390,039	18,780	25,338	132,419	112,832

c) Net assets reconciliation –

	1994 £000's	1993 £000's
Net assets, as above	132,419	112,832
Unallocated liabilities, net	(6,052)	(5,612)
Net funds/(borrowings)	18,980	(20,921)
Net assets, per balance sheet	145,347	86,299

NOTES TO THE ACCOUNTS

continued

3 OPERATING PROFIT

	1994				1993		
	Continuing £000's	Acquisitions £000's	Discontinued £000's	Total £000's	Continuing £000's	Discontinued £000's	Total £000's
Turnover	368,785	20,989	3,826	393,600	377,013	13,026	390,039
Cost of sales	(289,987)	(14,168)	(5,994)	(310,149)	(297,990)	(10,333)	(308,323)
Gross profit	78,798	6,821	(2,168)	83,451	79,023	2,693	81,716
Distribution costs	(5,451)	(200)	(136)	(5,787)	(5,194)	(429)	(5,623)
Selling and marketing costs	(25,008)	(2,684)	(350)	(28,042)	(22,393)	(1,052)	(23,445)
Administrative expenses	(25,894)	(1,563)	(296)	(27,753)	(24,588)	(1,188)	(25,776)
Other operating expenses	(2,450)	–	(639)	(3,089)	(1,534)	–	(1,534)
Operating profit	19,995	2,374	(3,589)	18,780	25,314	24	25,338

4 INTEREST PAYABLE

Interest payable on bank loans, overdrafts and other loans comprises –

	1994 £000's	1993 £000's
Repayable within five years, by instalments	464	269
Repayable within five years, not by instalments	1,371	1,040
	1,835	1,309
All other loans	1,795	2,105
	3,630	3,414

Included in the above is the interest element of charges payable under finance leases amounting to £76,000 (1993 – £150,000).

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging/(crediting) –

	1994 £000's	1993 £000's
Depreciation	10,398	9,318
Hire of plant and equipment – under operating leases	706	669
– other	1,216	1,793
Operating lease rentals on land and buildings	3,843	3,833
Auditors' remuneration	555	578
Redundancy and similar costs	2,450	1,676
Rent receivable	(135)	(126)
Grant income	(800)	(600)

Amounts expended on research and development during the year amounted to approximately £2,629,000 (1993 – £2,677,000), before recoveries from customers of £1,344,000 (1993 – £1,398,000).

Fees payable to Arthur Andersen for non-audit services, including amounts charged against goodwill and share premium, amounted to £504,000 (1993 – £356,000) of which £361,000 (1993 – £204,000) was payable in the U.K.

Audit fees include £84,000 (1993 – £99,000) payable in respect of the Company.

NOTES TO THE ACCOUNTS

continued

6 STAFF COSTS

Particulars of employees (including Directors) are shown below –

	1994 £000's	1993 £000's
Wages and salaries	98,586	92,290
Social security costs	10,638	9,523
Other pension costs (Note 25)	1,185	1,376
	110,409	103,189

The average weekly number of persons employed by the Group during the year was as follows –

	1994 Number	1993 Number
Production	4,306	4,093
Distribution	58	67
Sales	659	675
Administration	602	515
	5,625	5,350

Directors' remuneration is disclosed in Note 22.

7 TAX ON PROFIT ON ORDINARY ACTIVITIES

The Group tax charge is based on the profit for the year, excluding the effect of goodwill on disposals and comprises –

	1994 £000's	1993 £000's
U.K. corporation tax at 33% (1993 – 33%)	(555)	2,775
Unrelieved ACT written off	622	–
Overseas taxation – Current	2,838	2,719
Deferred taxation – U.K.	2,357	1,340
– Overseas	384	176
Adjustments in respect of prior years – Current	(364)	(641)
– Deferred	357	652
	5,639	7,021

The tax charge applicable to the continuing operations before exceptional items is identified in Note 9.

NOTES TO THE ACCOUNTS

continued

8 DIVIDENDS PAID AND PROPOSED

	1994	1993	1994	1993
	Rates per share		£000's	£000's
Interim – paid	1.30p	1.23p	3,916	3,033
Final – proposed	2.10p	2.04p	6,325	5,054
	3.40p	3.27p	10,241	8,087

The 1993 dividends per share have been restated to reflect the Rights Issue of shares in April 1994.

9 EARNINGS PER SHARE

The calculations of earnings per share and underlying earnings per share are shown below and have been based on the weighted average number of shares in issue and ranking for dividend during 1994. The 1993 earnings per share have been restated to reflect the Rights Issue of shares in April 1994. The dilution that would arise from the future exercise of share options is not material.

	Total Group		Continuing Operations before Exceptional Items	
	1994 £000's	1993 £000's	1994 £000's	1993 £000's
Operating profit	18,780	25,338	22,369	25,314
Profit on sale of fixed assets	359	109	–	–
Loss on disposal of discontinued operations	(626)	–	–	–
Interest payable, net	(403)	(1,263)	(403)	(1,263)
Profit before taxation	18,110	24,184	21,966	24,051
Taxation	(5,639)	(7,021)	(6,705)	(6,976)
Profit after taxation	12,471	17,163	15,261	17,075
Average number of shares	284.8m	240.2m	284.8m	240.2m
Earnings per share	4.38p	6.95p		
Underlying earnings per share			5.36p	6.92p

The provision of an underlying earnings per share has been included to identify the performance of the continuing operations before exceptional items and thus excludes the impact of the losses on disposal of discontinued operations and profit on sale of fixed assets.

NOTES TO THE ACCOUNTS

continued

10 GROUP CASH FLOW STATEMENT

a) Reconciliation of operating profit to net cash inflow from operating activities –

	1994 £000's	1993 £000's
Operating profit from continuing activities	22,369	25,314
Depreciation charges	10,291	9,062
Decrease/(increase) in stocks	799	(3,295)
(Increase) in debtors	(3,415)	(9,298)
(Decrease) in creditors	(8,260)	(2,680)
Working capital currency variations	(1,001)	255
Net cash inflow from continuing operating activities	20,783	19,358
Net cash (outflow)/inflow in respect of discontinued activities	(1,291)	1,086
Net cash inflow from operating activities	19,492	20,444

b) Analysis of changes in cash and cash equivalents during the year –

	1994			1993		
	Cash £000's	Bank overdrafts £000's	Total £000's	Cash £000's	Bank overdrafts £000's	Total £000's
Balance at 1st January	32,205	(2,031)	30,174	55,238	(1,078)	54,160
Net cash outflow	(10,809)	(785)	(11,594)	(23,032)	(940)	(23,972)
Currency variations	90	147	237	(1)	(13)	(14)
Balance at 31st December	21,486	(2,669)	18,817	32,205	(2,031)	30,174

c) Analysis of changes in financing during the year –

	1994		1993	
	Share capital (incl. premium) £000's	Loans £000's	Share capital (incl. premium) £000's	Loans £000's
Balance at 1st January	47,956	51,095	46,913	59,567
Cash inflows/(outflows) from financing	67,799	261	1,043	(9,770)
Currency variations	–	(2,119)	–	1,298
Balance at 31st December	115,755	49,237	47,956	51,095

d) Analysis of net cash outflow relating to acquisitions (Note 26 b) –

	1994 £000's	1993 £000's
Cash consideration paid	20,984	7,498
Bank overdrafts acquired, net	733	1,993
Net cash consideration paid	21,717	9,491

Cash consideration paid as shown above includes £1,023,000 in respect of prior year acquisitions.

NOTES TO THE ACCOUNTS

continued

11 TANGIBLE FIXED ASSETS

a) The movement in the year was as follows –

	Subsidiary Undertakings				Company	Group
	Freehold land and buildings	Leasehold land and buildings Long leases	Leasehold land and buildings Short leases	Plant and equipment	Plant and equipment	Total
	£000's	£000's	£000's	£000's	£000's	£000's
COST OR VALUATION –						
At 1st January, 1994						
Cost	16,304	1,388	1,930	92,137	566	112,325
Valuation	8,469	–	–	–	–	8,469
Currency variations	(63)	(35)	9	(1,052)	–	(1,141)
Additions	335	5	162	16,230	315	17,047
Businesses acquired	7,057	–	–	2,150	–	9,207
Disposals	–	(326)	–	(3,074)	(203)	(3,603)
Businesses disposed	(109)	–	–	(2,272)	–	(2,381)
At 31st December, 1994*	31,993	1,032	2,101	104,119	678	139,923
Cost	23,605	1,032	2,101	104,119	678	131,535
Professional valuation – see c) below						
1979	1,523	–	–	–	–	1,523
1982	1,487	–	–	–	–	1,487
1988	5,378	–	–	–	–	5,378
At 31st December, 1994	31,993	1,032	2,101	104,119	678	139,923
DEPRECIATION –						
At 1st January, 1994	3,235	347	336	50,588	305	54,811
Currency variations	(83)	(10)	(6)	(464)	–	(563)
Charge for the year	442	77	72	9,699	108	10,398
Disposals	–	(116)	–	(2,509)	(156)	(2,781)
Businesses disposed	(60)	–	–	(1,642)	–	(1,702)
At 31st December, 1994	3,534	298	402	55,672	257	60,163
NET BOOK VALUE –						
At 31st December, 1994	28,459	734	1,699	48,447	421	79,760
At 31st December, 1993	21,538	1,041	1,594	41,549	261	65,983

*The depreciable amount included in freehold land and buildings at 31st December, 1994 amounted to £24,969,000 (1993 – £19,621,000).

b) Plant and equipment includes an immaterial amount of fixtures and fittings.

c) The professional valuations of freehold properties were undertaken on the basis of open market value for continued existing use of the properties concerned.

d) The net book value of fixed assets includes £1,532,000 (1993 – £1,640,000) in respect of assets held under finance leases. The related depreciation charge was £256,000 (1993 – £196,000).

e) Original cost and related depreciation of the Group's land and buildings included at valuation above comprise –

	1994	1993
	Freehold land and buildings £000's	Freehold land and buildings £000's
Original cost	5,256	5,328
Depreciation based on cost	(1,620)	(1,508)
	3,636	3,820

NOTES TO THE ACCOUNTS

continued

12 FIXED ASSET INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

a) Investments in subsidiary undertakings –

	Company	
	1994 £000's	1993 £000's
Shares at cost	327	327
Loans due to and from subsidiary undertakings, net	100,474	97,854
Capital contributions to subsidiary undertakings	30,000	30,000
	130,801	128,181

The subsidiary undertakings in which the Company and the Group had investments at the year-end, all of which have been included in the consolidation, are listed on pages 44 and 45. The acquisitions and disposals in the year are detailed in Note 26 a) and were made by subsidiary undertakings of the Company.

b) The movement on investments in subsidiary undertakings during the year comprised –

	1994 £000's
At 1st January, 1994	128,181
Increase in loans to subsidiary undertakings	2,620
At 31st December, 1994	130,801

13 STOCKS

	Group	
	1994 £000's	1993 £000's
Raw materials and consumables	23,088	17,511
Work-in-progress	16,838	16,632
Long-term contracts	2,776	2,853
Finished goods and goods for resale	10,515	11,446
	53,217	48,442

The estimated replacement cost of stocks is not materially different from historic cost.

14 DEBTORS

	Group		Company	
	1994 £000's	1993 £000's	1994 £000's	1993 £000's
Amounts falling due within one year –				
Trade debtors	69,640	63,831	–	–
Amounts recoverable on contracts	2,883	4,629	–	–
Due from subsidiary undertakings	–	–	104	1,266
Current tax recoverable	3,410	2,386	238	1,714
Value added tax	292	966	–	–
Other debtors	1,297	1,194	19	249
Prepayments and accrued income	4,607	3,044	1,525	393
Properties held for resale, net of provisions	200	850	200	850
	82,329	76,900	2,086	4,472
Amounts falling due after more than one year –				
Trade debtors	423	1,011	–	–
Other debtors	717	333	205	–
Pension costs (Note 25)	952	–	2,385	575
ACT recoverable	1,270	1,264	2,115	1,264
Deferred taxation (Note 19)	–	–	–	236
	3,362	2,608	4,705	2,075
Total debtors	85,691	79,508	6,791	6,547

NOTES TO THE ACCOUNTS

continued

15 INVESTMENTS

	Group		Company	
	1994 £000's	1993 £000's	1994 £000's	1993 £000's
Bank deposits falling due within one year	29,400	–	29,400	–
Bank deposits falling due after more than one year	20,000	–	20,000	–
	49,400	–	49,400	–

Under the terms of Financial Reporting Standard No. 1, bank deposits not within three months of maturity are excluded from cash and cash equivalents.

16 CREDITORS: Amounts falling due within one year

	Group		Company	
	1994 £000's	1993 £000's	1994 £000's	1993 £000's
Bank overdrafts	2,669	2,031	–	–
Short-term bank loans (Note 18)	25,641	–	25,641	–
Current portion of long-term loans (Note 18)	158	24,821	100	24,632
Obligations under finance leases (Note 18)	191	231	–	–
Payments received on account	3,050	3,220	–	–
Trade creditors	40,818	40,683	433	363
Due to subsidiary undertakings	–	–	118	3,126
Current tax payable	2,386	2,528	231	200
ACT on dividends	2,560	2,144	2,394	2,144
Social security and PAYE	4,011	2,849	39	38
Value added tax	1,887	3,624	43	239
Proposed dividend	6,325	5,054	6,325	5,054
Other creditors	1,970	1,729	15	60
Accruals	25,735	23,088	1,469	2,030
	117,401	112,002	36,808	37,886

Bank overdrafts are stated net of certain cash balances in accordance with the Group's banking arrangements.

The movement on accruals includes amounts related to acquisitions in respect of future costs of reorganisation as follows –

	Group £000's
At 1st January, 1994	254
Provided for during the year	1,953
Costs incurred during the year	(1,299)
At 31st December, 1994	908

NOTES TO THE ACCOUNTS

continued

17 CREDITORS: Amounts falling due after more than one year

	Group 1994 £000's	Group 1993 £000's	Company 1994 £000's	Company 1993 £000's
Loans (Note 18)	22,253	24,913	19,230	20,960
Obligations under finance leases (Note 18)	994	1,130	–	–
	23,247	26,043	19,230	20,960
Loans comprise –				
Multiple option facility (Note 23 c)	–	23,649	–	23,649
Other bank loans	3,061	2,903	–	–
Other loans	20	1,239	–	–
Less – Current portion	(58)	(23,838)	–	(23,649)
	3,023	3,953	–	–
8.57% Private placement loan – 2004 (Note 23 d)*	3,205	3,378	3,205	3,378
8.75% Private placement loans – 2007 (Note 23 d)*	16,025	16,892	16,025	16,892
9.375% Unsecured loan stock – 1994/99 – Repaid 17th December, 1994	–	690	–	690
12% Unsecured loan notes – 1994 – Repaid 15th June, 1994	–	853	–	853
11% Unsecured loan notes – 1999	100	130	100	130
Less – Current portion	(100)	(983)	(100)	(983)
	19,230	20,960	19,230	20,960
Total loans falling due after more than one year	22,253	24,913	19,230	20,960

*Due for repayment (not by instalments) after more than five years.

18 ANALYSIS OF LOANS AND FINANCE LEASES

	Group 1994 £000's	Group 1993 £000's	Company 1994 £000's	Company 1993 £000's
Loan repayments are payable as follows –				
Within 1 year				
Bank loans	25,698	23,702	25,641	23,649
Other	101	1,119	100	983
Between 1 and 2 years				
Bank loans	2,532	53	–	–
Other	2	137	–	–
Between 2 and 5 years				
Bank loans	210	2,546	–	–
Other	6	547	–	–
After 5 years				
Bank loans	262	251	–	–
Other	19,241	21,379	19,230	20,960
Total loans	48,052	49,734	44,971	45,592
Obligations under finance leases are payable as follows –				
Within 1 year	191	231	–	–
Between 2 and 5 years	513	425	–	–
After 5 years	481	705	–	–
Total obligations under finance leases	1,185	1,361	–	–
Total loans and finance leases	49,237	51,095	44,971	45,592

Materially all loans are unsecured and are repayable other than by instalments.

19 PROVISIONS FOR LIABILITIES AND CHARGES

	Group		Company	
	1994 £000's	1993 £000's	1994 £000's	1993 £000's
Deferred taxation	1,688	932	379	–
Pension and other post retirement benefit costs (Note 25)	1,871	862	–	–
	3,559	1,794	379	–

Group deferred taxation provided, together with the full potential liability, is as follows –

	1994		1993	
	Provided £000's	Full potential liability £000's	Provided £000's	Full potential liability £000's
Accelerated capital allowances	3,028	4,856	2,070	3,093
Timing differences related to pension costs	787	787	190	190
Short-term timing differences	(739)	(739)	(1,869)	(1,869)
Overseas taxes	40	40	541	541
Advance corporation tax	(1,428)	(2,050)	–	–
Net deferred tax liability	1,688	2,894	932	1,955

In view of the availability of unused capital losses and anticipated rollover relief, the potential liability in respect of capital gains is not included above. In addition, in view of the Directors' intention not to remit to the U.K. the retained earnings of overseas subsidiary undertakings, the potential liability in respect of withholding tax is not included above.

The deferred tax liability of £379,000 (1993 – £236,000 asset within debtors) recognised in the Company Balance Sheet represents the full potential liability relating to pension costs and other short-term timing differences less advance corporation tax.

Movement on deferred taxation comprises –

	Group £000's	Company £000's
At 1st January, 1994	932	(236)
Charge to profit and loss – U.K.	2,357	1,198
– Overseas	384	–
– Adjustments in respect of prior years	357	–
Advance corporation tax	(1,428)	(583)
Arising on acquisitions (Note 26 b)	(882)	–
Currency variations	(32)	–
At 31st December, 1994	1,688	379

20 SHARE CAPITAL

	1994 £000's	1993 £000's
Authorised – 500.0m 10p shares (1993 – 320.0m)	50,000	32,000
Issued – 301.2m 10p shares – fully paid (1993 – 240.6m)	30,120	24,058

On 30th March, 1994, the Company announced a 1 for 4 rights issue under which 60,168,820 new shares were issued at 115p each, in order to finance the continuing development of the Flexonics business, the acquisitions of Christian Berghöfer & Co. KG and Metal Bellows and to position the Group for further expansion.

At the Annual General Meeting held on 20th May, 1994 the authorised share capital was increased to £50,000,000.

During 1994 options granted under the Executive Share Option Scheme were exercised in respect of 445,406 shares and options in respect of 22,596 shares lapsed unpaid. At 31st December, 1994 there were outstanding –

Date of grant	Shares under option	Subscription price	Exercise period
30th September, 1987	836,670	62.05p	30th September, 1990 to 30th September, 1997
10th May, 1989	76,848	62.95p	10th May, 1992 to 10th May, 1999
17th October, 1989	319,836	50.58p	17th October, 1992 to 17th October, 1999
29th March, 1990	160,104	55.27p	29th March, 1993 to 29th March, 2000
2nd October, 1990	105,666	37.00p	2nd October, 1993 to 2nd October, 2000
7th May, 1992	2,518,526	78.37p	7th May, 1995 to 7th May, 2002
3rd September, 1993	536,988	117.31p	3rd September, 1996 to 3rd September, 2003
3rd May,1994	140,000	142.50p	3rd May, 1997 to 3rd May, 2004

The subscription prices and numbers of shares have been adjusted for rights issues subsequent to the grant dates. These options are normally exercisable between three and ten years from the date of grant.

21 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

a) Group

			Reserves			
	Share capital £000's	Share premium account £000's	Profit and loss account £000's	Revaluation reserve – property £000's	Total reserves £000's	Total shareholders' funds £000's
At 1st January, 1994	24,058	23,898	34,629	3,714	38,343	86,299
Profit for the financial year	–	–	12,471	–	12,471	12,471
Dividends	–	–	(10,241)	–	(10,241)	(10,241)
Arising on share issues	6,062	61,737	–	–	–	67,799
Transfers	–	–	142	(142)	–	–
Goodwill (see below)	–	–	(11,466)	–	(11,466)	(11,466)
Currency variations	–	–	497	(12)	485	485
At 31st December, 1994	30,120	85,635	26,032	3,560	29,592	145,347

Movements on cumulative goodwill (net of taxation) written off against reserves were as follows –

	£000's
At 1st January, 1994	64,716
Goodwill written off during the year in respect of acquisitions, net (Note 26 b)	11,466
At 31st December, 1994	76,182

21 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS continued

b) Company

			Reserves			
	Share capital £000's	Share premium account £000's	Profit and loss account £000's	Special reserve £000's	Total reserves £000's	Total shareholders' funds £000's
At 1st January, 1994	24,058	23,898	9,029	43,875	52,904	100,860
Profit for the financial year (1993 – £4,402,000)	–	–	5,033	–	5,033	5,033
Dividends	–	–	(10,241)	–	(10,241)	(10,241)
Arising on share issues	6,062	61,737	–	–	–	67,799
Transfers	–	–	43,875	(43,875)	–	–
Currency variations	–	–	2,343	–	2,343	2,343
At 31st December, 1994	30,120	85,635	50,039	–	50,039	165,794

The special reserve was created in 1990 and is distributable to the extent of subsequent increases in issued share capital and share premium account. Following the Rights Issue in April 1994 the reserve became distributable in its entirety and therefore has been transferred to the Profit and Loss Account. The accumulated excess of gains over losses in the Profit and Loss Account arising on the transfer of subsidiary undertakings amounting to £1,728,000 is presently not distributable.

In accordance with Section 230 of the Companies Act 1985, the Company has not presented its own Profit and Loss Account.

c) Group and Company

Shareholders' funds are attributable entirely to equity interests.

22 DIRECTORS

a) Shareholdings and share options

The Directors who served during the year and their interests (which are all beneficial), including family interests, in the 10p shares in the Company were as follows –

	Shares		Options					
	1994	1993	1993	Granted	Exercised	Exercise Price	Market Price (at exercise)	1994
D.D. McFarlane	70,000	50,000	–	–	–	–	–	–
R.D. Bebb	175,000	175,000	681,082	–	–	–	–	681,082
A.J. Bell	141,960	11,488	830,144	–	46,400 81,200	14.645p 27.567p	113.5p	702,544
R. Evans	60,000	–	–	–	–	–	–	–
K.G.A. Gamble	–	–	268,494	–	–	–	–	268,494
T.B. Garthwaite	19,214	15,372	257,374	–	–	–	–	257,374
J.L. Hudson	3,125	2,500	–	–	–	–	–	–
N.V. Turnbull	–	–	268,494	–	–	–	–	268,494
A.K. Watkins	5,000	–	–	–	–	–	–	–

The middle market price of the shares at 31st December, 1994 was 82p (1993 – 124.2p after adjustment for the 1994 Rights Issue).

Date of Grant	Exercise Period	A.J. Bell	R.D. Bebb	T.B. Garthwaite	K.G.A. Gamble	N.V. Turnbull
30.09.87	30.09.90–30.09.97	214,446	77,778	–	–	–
10.05.89	10.05.92–10.05.99	76,848	–	–	–	–
17.10.89	17.10.92–17.10.99	95,695	64,041	–	–	–
29.03.90	29.03.93–29.03.00	–	160,104	–	–	–
02.10.90	02.10.93–02.10.00	35,222	35,222	35,222	–	–
07.05.92	07.05.95–07.05.02	280,333	343,937	222,152	–	–
03.09.93	03.09.96–03.09.03	–	–	–	268,494	268,494

For subscription prices see Note 20.

A.K. Watkins was appointed to the Board on 4th October, 1994; his shareholding is shown from that date.

R.D. Bebb resigned from the Board on 11th November, 1994; his shareholding and share options are shown at that date and his options will lapse unless exercised by 14th June, 1996.

No change in any of the Directors' beneficial shareholdings occurred during the period from 31st December, 1994 to 29th March, 1995.

22 DIRECTORS continued

b) Emoluments

	1994 £000's	1993 £000's
Management remuneration – Salaries and benefits	746	708
Performance related bonuses	22	145
	768	853
Pension contributions	141	143
	909	996
Pension contributions for former director	583	–
Compensation for loss of office (paid by Company)	280	–
	1,772	996

The pension contributions paid to a former director reflect over twenty five years past service undertaken for the Group in Australia prior to transfer to the U.K. and appointment to the Board. This period of service was not pensionable under the rules of U.K. pension schemes and so the Company entered into an unfunded pension obligation that was provided for but not paid until termination of employment.

The Directors received remuneration (excluding pensions and pension contributions) for duties performed mainly within the U.K. in the following ranges –

	1994 Number	1993 Number
£1 – £5,000	1	–
£10,001 – £15,000	2	2
£60,001 – £65,000	–	1
£65,001 – £70,000	1	–
£115,001 – £120,000	1	–
£120,001 – £125,000	1	–
£125,001 – £130,000	2	–
£130,001 – £135,000	–	1
£135,001 – £140,000	–	1
£140,001 – £145,000	–	1
£155,001 – £160,000	–	1
£170,001 – £175,000	1	–
£195,001 – £200,000	–	1

The Directors' remuneration shown above includes –

	1994 £000's	1993 £000's
Chairman – Salary and benefits	67	60
Highest paid Director – Salary and benefits	174	159
Performance related bonus	–	39
	174	198
Pension contributions	50	47
	224	245

Whilst no payments were made to Executive Directors under the performance related element of the Executive Bonus Scheme based on the Group's underlying earnings per share, the Board's Remuneration Committee has approved discretionary payments as provided within the Scheme totalling £22,000 in respect of individual divisional performances.

Under the terms of the termination of R.D. Bebb's service agreement with the Company, to satisfy the guarantee given by an overseas subsidiary undertaking when he first relocated to the U.K. in 1990, the Company has purchased his U.K. house for £280,000, which exceeds the appraised realisable value for the property by £80,000. This deficit is included within R.D. Bebb's compensation for loss of office.

The above figures for emoluments do not include any amount for the value of share options granted to, or held by, Directors, nor any amount in respect of unfunded pension obligations provided for but not paid.

NOTES TO THE ACCOUNTS

continued

23 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) Capital commitments

Capital commitments of the Group not provided for in the Accounts were –

	1994 £000's	1993 £000's
Contracted for	5,064	903
Authorised but not contracted for	1,454	1,499
	6,518	2,402

The Company had capital commitments of £Nil at 31st December, 1994 (1993 – £63,000).

b) Operating lease commitments

The Group leases certain land and buildings and plant and equipment. The net rental for 1994 on the land and buildings leases was £3,708,000 (1993 – £3,768,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The total rental for 1994 on the plant and equipment leases was £706,000 (1993 – £669,000). The lease agreements provide that the Group pays substantially all insurance, maintenance and repairs.

The minimum annual rental commitments under the foregoing leases are as follows –

	1994		1993	
	Land and buildings £000's	Plant and equipment £000's	Land and buildings £000's	Plant and equipment £000's
Operating leases which expire –				
Within 1 year	121	157	671	95
Between 2 and 5 years	909	403	527	490
After 5 years	2,751	12	2,557	17
	3,781	572	3,755	602

The rental for 1994 payable by the Company on a land and buildings lease was £106,000 (1993 – £106,000). The minimum annual rental commitment under this lease, which expires after five years, is £106,000 (1993 – £106,000).

The Company has guaranteed £1,096,000 (1993 – £1,096,000) of lease commitments of certain subsidiary undertakings.

c) Multiple option facility

On 2nd December, 1994 the Company repaid its borrowings of US$40 million under a committed five year £50 million multi-currency multiple option facility for the Group, upon the expiry of that facility.

d) Private placement loans

The Company is a guarantor, jointly and severally, with certain subsidiary undertakings of US$30 million (1993 – US$30 million) unsecured loan notes under agreements dated 21st August, 1992. The 8.75% private placement loans maturing in 2007 are subject to an interest rate swap for the five year period ending on 8th September, 1997.

e) Bank guarantees

The Company is a guarantor, jointly and severally, with certain subsidiary undertakings, of all indebtedness of these subsidiary undertakings to two of the Group's bankers.

The Company is a guarantor, jointly and severally, with certain subsidiary undertakings, of all indebtedness of Senior Engineering Company to one of its bankers.

24 CONTINGENT LIABILITIES

A writ has been received against both Senior Engineering Group plc and its subsidiary undertaking Senior Thermal Engineering Limited concerning the reliability of plant previously sold by the Power Division of Senior Thermal Engineering Limited prior to its closure in 1992 and consequential losses arising thereon. The Board, having taken technical and legal advice, has made what it believes is appropriate provision within discontinued operations and is vigorously defending Senior's position.

NOTES TO THE ACCOUNTS

continued

25 PENSION COSTS AND OTHER POST RETIREMENT BENEFIT COSTS

The Group operates a number of pension schemes in the U.K., North America, Australia and Europe. The major schemes, which cover the majority of eligible employees in the U.K. and in the U.S.A., represent 48% of the Group's employees worldwide (1993 – 56%) and are of the defined benefit type, held in separate trustee administered funds managed by independent financial institutions and have pension costs assessed by consulting actuaries using the projected unit method.

The total pension costs for the Group were £1,185,000 (1993 – £1,376,000) which included a net pension cost of £520,000 (1993 – £795,000) in relation to the major schemes, with the U.K. schemes having benefited from a credit of £2.7 million (1993 – £2.9 million) in respect of amortising a surplus over 10 years ending in 2003.

In the U.K. these major schemes are valued on a triennial basis with the latest valuations having taken place at 1st January, 1994 and 6th April, 1994. At these dates the valuations showed the combined value of assets held was £78.9 million and that the actuarial value of assets held was 125% of the benefits that had accrued to members after allowing for future increases in earnings. This actuarial surplus will be eliminated by revisions to the employer contribution rate or by improved benefits. It was assumed that future investment returns would exceed pay increases by 2% per annum (1993 – 1.5% per annum, but then operated in conjunction with the partly projected unit method where pay increases are not fully projected to retirement). Overall the change in valuation method, and assumptions from 1993, are broadly neutral and the approach adopted in 1994 is consistent with that most commonly adopted in the U.K.

In the U.S.A. the major schemes are valued annually and at 1st January, 1994 the market value of assets was $14.1 million, being 76% of the pension obligations. The deficiency is being amortised over the average remaining service life of the employees. No overall material surplus or deficiency exists in respect of other U.K. or overseas schemes.

The excess of the amount funded over the accumulated pension costs for the Group of £952,000 (1993 – £540,000 provision) is included within debtors falling due after more than one year. The excess of the amount funded over the accumulated pension costs for the Company of £2,385,000 (1993 – £575,000) is included within debtors falling due after more than one year.

The cost of medical benefits in the year was £24,000 (1993 – £27,000). The cumulative cost of benefits accrued in earlier years is being spread over the expected average remaining service life of scheme members, and a provision of £313,000 (1993 – £322,000) is included in the Group Balance Sheet. In addition, the Group has recorded a provision of £1,558,000 in respect of unfunded pension obligations arising on businesses acquired during the year.

26 ACQUISITIONS AND DISPOSALS

a) The following business acquisitions and disposals took place during the year –

Acquisitions –

The share capital of Christian Berghöfer & Co. KG (April 1994).
The Metal Bellows business and assets of Parker Hannifin Corporation (April 1994).
The KesslerTech business and assets of STEAG Industrie AG (November 1994).

Disposals –

The trade and assets of Senior Phoenix Rollformed Sections (June 1994).
The share capital of Senior Engineering (Pty.) Limited (June 1994).

26 ACQUISITIONS AND DISPOSALS continued

b) The effect of business acquisitions and disposals is as follows –

	1994					1993
	Acquisitions					
	Per books £000's	Adjustments £000's	As adjusted £000's	Disposals £000's	Total £000's	Total £000's
Property, plant and equipment (Note 11)	9,855	(648)	9,207	(679)	8,528	380
Stocks	7,336	(1,092)	6,244	(737)	5,507	513
Debtors	2,579	–	2,579	(1,874)	705	897
Bank overdrafts	(733)	–	(733)	–	(733)	(1,995)
Creditors	(4,329)	(2,989)	(7,318)	1,073	(6,245)	(2,277)
Provisions	(1,527)	–	(1,527)	–	(1,527)	–
Deferred tax (Note 19)	–	882	882	–	882	53
Goodwill (Note 21 a)	7,673	3,847	11,520	(54)	11,466	6,702
Loss/(Profit) on sale	–	–	–	626	626	(47)
	20,854	–	20,854	(1,645)	19,209	4,226
Consideration –						
Cash paid/(received) (Note 10 d)	19,961	–	19,961	(1,549)	18,412	3,756
Deferred consideration payable/(receivable)	893	–	893	(96)	797	470
	20,854	–	20,854	(1,645)	19,209	4,226

c) The book value of assets and liabilities of the acquired businesses at the date of acquisition have been adjusted to provide a fair reflection of the value of those assets and liabilities to the Group. The adjustments arise in respect of the acquisitions of Berghöfer, Metal Bellows and KesslerTech. Professional valuations reduced the book value of property by £0.6 million and stocks were written down by £1.1 million to comply with Group accounting policies. Creditors include £1.9 million of rationalisation costs, £0.7 million in respect of additional accruals and £0.9 million to meet acquisition costs, less associated tax recoverable of £0.5 million.

Goodwill includes amounts related to future costs of reorganisations of £1.9 million (1993 – £919,000).

d) Disposals shown above relate primarily to the sale of Senior Engineering (Pty.) Limited and the sale of Senior Phoenix Rollformed Sections. The related loss of £0.6 million is shown in the Group Profit and Loss Account as a loss on disposal of discontinued operations.

e) The principal businesses acquired during the year contributed £1,292,000 to the Group's net operating cash flows, paid £27,000 in respect of net returns on investments and servicing of finance, paid £69,000 in respect of taxation and utilised £153,000 for investing activities.

The post acquisition results of the principal businesses acquired during the year are disclosed in Note 2 to the Accounts. Prior to their acquisition by the Group, these businesses were operated as divisions of other entities and therefore it is not possible to identify their trading results of earlier periods.

FIVE YEAR SUMMARY

GROUP PROFIT AND LOSS ACCOUNTS	1994 £000's	1993 £000's	1992 £000's	1991 £000's	1990 £000's
TURNOVER					
Continuing operations	389,774	377,013	297,532	239,494	256,030
Discontinued operations	3,826	13,026	34,045	58,086	62,319
	393,600	390,039	331,577	297,580	318,349
OPERATING PROFIT					
Continuing operations	22,369	25,314	20,608	16,646	14,718
Discontinued operations	(3,589)	24	(2,304)	950	498
	18,780	25,338	18,304	17,596	15,216
Exceptional items*	(267)	109	(12,001)	715	(539)
Interest (payable)/receivable, net	(403)	(1,263)	61	(45)	(585)
PROFIT BEFORE TAXATION	18,110	24,184	6,364	18,266	14,092
Taxation	(5,639)	(7,021)	(4,116)	(5,855)	(4,176)
PROFIT AFTER TAXATION	12,471	17,163	2,248	12,411	9,916
Dividends	(10,241)	(8,087)	(7,540)	(5,965)	(5,412)
PROFIT/(LOSS) FOR THE YEAR	2,230	9,076	(5,292)	6,446	4,504
DEPRECIATION	10,398	9,318	8,365	6,596	5,811
GROSS CAPITAL EXPENDITURE	17,047	14,369	12,377	6,811	9,351
EARNINGS PER SHARE	4.38p	6.95p	0.95p	6.13p	4.90p
UNDERLYING EARNINGS PER SHARE	5.36p	6.92p	5.94p	5.49p	4.81p
DIVIDENDS PER SHARE	3.40p	3.27p	3.07p	2.94p	2.68p
GROUP BALANCE SHEETS					
Fixed assets	79,760	65,983	62,419	47,601	45,526
Net current assets	92,393	48,153	79,015	41,940	43,009
Creditors due after one year	(23,247)	(26,043)	(57,250)	(20,884)	(15,918)
Provisions for liabilities and charges	(3,559)	(1,794)	–	(161)	(1,479)
Net assets	145,347	86,299	84,184	68,496	71,138
Borrowings, gross	(51,906)	(53,126)	(60,645)	(22,447)	(16,876)
Less cash (including deposits)	70,886	32,205	55,238	20,491	12,630
Net funds/(borrowings)	18,980	(20,921)	(5,407)	(1,956)	(4,246)
Gearing, net	–	24.2%	6.4%	2.9%	6.0%
GROUP CASH FLOW					
Cash inflow from operating activities	19,492	20,444	28,258	27,017	25,107
Tax payments	(4,513)	(7,105)	(6,571)	(4,857)	(5,197)
Dividends and interest payments, net	(9,899)	(9,037)	(6,638)	(5,613)	(6,169)
Net cash generated prior to investments and financing	5,080	4,302	15,049	16,547	13,741
Capital expenditure less disposals	(15,866)	(13,798)	(11,263)	(4,381)	(7,526)
Acquisitions less disposals	(19,468)	(5,749)	(28,525)	(9,524)	(2,238)
Proceeds from share issues	67,799	1,043	27,931	49	12
Investments in bank deposits	(49,400)	–	–	–	–
Increase/(decrease) in loans	261	(9,770)	28,656	4,267	(2,076)
(Decrease)/increase in cash and cash equivalents	(11,594)	(23,972)	31,848	6,958	1,913

The computations of earnings per share and dividends per share have been restated in respect of subsequent rights issues.

*Exceptional items comprise losses on disposal and termination of discontinued operations and related goodwill together with profit or loss on disposal of fixed assets.

PRINCIPAL SUBSIDIARY UNDERTAKINGS

OPERATING COMPANIES	BUSINESS UNITS	LOCATIONS
ENGINEERED PRODUCTS		
Senior Flexonics Limited	United Flexible Compoflex	Merthyr Tydfil.
Senior Flexonics Automotive Limited	Automotive Components (Crumlin)	Crumlin.
	Automotive Components (Waltham Cross) Powerflex Expansion Joints	Waltham Cross.
	Tube Components	Oldbury.
Senior Flexonics Inc. (incorporated in Delaware, U.S.A.)	Flexonics Expansion Joints	New Braunfels, Texas.
	Flexonics OEM Products Flexonics Automotive Products	Chicago, Illinois.
	Flexonics Hose	Romeoville, Illinois.
	Metal Bellows	Sharon, MA.
Senior Flexonics (Canada) Limited (incorporated in Ontario, Canada)	Flexonics	Brampton, Ontario.
Chr. Berghöfer GmbH (incorporated in Germany) (acquired in April 1994)	Berghöfer	Kassel, Germany.
BHC a.s. (60%) (incorporated in the Czech Republic) (acquired in April 1994)	Berghöfer	Prague, Czech Republic.
BWP Spólka zo.o. (incorporated in Poland) (acquired in April 1994)	Berghöfer	Elblag, Poland.
Calorstat Industries S.A. (incorporated in France)	Calorstat	Dourdan, France.
Senior Flexonics S.A. (incorporated in France)	Senior Flexonics	Dourdan, France.
Senior Flexonics B.V. (incorporated in Holland)	Senior Flexonics	Rotterdam, Holland and Schaffhausen, Switzerland.
Senior Flexonics (Singapore) Pte. Limited (incorporated in Singapore)	Senior Flexonics	Jurong, Singapore.
Senior Flexonics Australia Pty. Limited (incorporated in New South Wales, Australia)	Senior Flexonics Australia	Sydney, N.S.W. Bayswater, Vic. Geebung, Q'land. Prospect, S.A. Myaree, W.A.
Senior Flexonics New Zealand Limited (incorporated in New Zealand)	Senior Flexonics New Zealand	Auckland, Wellington and Christchurch, New Zealand.
Senior Tube Limited	Tube Products Stainless Tube	Oldbury.
	Phoenix Steel Tube Phoenix Drawn Tube	West Bromwich.
	Durham Tube	Durham.
	Le Bas Tube	Coventry.

PRINCIPAL SUBSIDIARY UNDERTAKINGS

continued

OPERATING COMPANIES	BUSINESS UNITS	LOCATIONS
THERMAL ENGINEERING		
Senior Thermal Engineering Limited	Senior Green Industrial Boilers Thermal Construction	Wakefield and Feltham. Snaith.
Senior Engineering Company (incorporated in Delaware, U.S.A.)	Thermal Transfer Products	Los Angeles, CA. Joplin, MO. Pittsburg, KS. Berlin, WI.
	Industrial Products	Milwaukee, WI.
	Senior Boiler Tube	Lyman, SC. Union, NJ.
Senior Power Services Inc. (incorporated in Delaware, U.S.A.)	Construction Service Demex	Lyman, SC. Royersford, PA. Picayune, MS.
Senior Engineering KK (incorporated in Japan)	Senior Japan	Tokyo, Japan.
Senior Engineering Australia Pty. Limited (incorporated in New South Wales, Australia)	Senior Australia	Sydney, N.S.W. Melbourne, Vic. Brisbane, Q'land. Adelaide, S.A. Perth, W.A.
M.E. Mack Valves Pty. Limited (incorporated in Victoria, Australia)	M.E. Mack Valves	Melbourne, Vic.
Senior Heat Treatment Limited	Senior Heat Treatment T.E.E. Heat Treatment	Aldridge, Blackburn, Cheltenham, Leeds, Letchworth, Luton, Tipton, Watford and West Bromwich.
Industrias Traterh, S.A. (incorporated in Spain)	Industrias Traterh	Madrid, Spain.
Metalografica de Aragon, S.A. (75%)* (incorporated in Spain)	Metalografica de Aragon	Zaragoza, Spain.
CONSTRUCTION SERVICES		
Senior Construction Services Limited	Senior Hargreaves Senior Moducel Senior Colman	Bury. Stoke-on-Trent. Manchester.
Nordklima Luft-und Warmetechnik GmbH (incorporated in Germany)	Nordklima KesslerTech	Lohne, Germany. Giessen, Germany.
Polenz GmbH (incorporated in Germany)	Polenz	Norderstedt, Germany.
Humanair GmbH (49%) (incorporated in Germany in February 1995)	Humanair	Essen, Germany.

All subsidiary undertakings are both wholly owned and incorporated in Great Britain and registered in England and Wales unless otherwise indicated. They are all directly owned by subsidiary undertakings of Senior Engineering Group plc and in every case the principal country of operation is the country of incorporation.

* Both majority and minority shareholders hold options to transfer the outstanding 25% to the Senior Engineering Group by 24th April, 1997 for Ptas. 35.3 million.

SHAREHOLDER INFORMATION

at 31st December, 1994

	1994		1993	
	Shareholders Number	Share-holdings 000's	Shareholders Number	Share-holdings 000's
BY RANGE OF HOLDINGS				
1 – 24,999	3,817	14,638	2,859	10,592
25,000 – 49,999	105	3,592	100	2,690
50,000 – 249,999	139	16,923	131	12,217
250,000 – 499,999	43	14,729	58	15,740
500,000 – 999,999	26	17,760	27	15,434
1,000,000 and over	78	233,554	71	183,909
	4,208	301,196	3,246	240,582
BY CATEGORY				
Insurance Companies	15	33,910	13	35,839
Nominee Companies	592	227,597	378	159,313
Banks	6	153	4	139
Pension Funds	9	3,470	7	5,525
Public Limited Companies	6	43	4	37
Other Limited Companies	120	14,621	88	21,287
Other Corporate Bodies	34	5,000	35	5,000
All Other Shareholders	3,426	16,402	2,717	13,442
	4,208	301,196	3,246	240,582

The range of holdings at 31st December, 1993 has been adjusted to reflect approximately the Rights Issue in April 1994.

For the purposes of computing Capital Gains Tax, the market value of the Company's shares on 31st March, 1982 (as adjusted for rights issues) was 55.9p.

NOTICE OF MEETING

Notice is hereby given that the Sixty-Third Annual General Meeting of the Members of the Company will be held at Glaziers Hall, 9 Montague Close, London Bridge, London SE1 9DD on Friday 19th May, 1995 at 12.30p.m. for the transaction of the following business –

ORDINARY BUSINESS

1 To receive and adopt the Directors' Report and Accounts for the year ended 31st December, 1994 and to declare a dividend as recommended by the Directors.

2 To re-elect, as a Director of the Company, Dr. A.K. Watkins who had been appointed to the Board by the Directors since the last Annual General Meeting.

3-4 To re-elect, as Directors of the Company, Mr. A.J. Bell and Mr. J.L. Hudson who retire by rotation in accordance with the Articles of Association of the Company.

5 To re-appoint Arthur Andersen as Auditors of the Company and authorise the Directors to fix their remuneration.

To transact any other ordinary business of the Company.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions, of which Resolution 6 will be proposed as a Ordinary Resolution and Resolution 7 will be proposed as a Special Resolution –

6 That the Board be and it is hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £10,000,000 provided that this authority shall expire on the date of the next Annual General Meeting after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

7 That subject to the passing of Resolution 6 the Board be and it is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that this power shall be limited –

(a) to the allotment of equity securities in connection with a rights issue in favour of shareholders where the equity securities respectively attributable to the interests of the shareholders are proportionate (as nearly as may be) to the respective numbers of shares held by them (subject to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever), and

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £1,500,000

and shall expire fifteen months from the date of this resolution or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board,

F.H. Fermor
Secretary
20th April, 1995

Senior House,
59/61 High Street,
Rickmansworth,
Herts., WD3 1RH

Notes

1 Any Member entitled to attend and vote at the Meeting will be entitled to appoint a proxy to attend and vote in his place. A proxy need not be a Member of the Company. Completion and return of a proxy form will not however preclude a Member from attending and voting at the Meeting.

2 The following documents will be available for inspection at the registered office of the Company on any weekday (Saturdays and public holidays excepted) during normal business hours from the date of the above Notice until the date of the Meeting and at the place of the Meeting from 15 minutes prior to, and until the close of, the Meeting –

(a) A Statement of all transactions of each Director, and of his family interests, in both share and loan capital of the Company and any of its subsidiary undertakings during the previous twelve months.

(b) Copies of all contracts of service between the Company or its subsidiary undertakings and Directors of the Company.

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