87249.

# TT Group PLC

**Annual report 1999**

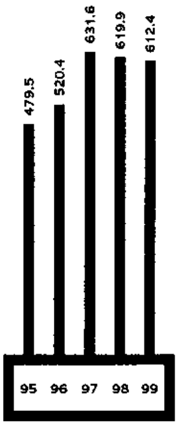
CONTENTS

**TT Group** has focused its development over the last decade to become a global manufacturer of quality products for the automotive, telecommunication and industrial engineering markets.

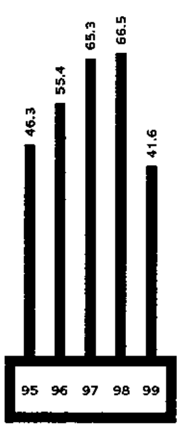
- Future of TT Group is in the expansion of its electronic component activities.
- BI Technologies, a global manufacturer of electronic components, acquired in January 2000 for £39.7 million.
- 20 per cent of the world's production of personal computers contain at least one of TT Group's current sensing or silicon based resistor/capacitor networks.
- Over 50 per cent of all cars manufactured in Europe and the USA contain at least one of TT Group's products.
- New development and production orders won provide a base for future growth for automotive operations.

| | **1999** | 1998 |
|---|---|---|
| TURNOVER (£ MILLION) | **612.4** | 619.9 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAX (£ MILLION) | **38.0** | 65.0 |
| BASIC EARNINGS PER SHARE (PENCE) | **16.4** | 27.8 |
| ORDINARY DIVIDENDS PER SHARE (PENCE) | **9.79** | 9.79 |
| SHAREHOLDERS' FUNDS (£ MILLION) | **238.5** | 228.3 |

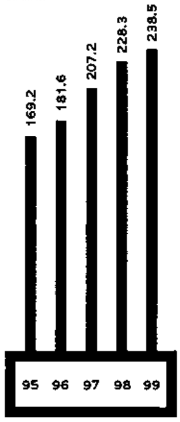
TURNOVER
£million



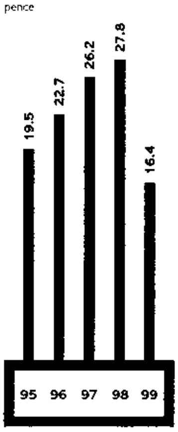

OPERATING PROFIT
£million



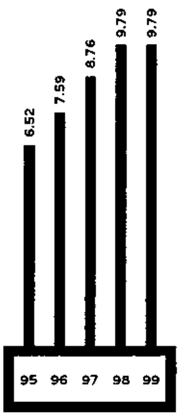

SHAREHOLDERS' FUNDS
£million



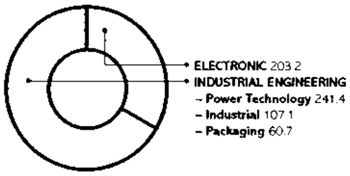

EARNINGS PER SHARE
pence



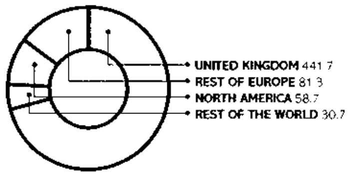

DIVIDENDS PER SHARE
pence



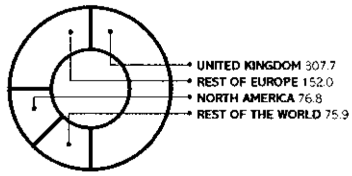

TURNOVER BY SECTOR
£million



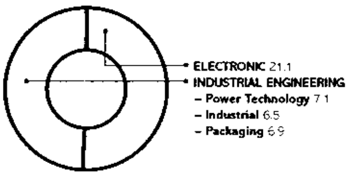

TURNOVER BY ORIGIN
£million



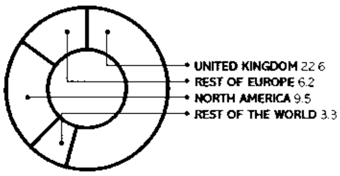

TURNOVER BY DESTINATION
£million




OPERATING PROFIT BY SECTOR
£million




OPERATING PROFIT BY ORIGIN
£million



# The market focus of TT Group

## Electronic

| PRODUCTS | MARKETS: AUTOMOTIVE | TELECOM | INDUSTRIAL ENGINEERING |
|---|---|---|---|
| **ELECTRONIC COMPONENTS** | | | |
| Resistors and resistor networks | ● | ● | ● |
| Resistor capacitor diode networks | | ● | ● |
| Blower motor resistors | ● | | |
| Ignitor chip resistors | ● | | |
| Hybrids | ● | ● | ● |
| Potentiometers | ● | ● | ● |
| Trimmers | ● | ● | ● |
| Switches | ● | ● | ● |
| **PRINTED CIRCUIT BOARDS** | ● | ● | ● |
| **SENSORS AND ELECTRONIC SYSTEMS** | | | |
| Climate control systems | ● | | |
| Body control systems | ● | | |
| Accelerator pedal units | ● | | |
| Throttle position assemblies | ● | | |
| Engine sensors | ● | | |
| Suspension sensors | ● | | |
| Mass airflow sensors | ● | | |
| Brake position and ABS sensors | ● | | |

## Industrial engineering

| PRODUCTS | MARKETS: AUTOMOTIVE | TELECOM | INDUSTRIAL ENGINEERING |
|---|---|---|---|
| **POWER TECHNOLOGY** | | | |
| Power and data transmission cables | ● | ● | ● |
| Power transmission accessories and compounds | ● | ● | ● |
| Power generation | | ● | ● |
| Uninterruptible power supplies | | ● | ● |
| Ferrites and laminations | ● | ● | ● |
| **INDUSTRIAL** | | | |
| Printed circuit board assemblies | ● | ● | ● |
| Fasteners and connectors | ● | ● | ● |
| **PACKAGING** | | | |
| Glass containers | Pharmaceutical, food and drink markets | | |
| Packaging machines and films | All industries | | |

## Chairman's statement

# The Board has carried out a comprehensive review of the Group's businesses and decided that the future of the TT Group is in the expansion of its electronic component activities.

On turnover of £612.4 million compared with £619.9 million in 1998, TT Group has made profits before taxation of £38.0 million which show a decline from £65.0 million in the previous year. Basic earnings per share were 16.4p (1998 – 27.8p); fully diluted earnings per share were 16.4p (1998 – 27.7p). The taxation charge for the year was 27.9 per cent compared with 27.8 per cent in the previous year. In the light of the low level of indebtedness and a dividend cover of 1.7 times, the Board of TT Group has decided to recommend a final dividend of 6.10p in line with last year, making a total dividend of 9.79p, the same as last year.

This year has been a difficult year for TT Group and after eleven years of continuous growth in profitability the Board is disappointed to report these lower levels of profit. A prime reason for the reduction of profits has been the weakening of the Euro against the British pound, which has affected both our profit margins on export sales and the translation of mainland European profits. All sectors of the business have been affected, especially as 72 per cent of the Group's sales are manufactured in the United Kingdom and 32 per cent of these sales are exported. The Group also experienced strong pressure from customers for price reductions and despite continued lowering of the cost of manufacture the Group suffered a decline in margins. In addition it is normal for the Group to have three or four underperforming businesses, which are normally offset by a similar number of businesses significantly outperforming profit expectations. Unfortunately in 1999, this offset did not occur.

Action taken by the Group included cutting the total workforce by 9 per cent during the first quarter of the year, reducing manufacturing costs and recruiting additional sales application engineers to assist in the drive to increase turnover. Further details are provided in the Chief Executive's review.

During the past twelve months, TT Group has made two important acquisitions. Prestwick Holdings plc was reported in the Group's last interim statement. Prestwick, which trades under the name Prestwick Circuits, operates out of two factories near Glasgow and manufactures a range of printed circuit boards for European original equipment manufacturers. The Group purchased the businesses of BI Technologies Corporation in January 2000 for £39.7 million. BI Technologies had a turnover of £57.1 million and made operating profits of £3.6 million in the year to 30 September 1999. BI Technologies manufactures resistors, trimmers, sensors and inductors with factories at Fullerton in California, Mexicali in Mexico, Glenrothes in Scotland and Kuantan in Malaysia. The company has six sales offices including one in Japan. These sales offices will be merged with our existing offices with the exception of Japan where the Group currently has no presence. This will expand our market penetration in the Far East by selling the full range of the Group's electronic component products. The Board considers that the acquisition of BI Technologies will strengthen our market position and provide opportunity for growth within our existing resistor, sensor and ferrite operations. These acquisitions take the Group further into the field of electronic components.

The Board has carried out a comprehensive review of the Group's businesses and decided that the future of the TT Group is in the expansion of its electronic component activities. As a result a decision has been made to dispose of non-core businesses and it is expected that a number of disposals will be announced in the coming year. The strength of the Group's expertise in electronic components, linked to its electrical businesses, provides a strong base for future expansion especially as the growth in the Internet flows through to greater demand for electronic components incorporated in telecommunication and computer equipment. The Group will also benefit from the continuing expansion of the use of electronic components in the automotive industry.

The recent increases in United Kingdom interest rates, which are giving rise to a strengthening of the British pound, are not in the interests of British based manufacturing. TT Group is committed to drive down the cost of manufacturing in order to be competitive with lower labour cost areas of the world. The Group will need to reduce the emphasis on manufacturing within the United Kingdom to continue to be competitive in its marketplace. The acquisition of BI Technologies provides two well established low labour cost manufacturing facilities in Mexico and Malaysia which will improve the Group's competitiveness.

The Board welcomes the publication of the Turnbull Report. All businesses by nature carry a degree of risk which TT Group has always recognised as needing to be assessed and monitored.

TT Group provides specialised products for global markets and therefore depends on the skills and commitment of our employees. The Board would like to thank all Group employees for their hard work in what has been a difficult year.

Whilst the current year has started with a limited improvement in the Group's performance, the actions which have been taken during 1999 will enable TT Group to take advantage of improved trading conditions.

**JOHN W NEWMAN**
EXECUTIVE CHAIRMAN
24 MARCH 2000

**The acquisitions of Prestwick Holdings and BI Technologies take the Group further into the field of electronic components and strengthen our market position, providing opportunities for growth in our existing resistor, sensor and ferrite operations.**

TT Group has focused its development over the last decade to become a global manufacturer of quality products for the automotive, telecommunication and industrial engineering markets. This has been achieved by focusing on original equipment manufacturers in defined market sectors, providing value for money and operating on a global scale in order to service customers' requirements.

# focus

**Satisfying customers' expectations is a key objective of TT Group. The standards demanded in today's marketplace are challenging: the need to meet the expectation for zero defect products; to offer customers a complete service from initial concept to final engineering solutions; to be innovative in technology and cost effective in manufacturing. The Group's capability to supply major global manufacturers in the automotive, telecommunication and industrial engineering markets evidences TT Group's focus.**

# value

All customers demand value for money – the Group provides the right technology and quality at a competitive price. Fulfilling this demand requires a combination of skills, including a detailed understanding of the customers' needs and a thorough knowledge of the latest materials available. TT Group has the technology and expertise to engineer and manufacture the right product cost effectively.

# scale

Satisfying global customers means offering a service that encompasses a range of products and technologies worldwide. TT Group meets this requirement through a network of manufacturing units, sales offices and distributors in all main marketplaces. Currently the Group is located in over 20 countries and has over 10,000 employees.

# TT Group concentrates on quality products for defined markets and supplies a wide range of original equipment manufacturers around the world.

## Emphasis on focus

**Quality** To satisfy existing customers and create new opportunities TT Group has programmes of continuous improvement in all areas of operation and aims to deliver the highest quality products. Investment in integrated test equipment enhances process controls and eliminates unnecessary costs. The Group's companies are accredited to QS 9000 or other appropriate standards.

### Continuous development – Air conditioning

TT Group is capitalising on the volume and value growth of air conditioning in the automotive market by developing and marketing products of increasing sophistication. Up to the mid 90's the commonest form of air conditioning required a simple switch to activate the cabin cooling system: when the car reached the required temperature, the driver simply switched it off. Today, demand is growing fast for automatic controls which maintain the cabin temperature at a fixed level throughout the journey. More advanced systems on offer from TT Group enable different temperatures to be set for the driver and the front passenger and even for the rear occupants. Future developments will expand the features of climate controls to include other vehicle functions such as audio and navigation. The Group is exploiting these trends by developing ever more advanced systems.

## Miniaturisation

New technologies require smaller electronic devices, customers demand further miniaturisation of components such as ferrites. As an example TT Group has developed a surface-mount metallisation process that eliminates the need for the headers traditionally used to mount certain ferrites to printed circuit boards. The result is an even smaller component which meets the requirement of the marketplace.

**On-time delivery** Many customers require "just-in-time" or "direct-to-line" deliveries and Group companies encompass this philosophy aided by modern computer and telecommunications systems.

**Technological advance** The development of a multi-functional device that combines a resistor, a capacitor and a diode has now been designed into a number of applications for telecommunication electronic circuits, demonstrating the Group's ability to offer technically improved products at lower cost.

The three components are manufactured on silicon wafers through a combination of thin film resistor techniques and semiconductor processes. Customers benefit in several ways: they need only one supplier, not three, and to mount only one component, which simplifies production. The integrated component takes up less space on the printed circuit board, enabling a smaller end product to be engineered.

**Sharing technology** Most of TT Group's automotive products are unique to a specific vehicle and have been developed in close co-operation with the customer. An illustration of this is the development programme for climate control units which underwent field tests in extreme conditions ranging from northern Sweden in winter and the Arizonan desert in high summer. Where customers require a range of technology the engineering departments worldwide co-ordinate to provide a solution.

## Customers benefit from the world-class skills of TT Group and the sharing of expertise and technology around the world.

# Committed to value

**Growth through acquisitions** As part of its strategy of focusing on specific markets, TT Group intends to grow by acquiring companies that service the automotive, telecommunication and industrial engineering markets. Within these sectors it seeks to expand both its product portfolio and its manufacturing and distribution capabilities; this will strengthen and consolidate its position as a major worldwide supplier to original equipment manufacturers.

**Benefits of partnerships**
TT Group works in partnership with many of its customers in order to develop innovative products that meet their future requirements and combines a clear understanding of each customer's needs with an awareness of the latest technology and the potential benefits it offers. This knowledge allows it to make the maximum contribution to the customer's business.

**Innovative products** TT Group's development of a lightweight, vandal-resistant insulator for supporting overhead power lines offers considerable benefits to the electrical utility industry. Moulded from a rubber compound formulated specifically for this application, the new insulators are more durable and cheaper to install than traditional glass and porcelain insulators. Utilities in the UK and across Europe are rapidly adopting the concept.

**Leading-edge technology** In the face of fierce competition, TT Group has been chosen to supply electrical connectors to ACELA, the high-speed train soon to enter service with Amtrak on the route between Boston and Washington. Uniquely featuring low-halogen, fire-safety materials, the connectors form ACELA's main electrical power and signal interconnection system and are crucial to a range of functions from braking to passenger information displays.

Capable of 270 km per hour, ACELA set America's passenger train speed record in October 1999. TT Group's involvement in the project confirms its reputation as a leading connector supplier. The UK designed components are assembled and tested in the Group's world-class facilities at Smithfield, North Carolina and a kanban based delivery service ensures that parts reach the customer on time, every time.

With its worldwide manufacturing and product development facilities, TT Group has the scale and efficiency to meet the needs of its global customers and compete effectively in tomorrow's markets.

# Developing our global scale

## Power transmission

During the year, TT Group was awarded a contract to provide Shell Petroleum Nigeria, with 78 kilometres of sub-sea power cables incorporating fibre optic communication cores. The cable system will provide power and communications for a gas recovery programme, between the land based central processing facility and the various gas production platforms.

## Market opportunities

Vehicles increasingly use advanced electronic systems, such as drive-by-wire, suspension and headlight levelling, antilock braking, fuel injection, transmission management and climate control. All these products rely on sensors to provide the data to which the system responds. TT Group is a leader in the field of automotive sensors and continues to be successful in this rapidly growing marketplace.

## Advances in mobile phones

The key issues for mobile phone manufacturers are size, cost and range of options. There is also demand for added features such as data transfer and visual communications, all of which require specialist components. TT Group companies design and manufacture miniature passive circuits incorporating resistors, capacitors and diodes for use in mobile telephone circuitry.

## Positioned for growth

The technology and the manufacturing processes utilised in electronic components frequently overlap. TT Group exploits the commonality in areas such as application of resistors in laptop computers and mobile phones, where there is a growing demand for current sensing resistors which indicate when batteries are running low. Similar linear resistor circuits are also used in automobile sensors to provide the signals that activate adjustments to the appropriate vehicle control system. With its global technical and manufacturing strength, TT Group is positioned to move ahead in these expanding markets.

## Sharing knowledge

Competitive advantage increasingly depends on knowledge and how it is used. With its global spread and product range TT Group has a wealth of insight from which all its businesses can benefit. Group companies routinely share their knowledge of markets, product technology and the trends affecting the business. TT Group's global presence also enables the timely supply of quality products with manufacturing facilities, sales offices and technical support centres around the world. Its customer support ranks with the best.

## Chief Executive's review

# TT Group is increasingly recognised by major global original equipment manufacturers as an integrated provider of innovative electronic products.

TT Group's philosophy is to ensure world class manufacturing standards are achieved enabling the Group to remain competitive in selected marketplaces and to protect profit margins with a tight control over costs.

The trading conditions, which were described in the 1998 annual and 1999 half year reports, caused 1999 full year profits to fall well short of the historic growth record. The results are disappointing, particularly as in anticipation of the difficulties which were being encountered in a number of marketplaces, the Group embarked on an accelerated cost reduction exercise in the first quarter of 1999, which included selectively reducing 9 per cent of the worldwide workforce.

The Group's marketplace has been influenced by a number of factors which impacted on normal trading activities. The combination of a weak Euro with pressure to reduce selling prices affected turnover and operating margins. Established Far Eastern markets remained depressed, reducing demand for the Group's products. The weak home market for Far Eastern and European suppliers caused local manufacturers to target the United Kingdom, which imposed greater competitive pressure from imports. While these market forces were anticipated, the combination of factors has continued for a longer period than expected. On the positive side the demands for price reductions are slowing. European and Far Eastern economies are strengthening and the Group is adapting to a re-aligned Euro exchange rate by purchasing raw materials and finished products from low cost overseas sources.

TT Group's focus remains on its global customers in the automotive, telecommunications and industrial engineering markets. Global customers require and form relationships with suppliers of scale and substance who will develop innovative designs and manufacture a wide range of technically advanced products. The Group is continuing to invest in engineering skills and develop further a range of technologies, which are then adapted to suit each specific customer's requirement.

Customers use a number of monitoring techniques to ensure key suppliers provide value for money; placing high priority on service from the time of the initial enquiry, excellence in product quality, innovative technology, cost competitive products and on time delivery. TT Group's established global customer base in each marketplace evidences the success of meeting these requirements.

The strategy of enhancing the Group's core businesses with appropriate acquisitions has continued and the acquisition of Prestwick Circuits, a manufacturer of printed circuit boards, was completed in May 1999. The acquisition of BI Technologies, a manufacturer of electronic components, was finalised in early January 2000. These acquisitions expand the Group's product range, which will increase sales to current customers as well as enlarging the customer base.

## ELECTRONIC SECTOR

Over a number of years the Group has built a portfolio of operations in the electronic sector which complement each other both in technology and in the specific marketplaces served.

TT Group is increasingly recognised by major global original equipment manufacturers as an integrated provider of innovative electronic products particularly applicable to the automotive and telecommunications markets but also serving a wider range of applications in industrial, aerospace, medical and consumer products.

In the automotive sector it is estimated that over 50 per cent of all cars manufactured in Europe and the USA have at least one of the Group's products incorporated into them, ranging from sensors to climate control units and from resistors to electronic body control modules.

Worldwide legislation is continually reducing the limits of harmful exhaust emissions as well as demanding improvements to built-in safety features. The market demand for better fuel economy, ever improved functionality and comfort in the car are reasons for the strong growth in automotive electronics. This market is expected to grow by 10 per cent per annum over the next five years.

The automotive industry is technically innovative, but there are however usually several years from the initial conception of the application to the vehicle model launch and its full production. This is illustrated by the Group's design winning "drive-by-wire" electronic accelerator pedal sensor modules, which were launched on top of the range cars in 1999. These will cascade to higher volume vehicle models over the next three years by which time the Group will be providing more than 2.5 million units per annum to a number of vehicle manufacturers. This demand has necessitated the construction of a new 70,000 square foot factory adjoining one of TT Group's current premises in Germany in which production commenced in early 2000.

At the Group's modernised facility in North Carolina, USA, production equipment has been delivered and commissioned to manufacture chassis height level sensors for luxury cars and light trucks. This investment in production equipment will enable sensors to be manufactured more cost effectively and over the next few months sensor production will increase to satisfy a build rate of over 0.4 million vehicles per annum as part of an ongoing five year contract. The assembly of climate control units also started during the year, which supplements the existing UK production for a US vehicle manufacturer. Additional new contracts have been awarded to supply a number of different vehicles manufactured in Europe and this will entail doubling production by 2002.

Car safety has been greatly improved with the introduction of airbag technology. It is estimated that the European and US demand will be in excess of 500 million units by 2003. As this technology progresses it has created a requirement for airbag ignitors, which trigger the inflation of the airbag with ever faster response times. To meet this demand TT Group has developed a device based on advanced thin film resistor technology. An initial contract has recently been won with a major airbag producer to supply 5 million ignitor chips per annum. Development continues to ensure the Group has the products to satisfy this growing market.

During 1999 manufacture of a number of technically advanced products commenced at Group factories. Some initial difficulties should always be expected during the early stages of new production notwithstanding careful planning and employee training. These arise from the introduction of new equipment and changes to production methods. In 1999 more problems than usual were encountered particularly in the German factories. Both the customers' quality and delivery requirements were met but at a higher cost than had been budgeted.

The Group's level of sales in 1999 for automotive products did not increase proportionately to the growth of European and US vehicle production due to delays in the launch of vehicle models in which the Group's components are utilised. A number of these programmes are now commencing production. The satisfactory level of new development and production orders won during the year provides a base for future growth for the Group's automotive operations.

Telecommunication markets are being driven by the global demand for personal computers, mobile phones, internet access and e-commerce functionality, all of which require large quantities of electronic components including resistors, trimmers, inductors, hybrids and micro-electronic packages which are incorporated into the hardware of the systems. These components are manufactured at the Group's worldwide facilities which have now been expanded following the acquisition of BI Technologies.

The Group's electronic components used in the telecommunications industry are again at the forefront of technology. It is estimated that 20 per cent of the world's production of personal computers contain at least one of the Group's current sensing or silicon based resistor/capacitor networks. All communication devices, including hard line and mobile phones, as well as communications through the Internet rely on transmission lines and switching systems. Recent market estimates are that up to 100 million new transmission lines will be installed annually worldwide over the next few years. All these lines need to be protected against power surges and TT Group specialises in line surge protective devices and is currently supplying over 10 per cent of the world demand.

The worldwide fibre optic cable web which serves the Internet incorporates land based and sub-sea signal booster stations at frequent intervals. The Group has developed specialist resistor products built into booster stations which are specially engineered to withstand these harsh environments.

The Group's technical resources in both Europe and the USA are closely co-ordinated to ensure new product offerings to this growth market are maximised.

## INDUSTRIAL ENGINEERING SECTOR

**POWER TECHNOLOGY** The demand for generators over the last two years from the Far East, which historically represented over 50 per cent of the world's demand, has been weak due to the inability of customers to raise finance. The "millennium bug" gave some project opportunities but these were less than anticipated. The manufacturing operations of the generator business are in the process of being concentrated onto one manufacturing site. This process started in 1999 and will be complete by the end of the first quarter of 2000. The reorganisation has caused some disruption and additional costs, but will ensure a more efficient and cost effective operation for the future.

Mobile and internet telecommunication networks rely on completely secure sources of electrical power and backup systems to support vital switching and remote base stations which are essential to keep networks running. The Group's power technology operations specialise in the supply of uninterruptible power supplies and generator sets to maintain power when mains supply fails.

The Group's power generation operation in Mexico has achieved another good year with increasing exports to Central America. The United Kingdom based specialist ground power operation for aircraft was successful in winning a number of orders for major airlines and airforces internationally.

Contracts for sub-sea cable projects are sporadic. A major contract to supply 78 kilometres of sub-sea cable for a Shell Petroleum installation in Nigeria was won and manufacture commenced in the second half of 1999 with delivery scheduled for the first half of 2000. The Group continues actively to seek further opportunities in this marketplace. Industrial cable activities suffered from severe price competition. The Group continues to develop specialist cable solutions for fire retardant, high temperature and data communications for automotive and telecommunications

**On the positive side the demands for price reductions are slowing. European and Far Eastern economies are strengthening and the Group is adapting to a re-aligned Euro exchange rate.**

customers. For technical reasons these developments have been at a slower pace than originally anticipated.

The Group's ferrite business in North America has successfully developed new products for telecommunication applications for which it has applied for worldwide patents. Pilot production has commenced with equipment for full production being delivered during the first half of 2000 enabling contracted demand to be fulfilled. Investment continues in the Group's low cost manufacturing factory in India not only to support an increasing home telecommunications market but also to take advantage of increasing export opportunities.

**INDUSTRIAL** The two circuit board assembly factories, whose main customers are in the computer, telecommunications and automotive markets, produce a wide range of circuit board assemblies and are also increasingly supplying completed product ready for sale. The operation in the North East of England performed well with strong demand for network circuits and the operation in South Wales, whilst gaining new business in 1999, will not see the benefits of this increased production until the first quarter of 2000.

Delays in the manufacture of rolling stock for a number of major United Kingdom mainline and cross-country rail projects reduced demand for the Group's range of harsh environmental connectors during the year. The decision in 1998 to set up a manufacturing and distribution centre in the USA has helped our penetration of the market with increased sales during 1999. An innovative new range of connectors for a wide range of industrial uses is in the final stage of development for launch during the year 2000.

The Group's specialist Flangeform fasteners achieved record sales in the USA from its dedicated technical and distribution centre opened in Ohio in 1998. However, UK sales of automotive fasteners remained depressed due to lower than anticipated production of vehicles by a major customer.

**PACKAGING** The glass container operations' capability to produce innovative designs to enhance the customers' products helped to increase sales to a record number of containers in the year. However, European price competition reduced selling prices and resultant margins. Packaging film sales benefited from the higher level of specialist film development and increased manufacturing capacity but "end of line" packaging equipment sales were inhibited by slow exports and capital expenditure constraints on customers in the United Kingdom.

## OUTLOOK

The Group is focusing on growth in the electronic sector. The investment in product development and additional manufacturing capacity together with the important and strategic acquisitions of Prestwick Circuits and BI Technologies supports this strategy.

Prestwick Circuits manufactures printed circuit boards for many of TT Group's global customers and is also a supplier to several Group companies. The technical expertise in the manufacture of the base component of many electronic systems will enhance the Group's product development capability and enable it to offer customers a more integrated product range.

BI Technologies is a leading supplier of a range of passive electronic components comprising trimmers, potentiometers, position sensors, resistors and resistor networks, transformers, inductors and hybrids. All these products complement rather than compete with the Group's current electronic component range. BI Technologies manufacture in California, Scotland, Mexico and Malaysia. The low cost facilities in Mexico and Malaysia will increasingly enhance the competitiveness of the Group. Whilst TT Group has good global distribution channels, the addition of BI Technologies' strong sales presence in Singapore and Japan will in particular accelerate opportunities for sales growth in the Far Eastern markets.

Due to the continuing weakness of the Euro, the Group envisages ongoing pressure on prices and margins in mainland Europe, a major marketplace. The underlying strength of the Group's product range and management teams will enable TT Group to take advantage of improvement in the world economies and this will help achieve the Group's long term objective of sustained growth.

**SHERIDAN W A COMONTE**
CHIEF EXECUTIVE
24 MARCH 2000

# Financial review

The Group's total operating profit decreased from £66.5 million to £41.6 million on turnover of £612.4 million compared with £619.9 million in the previous year. Whilst operating margin reductions have been experienced generally, the most difficult area has been the extreme price competition in the power cable businesses where competition from both domestic sources and imports has forced selling prices down. Another difficult area has been the power generation equipment businesses where ongoing economic problems in Far East markets have reduced demand. There is similar price reduction pressure being exerted from the major customers in the automotive, telecommunication and food and drink markets with customers frequently seeking lower Euro cost based supplies.

The margin erosion has not been so severe at the North American based activities where the strong US economy, good product range and effective cost reduction programmes have led to a 14 per cent growth in operating profit from £8.3 million to £9.5 million on a 17 per cent increase in turnover from £49.9 million to £58.7 million. The automotive sensor operation in Germany continues to enjoy a strong demand for its products, but manufacturing difficulties and agreements to reduce selling prices have offset the manufacturing efficiency improvements made during the year.

The movement in average exchange rates of European currencies has been partially offset by the strength of the US Dollar. The effect of translation of foreign currency denominated sales and operating profits has been a reduction of £2.8 million and £0.4 million respectively, compared with these results translated at the same exchange rate as 1998.

**Cash Flow** The Group generated £63.5 million from operations compared with £76.4 million last year which in light of the £24.9 million reduction in operating profit reflects the ability of the Group to control working capital. There were returns to shareholders in the form of dividends totalling £16.3 million (1998 – £15.6 million). There was no buy back of shares during 1999 (1998 – £7.0 million) and no share options were exercised.

The Group invested £34.0 million (1998 – £42.5 million) in additions to fixed assets and made disposals of £1.5 million (1998 – £3.4 million). The reduction in capital investment was mainly due to the absence of a need to refurbish a furnace for the glass container manufacturer, the refurbishment in 1998 costing £5.5 million. The disposals relate largely to the proceeds from the sale of surplus property.

**Taxation** The Group paid taxes of £12.9 million (1998 – £20.5 million) reflecting the change in advance corporation tax rules and the new payments on account process in the UK. The Group's overall tax rate is 27.9 per cent (1998 – 27.8 per cent) which is lower than the natural rate of tax on the geographical mix of profits. This reduction arises from losses brought forward from earlier years and those in respect of acquisitions which are now available for relief.

**Disposals of Fixed and Current Asset Investments** A profit was made on the disposal of the fixed asset investments the Group held in Delta plc and Hall Engineering (Holdings) P.L.C.. The shares in Delta were sold following the restructuring of TT Group's cable competitors and a profit of £0.5 million was made on this disposal. The shares in Hall Engineering acquired prior to the Group's offer for the company were sold and a loss of £0.1 million was incurred after the costs of the unsuccessful bid. The shareholding in Johnston Group PLC has been increased to more than 20 per cent and this investment is now treated on an equity basis. There were losses of £0.4 million (1998 profits of £0.4 million) on current asset investments sold during the year and the investments still held were carried on the balance sheet at the lower of cost or market value at the year end.

**Acquisitions** The equity shares not already owned by TT Group in Prestwick Holdings plc were acquired at a cost of £0.8 million in May 1999, bringing the total cost of this acquisition to £4.6 million. Prestwick manufactures printed circuit boards. The substantial operating losses being made by this company prior to acquisition have now been stemmed. However, the company did not generate a profit before taxation due to the high interest costs on the borrowings which existed prior to acquisition.

On 8 January 2000 the Group entered into an agreement to acquire BI Technologies from Emerson Electric Inc for a cash consideration of £39.7 million. This consideration is subject to the agreement of completion accounts and certain local regulatory requirements. This business reported an operating profit of £3.6 million on turnover of £57.1 million in its accounts to September 1999 and the assets acquired are estimated to be £15 million. BI Technologies manufactures resistors, sensors and inductors which are sold to the automotive, telecom and computer markets.

Goodwill arising on acquisitions has been capitalised, in line with Financial Reporting Standard 10, as an intangible asset on the balance sheet and is amortised over twenty years. The charge in this year's results for amortisation in respect of Prestwick is £0.1 million.

**Shareholders' Funds** The shareholders' funds increased from £228.3 million to £238.5 million at December 1999. The Group generated profit of £27.3 million (1998 – £46.9 million) from which dividends of £16.3 million (1998 – £16.3 million) have been appropriated for distribution and a deduction made of £0.8 million (1998 – £1.5 million) arising from the translation of overseas assets at the exchange rates pertaining at the end of 1999. The asset value per share increased to 143p (1998 – 137p).

**Dividends and Earnings Per Share** The Board has proposed, in line with the statement made in June 1999, to maintain dividends at the same level as for 1998 at 9.79p per share. The total dividend is covered 1.7 times by profit after taxation. Basic earnings per share of 16.4p (1998 – 27.8p) reduced in line with the profit after taxation and was calculated on a weighted average number of shares of 166,366,767 (1998 – 168,943,638), the number of shares having been reduced by the share buy back in 1998.

**Borrowings** The net borrowings at the year end increased to £42.5 million (1998 – £34.1 million) which resulted in the gearing increasing to 18 per cent (1998 – 15 per cent). The increased borrowings which include the borrowings acquired with Prestwick have given rise to the higher interest charge of £4.0 million (1998 – £3.4 million). Interest is covered more than ten times by operating profit.

The acquisition of BI Technologies for a cash consideration paid on 10 January 2000 further increased borrowing by £39.7 million.

The Group's immediate cash requirements are principally provided by unsecured overdraft facilities with major banks in the United Kingdom, Germany and the United States of America. The longer term requirements are principally fulfilled by an unsecured loan of £20 million which is repayable in equal instalments in the years 2002 and 2003. There are substantial unutilised facilities for borrowings available.

**Year 2000** The preparations made in the years up to the end of the millennium served the Group well and there have been no events of any significance whatsoever arising from the changeover of date codes in computer systems.

**Internal Controls** The Group has applied risk management control procedures for several years and welcomes the philosophy behind the requirements laid down in the Turnbull Report.

**RODERICK W WEAVER**
FINANCE DIRECTOR
24 MARCH 2000

# Board of Directors

**John W Newman**
Executive Chairman
(aged 54)
Appointed to the Board in 1986. A Chartered Accountant who was previously Joint Managing Director of Newship Group Limited.

**Sheridan W A Comonte**
Chief Executive
(aged 61)
Appointed to the Board in 1987. Previously an executive director of Newship Group Limited.

**Roderick W Weaver** FCA
Finance Director
(aged 49)
Appointed to the Board in 1995. A Chartered Accountant who was previously with AB Electronic Products Group PLC.

**James W Armstrong**
Executive Director
(aged 52)
Appointed to the Board in 1998. A Chartered Accountant previously with Newship Group Limited. Joined TT Group in 1988.

REGISTERED OFFICE
Clive House
12-18 Queens Road
Weybridge
Surrey
KT13 9XB
Reg No 87249

BANKERS
HSBC Bank plc
National Westminster
Bank plc
Barclays Bank plc

AUDITORS
Grant Thornton
Melton Street
Euston Square
London NW1 2EP

REGISTRARS
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

***Back row left to right: Mark S Evans, Timothy H Reed, David E A Crowe, Roderick W Weaver, James W Armstrong***
***Front row left to right: Michael J Mallett, John W Newman, Sheridan W A Comonte***

**David E A Crowe**
Executive Director
(aged 60)
Appointed to the Board in 1993. Previously a senior partner of Gouldens – Solicitors.

**Timothy H Reed**
Non-executive Director
(aged 59)
Appointed to the Board in 1973. Non-executive Chairman from 1974 to 1995. Previously a senior partner of Dibb Lupton Alsop – Solicitors. Also a non-executive director of a number of private companies.

**Michael J Mallett**
Non-executive Director
(aged 68)
Appointed to the Board in 1984. A Chartered Accountant who is Chairman of Ayre Mallett and Co Limited and a number of other private companies. Previously Chairman of Polyhedron Holdings plc.

**Mark S Evans**
Non-executive Director
(aged 66)
Appointed to the Board in 1997. Formerly a director of Credit Lyonnais Laing. Currently a director of Mercury European Investment Trust PLC and Heavitree Brewery PLC.

**Group Secretary**
Martin G Leigh ACMA

# Directors' report

The Directors submit their report and the audited financial statements for the year ended 31 December 1999.

**Business review** The operational and financial reviews are set out on pages 14 to 19 of this Annual Report and should be read as part of the Directors' Report.

**Activities** TT Group PLC is a holding company providing management services to the Group. The principal operating subsidiaries, which are listed on page 60, operate in two sectors: Electronic and Industrial Engineering.

**Results** The Group's profit on ordinary activities before taxation was £38.0 million (1998 – £65.0 million). The audited financial statements of the Group are set out on pages 28 to 53.

**Acquisitions** On 28 May 1999 Prestwick Holdings plc became a subsidiary. The total consideration for the acquisition was £4.6 million. Further details are set out in note 24 to the financial statements.

On 8 January 2000 the Group entered into an agreement to acquire BI Technologies from Emerson Electric Inc for a cash consideration of £39.7 million. This consideration is subject to the agreement of completion accounts and certain local regulatory requirements. The consideration was satisfied from existing facilities. Net assets acquired are estimated at £15.0 million.

**Fixed assets** No professional valuation of land and buildings has been carried out during the year, but in the opinion of the Directors the market value, on an existing use basis, is considered not to be materially different from net book value.

**Dividends** The Directors recommend a final dividend of 6.10p per share (1998 – 6.10p) to be paid on 25 May 2000 to ordinary shareholders on the register at 12 May 2000 which, together with the interim dividend paid on 28 October 1999, makes a total of 9.79p for the year (1998 – 9.79p). After this distribution of £16.3 million, there is £11.0 million available to be added to Group reserves.

**Future prospects** The future prospects of the Group are referred to in the Chairman's Statement and Chief Executive's Review set out on pages 5 and 17 respectively.

**Directors** The Directors set out below held office throughout the year with the exception of M R Eke who resigned on 19 March 1999.

In accordance with the Articles of Association S W A Comonte, M S Evans and M J Mallett retire by rotation and, being eligible, offer themselves for re-election.

As a matter of policy no Director has a service contract or is employed on terms which require more than three months' notice on either side.

**Directors' interests** The Directors of the Company held beneficial interests in the following numbers of the Company's ordinary shares of 25p each on 1 January 1999, 31 December 1999 and 24 March 2000:

| | **24 March 2000 Ordinary shares** | **31 Dec 1999 Ordinary shares** | 1 Jan 1999 Ordinary shares |
|---|---|---|---|
| J W Newman | **15,532,627** | **15,482,627** | 14,562,627 |
| S W A Comonte | **64,500** | **64,500** | 64,500 |
| D E A Crowe | **48,454** | **48,454** | 38,454 |
| R W Weaver | **7,500** | **7,500** | 7,500 |
| J W Armstrong | **14,582** | **14,582** | 14,582 |
| T H Reed | **118,634** | **118,634** | 114,893 |
| M J Mallett | **391,826** | **391,826** | 391,826 |
| M S Evans | **20,000** | **20,000** | 7,500 |

The Directors of the Company held non-beneficial interests in the following numbers of the Company's ordinary shares of 25p each on 1 January 1999, 31 December 1999 and 24 March 2000:

| | **24 March 2000 Ordinary shares** | **31 Dec 1999 Ordinary shares** | 1 Jan 1999 Ordinary shares |
|---|---|---|---|
| J W Newman | **10,182,437** | **10,182,437** | 10,182,437 |
| D E A Crowe | **7,950** | **10,190,387** | 10,190,387 |

The issued ordinary shares in which J W Newman held a non-beneficial interest at 1 January 1999 and 31 December 1999 were the same shares as those in which D E A Crowe had a non-beneficial interest, and comprised part of the holding in which J W Newman held a beneficial interest.

The change in the number of ordinary shares in which D E A Crowe held a notifiable non-beneficial interest resulted from the distribution to beneficiaries of assets of a deceased's estate, of which D E A Crowe is an executor.

The issued ordinary shares in which J W Newman held a non-beneficial interest at 24 March 2000 comprised part of the holding in which he held a beneficial interest.

**Share capital** The share capital during the year and the number of ordinary shares reserved for issue are shown in note 21 to the financial statements.

**Annual General Meeting** Resolutions will be proposed at the Annual General Meeting to renew for a further year the authority of the Directors to allot and grant rights over the unissued share capital and to authorise the Directors to allot and grant rights over ordinary shares for cash up to a maximum nominal amount representing 5 per cent of the issued ordinary share capital without first making a pro rata offer to all existing ordinary shareholders.

A resolution will be proposed authorising the Company to make market purchases of its own shares of up to 15 per cent of the issued ordinary share capital. The Company will only make purchases of its own shares if the Directors are satisfied that it would be in the best interests of the Company to do so and that such purchases would result in an increase in the earnings per share attributable to ordinary shareholders.

A resolution will be proposed to cancel the authorised but unissued 10.875% convertible cumulative redeemable preference shares 1997 of £1 each.

**Substantial shareholdings** At 24 March 2000 the Company had been notified of the following disclosable interests which represented 3 per cent or more of the existing issued ordinary share capital.

| | Number | % |
|---|---|---|
| Phillips & Drew Fund Management Limited (1) | 29,701,772 | 17.8 |
| J W Newman (2) | 15,532,627 | 9.3 |
| Newship Industries Limited (2) | 10,182,437 | 6.1 |
| Newship Investments Limited (2) | 9,903,250 | 5.9 |
| FMR Corp. (3) | 6,412,272 | 3.8 |
| Tweedy, Browne Company LLC | 6,242,353 | 3.7 |

(1) Phillips & Drew Fund Management Limited, Phillips & Drew Life Limited, Phillips & Drew Holding Limited and Phillips & Drew International Investment Limited have notified an interest in the same shares.

(2) The TT Group shares in which Newship Industries Limited is interested are, as to 9,903,250 such shares, the same as those in which Newship Investments Limited is interested and comprise part of the holding of TT Group shares in which J W Newman is interested.

(3) FMR Corp., Fidelity International Limited and Edward C Johnson 3d have notified an interest in the same shares.

# Directors' report

CONTINUED

So far as can be ascertained no other person or corporation holds or is beneficially interested in any substantial part of the share capital of the Company.

**Charitable donations** During the year the Group contributed £38,000 (1998 – £50,000) for charitable purposes. There were no political contributions.

**Employees** Every company in the Group is encouraged to develop and implement employment policies and remuneration schemes, designed to identify employees with that company's achievements and ways in which their knowledge and skills can best contribute towards its success. The Directors recognise the importance of employee involvement throughout the Group which is fostered by the development of communications through the normal subsidiary company reporting procedures. The Group gives equal opportunities to disabled persons whenever possible, both in recruitment and career development.

**Auditors** A resolution will be proposed at the Annual General Meeting to re-appoint Grant Thornton as auditors to the Company and to authorise the Directors to fix their remuneration.

**Corporate governance** The Group has complied throughout the year with the provisions set out in Section 1 of the Combined Code of the London Stock Exchange Listing Rules. In complying with provision D.2.1 on internal control, the Group has adopted the transitional approach of reporting on internal financial control allowed by the Stock Exchange in its letter of 27 September 1999. The Group has established the procedures necessary to comply in full with the Combined Code with effect from 1 January 2000.

The Board aims to achieve high standards of corporate governance. It recognises that shareholders require leadership and control of the Company to accord with those standards.

The Board of TT Group PLC currently comprises the Executive Chairman, the Chief Executive, the Finance Director, two other executive Directors and three non-executive Directors. All the non-executive Directors are considered by the Board to be independent of the Company's management and free from any business or other relationship which could interfere with the exercise of their independent judgement. The Board meets every other month and has adopted a schedule of matters specifically reserved to itself for decision. Strategies proposed by the executive Directors are fully discussed at Board meetings. Discussions on all matters at Board meetings are based on timely distribution of written information to all Directors.

J W Newman, as Executive Chairman, takes the leading role in strategic planning. He is also primarily responsible for liaison with the Company's institutional investors and relationships with the Group's bankers.

J W Newman, S W A Comonte and R W Weaver meet institutional investors immediately after publication of the annual and interim results. They are also available at other times to enter into dialogue with institutional investors. The Annual General Meeting is used to communicate with private investors.

S W A Comonte, the Chief Executive, is responsible for the running of the Group's operating companies.

T H Reed, M J Mallett and M S Evans, the three non-executive Directors, bring a strong and independent element to the Board. They play a vital role in testing the corporate governance of the Company and keeping it robust. T H Reed has been designated senior independent Director.

The Board has established a Remuneration Committee and an Audit Committee each comprising the three non-executive Directors: T H Reed, M J Mallett and M S Evans. T H Reed is the Chairman of both Committees. The duties of the Audit Committee include keeping under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the auditors, reviewing any changes in accounting policies and practices, major judgemental decisions affecting half year and annual results and compliance with accounting standards and with the Companies Act, and considering the auditors' internal control report and management's response. The Audit Committee also keeps under review the nature and extent of non-audit services of the auditors.

When a Board appointment is to be made, each possible candidate is discussed by all Directors before any approach is made to any candidate. The decision to make a Board appointment is made by the full Board in the light of such discussions.

All Directors are subject to re-election every three years and, on appointment, at the first Annual General Meeting after appointment.

**Internal financial control** The Group is committed to a policy of maintaining strict internal financial control over all its activities.

The Board of Directors is responsible for the Group's system of internal financial control. Although no system of controls can provide absolute protection against material misstatement or loss, the Group's controls are designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are authorised and that material errors and irregularities are either prevented or are discovered on a timely basis. The system of control itself is well established. It is reviewed regularly and enhanced to meet the requirements of the Group's development.

Principal features of the system of internal financial control include:

- the Directors meet regularly as a Board to monitor financial performance and to maintain overall control of significant strategic and financial issues.
- the Group is structured so as to enable each operating company to be an autonomous unit, but subject to the policies, rules and procedures determined by the Directors. The Directors exercise control over operating companies through senior executives who monitor and oversee the financial performance and controls of each operating company. The directors of operating companies are held accountable for the effectiveness of the implementation and maintenance of controls within their companies. This provides constant and consistent management appropriate to a devolved structure.
- the Group has detailed and comprehensive financial planning and reporting systems. Detailed management accounts are prepared monthly by each operating company comparing actual performance with budget. The financial performance of each operating company is subjected to detailed formal review at monthly meetings. An important aspect of these reviews is the early identification of potential business risks and agreement on suitable and prompt courses of action. Operating companies prepare strategic plans and annual budgets which are implemented following review and approval by the Directors.
- the Group has comprehensive control and approval procedures which are rigorously enforced. Accounting and reporting policies and practices require that the Group's accounting records are prepared with consistency, accuracy and prudence. There are clear definitions of appropriate authorisation levels. Capital investment and other major items of expenditure are made only after compliance with detailed appraisal procedures and, if above a set level, only with the approval of the Directors.
- adherence to procedures is reviewed and supported by an internal control manager who reports to the Finance Director. The framework for maintaining control procedures is also monitored by the Audit Committee and the internal control manager.

- certain key functions, including funding, taxation, provision of legal advice, insurance and treasury are controlled at the Group's head office and are monitored by executive Directors.

The Directors have reviewed the effectiveness of the system of internal financial control, during the period covered by the accounting year to 31 December 1999 and the period since then to the date of this report.

**Supplier payments policy** The Group's policy in relation to the payment of its suppliers is to agree its terms of payment with each supplier when negotiating the terms of each business transaction. It is Group practice to abide by the agreed terms of payment unless the supplier defaults under its own obligations. Trade creditors at the year end amount to 49 days of average supplies for the year (1998 – 47 days).

**Environmental policy** TT Group companies adopt a responsible attitude towards the protection of the environment. The Group strives to meet requirements of all applicable environmental laws and regulations and encourages the latest quality accreditation (such as ISO 14001) where appropriate. It minimises energy use and seeks to reduce, re-use and re-cycle waste and arranges for disposal of other waste responsibly.

**Statement of Directors' responsibilities in relation to financial statements** The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

The Directors in preparing the financial statements are required to use suitable accounting policies and to apply them consistently, to make reasonable and prudent judgements and estimates and to state whether the accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company and the Group keep accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group at that time and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

**Going concern** The Directors confirm, after making appropriate enquiries, that 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 financial statements. The auditors' responsibilities are set out on page 27 and should be read in conjunction with this statement.

Approved by the Board on 24 March 2000 and signed on its behalf by

**M G Leigh**
Secretary

# Report of the auditors

**TO THE MEMBERS OF TT GROUP PLC**

We have audited the financial statements on pages 28 to 53 which have been prepared under the accounting policies set out on page 33.

**Respective responsibilities of Directors and auditors**

The Directors are responsible for preparing the Annual Report. As described on page 26, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 24 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**Basis of opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Grant Thornton**

Registered Auditors, Chartered Accountants

London

24 March 2000

# Consolidated profit and loss account

FOR THE YEAR ENDED 31 DECEMBER 1999

| | Note | 1999 Acquisition £million | 1999 £million | 1999 Total £million | 1998 Total £million |
|---|---|---|---|---|---|
| **Turnover** | 1 | 21.7 | 590.7 | 612.4 | 619.9 |
| Cost of sales | | (18.6) | (470.2) | (488.8) | (479.4) |
| **Gross profit** | | 3.1 | 120.5 | 123.6 | 140.5 |
| Sales and distribution costs | | (1.5) | (48.3) | (49.8) | (44.5) |
| Administration expenses | | (1.2) | (32.2) | (33.4) | (31.2) |
| Other operating income | | – | 0.9 | 0.9 | 1.7 |
| **Group operating profit** | | 0.4 | 40.9 | 41.3 | 66.5 |
| Share of operating profit of associate | | | | 0.3 | – |
| **Total operating profit: group and share of associate** | | | | 41.6 | 66.5 |
| Profit on sale of fixed asset investments | | | | 0.4 | – |
| Profit on sale of businesses | | | | – | 1.9 |
| **Profit on ordinary activities before interest** | | | | 42.0 | 68.4 |
| Interest | 2 | | | (4.0) | (3.4) |
| **Profit on ordinary activities before taxation** | 3 | | | 38.0 | 65.0 |
| Taxation | 4 | | | (10.6) | (18.1) |
| **Profit on ordinary activities after taxation** | | | | 27.4 | 46.9 |
| Minority interests | | | | (0.1) | – |
| **Profit for the year** | | | | 27.3 | 46.9 |
| Dividends | 5 | | | (16.3) | (16.3) |
| **Retained profit for the year** | 22 | | | 11.0 | 30.6 |
| **Earnings per share – basic** | 6 | | | 16.4p | 27.8p |
| **Earnings per share – fully diluted** | 6 | | | 16.4p | 27.7p |

The above results arise from continuing activities.

# Consolidated balance sheet

AT 31 DECEMBER 1999

| | Note | 1999 £million | 1998 £million |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 10 | **3.3** | 0.3 |
| Tangible assets | 11 | **182.7** | 173.5 |
| Investments: | | | |
| Investment in associate | 12 | **8.3** | – |
| Other investments | 12 | **–** | 12.3 |
| | | **194.3** | 186.1 |
| **Current assets** | | | |
| Stocks | 13 | **115.3** | 100.8 |
| Debtors | 14 | **118.5** | 121.9 |
| Investments | 15 | **1.0** | 2.1 |
| Cash | | **4.4** | 4.6 |
| | | **239.2** | 229.4 |
| Creditors falling due within one year | 16 | **(151.7)** | (143.0) |
| **Net current assets** | | **87.5** | 86.4 |
| **Total assets less current liabilities** | | **281.8** | 272.5 |
| Creditors falling due after more than one year | 17 | **(29.4)** | (29.7) |
| Provisions for liabilities and charges | 19 | **(10.6)** | (11.3) |
| Minority interests | 20 | **(3.3)** | (3.2) |
| **Total net assets** | | **238.5** | 228.3 |
| **Capital and reserves** | | | |
| Share capital | 21 | **41.6** | 41.6 |
| Share premium account | 22 | **56.0** | 56.0 |
| Capital redemption reserve | 22 | **1.5** | 1.5 |
| Profit and loss account | 22 | **139.4** | 129.2 |
| **Equity shareholders' funds** | | **238.5** | 228.3 |

Approved by the Directors on 24 March 2000 and signed on their behalf by

**J W Newman**
Director

**R W Weaver**
Director

# Consolidated cash flow statement

FOR THE YEAR ENDED 31 DECEMBER 1999

| | Note | 1999 £million | 1998 £million |
|---|---|---|---|
| **Net cash inflow from operating activities** | 23 | **63.5** | 76.4 |
| **Returns on investments and servicing of finance** | | | |
| Dividends received | | **0.4** | 0.2 |
| Interest paid | | **(4.7)** | (4.2) |
| Interest received | | **0.3** | 0.7 |
| **Net cash outflow from returns on investments and servicing of finance** | | **(4.0)** | (3.3) |
| **Taxation** | | **(12.9)** | (20.5) |
| **Capital expenditure and financial investment** | | | |
| Sale of tangible fixed assets | | **1.5** | 3.4 |
| Government grants received | | **0.7** | 0.3 |
| Sale of fixed asset investments | | **5.4** | – |
| Purchase of fixed asset investments | | **(4.6)** | (7.3) |
| Purchase of tangible fixed assets | | **(34.0)** | (42.5) |
| **Net cash outflow from capital expenditure and financial investment** | | **(31.0)** | (46.1) |
| **Acquisitions and disposals** | | | |
| Purchase of businesses | 24 | **(3.2)** | (1.9) |
| Sale of businesses | | **–** | 1.3 |
| **Net cash outflow from acquisitions and disposals** | | **(3.2)** | (0.6) |
| **Ordinary dividends paid** | | **(16.3)** | (15.6) |
| **Net cash outflow before liquid resources and financing** | | **(3.9)** | (9.7) |
| **Management of liquid resources** | | | |
| Purchase of current asset investments | | **(1.3)** | (1.4) |
| Sale of current asset investments | | **2.0** | 1.5 |
| **Net cash inflow from management of liquid resources** | | **0.7** | 0.1 |
| **Financing** | | | |
| Issue of ordinary share capital | | **–** | 0.5 |
| Purchase of own shares | | **–** | (7.0) |
| New loans | | **0.4** | 0.1 |
| Loan repayments | | **(1.0)** | (1.1) |
| Finance lease repayments | | **(0.9)** | – |
| **Net cash outflow from financing** | | **(1.5)** | (7.5) |
| **Decrease in cash** | 25 | **(4.7)** | (17.1) |

# Statement of total recognised gains and losses

FOR THE YEAR ENDED 31 DECEMBER 1999

| | 1999 £million | 1998 £million |
|---|---|---|
| **Profit for the year** | **27.3** | 46.9 |
| Exchange differences on net foreign currency investments | **(0.8)** | (1.5) |
| **Total recognised gains and losses** | **26.5** | 45.4 |

# Reconciliation of movements in shareholders' funds

FOR THE YEAR ENDED 31 DECEMBER 1999

| | 1999 £million | 1998 £million |
|---|---|---|
| **Profit for the year** | **27.3** | 46.9 |
| Exchange differences on net foreign currency investments | **(0.8)** | (1.5) |
| **Total recognised gains and losses** | **26.5** | 45.4 |
| Dividends | **(16.3)** | (16.3) |
| Share issues | – | 0.5 |
| Share buy back | – | (7.0) |
| Goodwill on disposals | – | (1.5) |
| **Net addition to shareholders' funds** | **10.2** | 21.1 |
| Opening shareholders' funds | **228.3** | 207.2 |
| **Closing shareholders' funds** | **238.5** | 228.3 |

# Company balance sheet

AT 31 DECEMBER 1999

| | Note | 1999 £million | 1998 £million |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 11 | **4.0** | 0.4 |
| Investments: | | | |
| Investment in associate | 12 | **8.1** | – |
| Other investments | 12 | **165.7** | 173.1 |
| | | **177.8** | 173.5 |
| **Current assets** | | | |
| Debtors | 14 | **79.0** | 91.1 |
| Investments | 15 | **1.0** | 0.9 |
| Cash | | **0.2** | 0.6 |
| | | **80.2** | 92.6 |
| Creditors falling due within one year | 16 | **(48.9)** | (49.9) |
| **Net current assets** | | **31.3** | 42.7 |
| **Total assets less current liabilities** | | **209.1** | 216.2 |
| Creditors falling due after more than one year | 17 | **(20.0)** | (20.0) |
| **Total net assets** | | **189.1** | 196.2 |
| **Capital and reserves** | | | |
| Share capital | 21 | **41.6** | 41.6 |
| Share premium account | 22 | **56.0** | 56.0 |
| Capital redemption reserve | 22 | **1.5** | 1.5 |
| Merger reserve | 22 | **70.3** | 70.3 |
| Profit and loss account | 22 | **19.7** | 26.8 |
| **Equity shareholders' funds** | | **189.1** | 196.2 |

Approved by the Directors on 24 March 2000 and signed on their behalf by

**J W Newman**
Director

**R W Weaver**
Director

# Accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards, under the historical cost convention and include the results of all subsidiary undertakings. The implementation of Financial Reporting Standard 12 Provisions, Contingent Liabilities and Contingent Assets, has required the restatement of comparatives for creditors and provisions. The principal accounting policies of the Group are set out below and have remained unchanged from the previous year.

**Basis of consolidation**
The Group's financial statements consolidate the financial statements of the Company and its subsidiary undertakings of which the principal ones are shown on page 60.

Subsidiary undertakings acquired or disposed of are consolidated for the periods from the effective dates of acquisition or to the effective dates of disposal.

**Associated undertakings**
Undertakings other than subsidiary undertakings, in which the Group has an investment over which it exerts significant influence, are treated as associated undertakings. The Group's share of profits and other recognised gains and losses of the associated undertakings are included in the Group's profit and loss account and statement of total recognised gains and losses.

The Group's balance sheet includes the appropriate share of the net assets of the associated undertakings.

**Turnover**
Turnover is the invoice value of goods and services supplied, excluding sales related taxes and includes the sales value of long term contracts appropriate to their state of completion.

**Depreciation**
No depreciation is provided on freehold land. Depreciation on other fixed assets including intangible assets is provided at rates calculated to write off their cost less estimated residual value over their expected useful lives, as shown in notes 10 and 11.

**Stocks**
Stocks and work in progress are valued at the lower of cost, including related overheads, and net realisable value. Long term contracts are valued at cost, including related overheads, less provision for foreseeable losses and after deduction of applicable payments on account.

**Deferred taxation**
Deferred taxation is the taxation attributable to timing differences between results computed for taxation purposes and results as stated in the financial statements. Provision for deferred taxation is made where it is probable that a liability will crystallise, at the rates estimated to be effective in the future.

**Goodwill**
Goodwill arising on acquisition is capitalised and is amortised on a straight line basis over its expected useful economic life.

Goodwill arising on acquisitions prior to 1 January 1998 was written off to reserves. On the subsequent disposal or discontinuance of a previously acquired business the relevant goodwill is dealt with through the profit and loss account.

**Investments**
Fixed asset investments are included at cost less amounts written off.

Current asset investments are included at the lower of cost and net realisable value.

**Leases**
Assets acquired under finance leases which confer substantially all the risks and rewards of ownership of an asset are capitalised and outstanding instalments, net of interest, are shown in creditors.

Payments on operating leases are charged to the profit and loss account on a straight line basis over the lease term.

**Foreign currencies**
Monetary assets and liabilities in foreign currency are translated at the rate ruling at the balance sheet date. Transactions during the year are translated at rates ruling at the time of the transactions. Profits, losses and cash flows of overseas subsidiaries are translated at the average rate applicable to the accounting year. Exchange differences on the restatement of the net investment in overseas subsidiaries and the difference between the profit and loss account translated at the average rate and the closing rate are recorded as movements on reserves. All other exchange differences are dealt with through the profit and loss account.

**Government grants**
Government grants relating to tangible fixed assets are treated as deferred income and credited to the profit and loss account by equal instalments over the anticipated useful lives of the assets to which the grants relate. Other grants are credited to the profit and loss account over the period of the project to which they relate.

**Pension schemes**
Defined benefit schemes' pension costs are charged against profits and are based on an actuarial method and actuarial assumptions designed to provide the anticipated pension costs over the service lives of the employees in the scheme, in a way which seeks to ensure that the regular pension cost represents a substantially level percentage of the current and expected future pensionable payroll in the light of current actuarial assumptions. Variations from regular cost are spread over the remaining service lives of current employees in the scheme.

Defined contribution schemes' pension costs are charged against profits and represent the amount of the contributions payable to the scheme in respect of the accounting year.

# Notes to the financial statements

### 1. ANALYSIS OF TURNOVER

| | 1999 £million | 1998 £million |
|---|---|---|
| **By Sector** | | |
| Electronic | **203.2** | 179.8 |
| Industrial Engineering | **409.2** | 440.1 |
| – Power Technology | **241.4** | 256.3 |
| – Industrial | **107.1** | 123.5 |
| – Packaging | **60.7** | 60.3 |
| | **612.4** | 619.9 |
| **By Origin** | | |
| United Kingdom | **441.7** | 465.2 |
| Rest of Europe | **81.3** | 75.9 |
| North America | **58.7** | 49.9 |
| Rest of the World | **30.7** | 28.9 |
| | **612.4** | 619.9 |
| **By Destination** | | |
| United Kingdom | **307.7** | 334.2 |
| Rest of Europe | **152.0** | 142.2 |
| North America | **76.8** | 67.2 |
| Rest of the World | **75.9** | 76.3 |
| | **612.4** | 619.9 |

The post acquisition results of Prestwick Holdings plc and its subsidiaries are included in the Electronic Sector.

### 2. INTEREST

| | 1999 £million | 1998 £million |
|---|---|---|
| Interest payable on bank loans and overdrafts | **4.6** | 4.3 |
| Finance charges on hire purchase contracts | **0.2** | – |
| Bank interest receivable | **(0.4)** | (0.6) |
| Investment income receivable | **(0.4)** | (0.3) |
| | **4.0** | 3.4 |

### 3. ANALYSIS OF PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| | 1999 £million | 1998 £million |
|---|---|---|
| Profit on ordinary activities before taxation is stated after charging/(crediting): | | |
| Depreciation | | |
| – tangible assets owned | **27.8** | 26.3 |
| – tangible assets hire purchase | **0.5** | – |
| Amortisation | | |
| – intangible assets | **0.2** | – |
| Fees to auditors | | |
| – audit services | **0.8** | 0.7 |
| – non audit services | **0.1** | – |
| Operating lease rentals | | |
| – plant and machinery | **0.6** | 0.4 |
| – other | **2.4** | 2.4 |
| Loss/(Profit) on disposal of current asset investments | **0.4** | (0.4) |
| Government grants credited | **(0.7)** | (0.7) |
| **By Sector** | | |
| Electronic | **21.1** | 29.1 |
| Industrial Engineering | **20.5** | 37.4 |
| – Power Technology | **7.1** | 18.5 |
| – Industrial | **6.5** | 9.9 |
| – Packaging | **6.9** | 9.0 |
| Total operating profit | **41.6** | 66.5 |
| Profit on sale of fixed asset investments and businesses | **0.4** | 1.9 |
| | **42.0** | 68.4 |
| Interest | **(4.0)** | (3.4) |
| Profit on ordinary activities before taxation | **38.0** | 65.0 |
| **By Origin** | | |
| United Kingdom | **22.6** | 46.1 |
| Rest of Europe | **6.2** | 8.4 |
| North America | **9.5** | 8.3 |
| Rest of the World | **3.3** | 3.7 |
| Total operating profit | **41.6** | 66.5 |
| Profit on sale of fixed asset investments and businesses | **0.4** | 1.9 |
| | **42.0** | 68.4 |
| Interest | **(4.0)** | (3.4) |
| Profit on ordinary activities before taxation | **38.0** | 65.0 |

The profit on the sale of fixed asset investments in 1999 was as a result of the sale of the Group's investments in Delta plc and Hall Engineering (Holdings) P.L.C..

# Notes to the financial statements

CONTINUED

### 4. TAXATION

| | 1999 £million | 1998 £million |
|---|---|---|
| UK corporation tax at 30.25% (1998 – 31.0%) based on the taxable profits for the year | **5.9** | 14.0 |
| Deferred taxation (see note 19) | **0.7** | 1.3 |
| Taxation on share of profits of associated undertaking | **0.1** | – |
| Overseas taxation | **3.9** | 2.8 |
| | **10.6** | 18.1 |

There was no tax charge arising from the exceptional items (1998 – £nil).

The tax charge for the year represents an effective rate of 27.9% (1998 – 27.8%) after taking account of the utilisation of tax losses available within the Group.

At 31 December 1999 there were unrelieved tax losses of approximately £6.0 million (1998 – £5.8 million) available for relief against future profits in certain subsidiary undertakings.

### 5. DIVIDENDS

| | 1999 pence per share | 1998 pence per share | 1999 £million | 1998 £million |
|---|---|---|---|---|
| **Equity** | | | | |
| Ordinary dividends | | | | |
| – Interim, paid | **3.69** | 3.69 | **6.1** | 6.1 |
| – Final, proposed | **6.10** | 6.10 | **10.2** | 10.2 |
| | **9.79** | 9.79 | **16.3** | 16.3 |

### 6. EARNINGS PER SHARE

Basic earnings per share of 16.4p (1998 – 27.8p) are calculated on profit attributable to ordinary shareholders of £27.3 million (1998 – £46.9 million) and on 166,366,767 ordinary shares being the weighted average number in issue during the year (1998 – 168,943,638). The calculation of fully diluted earnings per share assumes the exercise of dilutive share options equivalent to 36,097 ordinary shares (1998 – 238,296) and is based on earnings of £27.3 million (1998 – £46.9 million) and on 166,402,864 ordinary shares (1998 – 169,181,934).

## 7. EMPLOYEES

| The average number of employees (including Directors) during the year was: | 1999 Number | 1998 Number |
|---|---|---|
| **By Function** | | |
| Production | **7,056** | 7,290 |
| Sales and distribution | **975** | 945 |
| Administration | **634** | 629 |
| | **8,665** | 8,864 |
| **By Sector** | | |
| Electronic | **3,418** | 3,207 |
| Industrial Engineering | **5,247** | 5,657 |
| – Power Technology | **1,915** | 2,102 |
| – Industrial | **2,325** | 2,533 |
| – Packaging | **1,007** | 1,022 |
| | **8,665** | 8,864 |

| | 1999 £million | 1998 £million |
|---|---|---|
| The aggregate emoluments (including those of Directors) for the year were: | | |
| Wages and salaries | **141.8** | 137.7 |
| Employers' social security charges | **15.7** | 15.4 |
| Employers' pension costs | **6.0** | 5.5 |
| | **163.5** | 158.6 |
| Remuneration in respect of the Directors was as follows: | | |
| Emoluments | **1.1** | 1.1 |
| Pension contributions to personal pension plans | **–** | – |
| | **1.1** | 1.1 |
| Gain on exercise of share options | **–** | 0.2 |

Further details of individual Directors' remuneration, pension benefits and share options are shown in the Report on Directors' remuneration on pages 54 to 57.

### 8. RELATED PARTY TRANSACTIONS

Subsidiary undertakings of the Group in the ordinary course of their respective businesses supplied and purchased goods and services valued at the aggregate of £63,000 (1998 – £61,000) and £42,000 (1998 – £88,000) respectively to companies in which J W Newman was interested during the year. Such supplies were made on normal credit terms. Additionally, the Company in the ordinary course of its business leased premises and provided normal services in respect of such premises to a company wholly owned by J W Newman during the year. The annual rental aggregating £6,000 (1998 – £6,000) and the annual service charge aggregating £10,800 (1998 – £10,800) were calculated on open market bases and were paid monthly. Subsidiary undertakings of the Group also in the ordinary course of business leased premises from companies wholly owned by J W Newman during the year. The annual rentals, including service charges where applicable, aggregating £260,000 (1998 – £253,000) were calculated on open market bases and were paid monthly.

### 9. ANALYSIS OF NET ASSETS

| | 1999 £million | 1998 £million |
|---|---|---|
| Shareholders' funds | **238.5** | 228.3 |
| Loans and finance leases | | |
| – falling due within one year | **3.7** | 1.1 |
| – falling due after more than one year | **23.8** | 23.8 |
| | **266.0** | 253.2 |
| Bank overdrafts less cash and liquid resources | **15.0** | 9.2 |
| | **281.0** | 262.4 |
| **By Sector** | | |
| Electronic | **91.4** | 77.1 |
| Industrial Engineering | **189.6** | 185.3 |
| – Power Technology | **104.9** | 105.3 |
| – Industrial | **36.0** | 34.1 |
| – Packaging | **48.7** | 45.9 |
| | **281.0** | 262.4 |
| **By Origin** | | |
| United Kingdom | **202.4** | 190.7 |
| Rest of Europe | **27.8** | 26.3 |
| North America | **39.4** | 35.0 |
| Rest of the World | **11.4** | 10.4 |
| | **281.0** | 262.4 |

## 10. INTANGIBLE FIXED ASSETS

| | Goodwill £million | Other £million | Total £million |
|---|---|---|---|
| **Group** | | | |
| Cost at 1 January 1999 | 0.2 | 0.2 | 0.4 |
| Additions | 3.2 | – | 3.2 |
| **Cost at 31 December 1999** | **3.4** | **0.2** | **3.6** |
| Amortisation at 1 January 1999 | – | 0.1 | 0.1 |
| Charge for the year | 0.1 | 0.1 | 0.2 |
| **Amortisation at 31 December 1999** | **0.1** | **0.2** | **0.3** |
| Net book amounts | | | |
| **At 31 December 1999** | **3.3** | **–** | **3.3** |
| At 31 December 1998 | 0.2 | 0.1 | 0.3 |

Goodwill, amortised over 20 years on a straight line basis, arose on the acquisition of Prestwick Holdings plc, see note 24.

Other intangible assets comprise patents and manufacturing licences. These are being amortised on a straight line basis over their expected useful lives.

## 11. TANGIBLE FIXED ASSETS

| | Freehold land and buildings £million | Leasehold land and buildings £million | Plant, equipment and vehicles £million | Total £million |
|---|---|---|---|---|
| **Group** | | | | |
| Cost at 1 January 1999 | 73.4 | 8.1 | 275.6 | 357.1 |
| Additions | 6.6 | 0.1 | 27.3 | 34.0 |
| Acquisitions | 0.9 | 0.3 | 36.5 | 37.7 |
| Disposals | (0.5) | (0.5) | (8.8) | (9.8) |
| Exchange translation differences | (0.5) | (0.2) | (2.4) | (3.1) |
| **Cost at 31 December 1999** | **79.9** | **7.8** | **328.2** | **415.9** |
| Depreciation at 1 January 1999 | 16.2 | 2.7 | 164.7 | 183.6 |
| Charge for the year | 1.6 | 0.3 | 26.4 | 28.3 |
| Acquisitions | 0.4 | 0.2 | 31.2 | 31.8 |
| Disposals | (0.1) | (0.3) | (8.3) | (8.7) |
| Exchange translation differences | (0.1) | (0.1) | (1.6) | (1.8) |
| **Depreciation at 31 December 1999** | **18.0** | **2.8** | **212.4** | **233.2** |
| Net book amounts | | | | |
| **At 31 December 1999** | **61.9** | **5.0** | **115.8** | **182.7** |
| At 31 December 1998 | 57.2 | 5.4 | 110.9 | 173.5 |

The figures stated above for plant, equipment and vehicles include assets held under finance leases with a net book amount of £2.6 million (1998 – £nil million).

**11. TANGIBLE FIXED ASSETS** CONTINUED

The net book amount of freehold land and buildings includes £16.0 million (1998 – £15.8 million) in respect of land.

The net book amount of leasehold land and buildings comprises long leasehold (over 50 years) of £3.3 million (1998 – £3.3 million) and short leasehold of £1.7 million (1998 – £2.1 million).

Depreciation is provided, other than on freehold land, at the following annual rates on a straight line basis:

| | |
|---|---|
| Freehold buildings | 2% |
| Leasehold land and buildings | 2% (or over the period of the lease, if less than 50 years) |
| Plant, equipment and vehicles | 4% to 33% |

| | Freehold land and buildings £million | Plant, equipment and vehicles £million | Total £million |
|---|---|---|---|
| **Company** | | | |
| Cost at 1 January 1999 | – | 0.8 | 0.8 |
| Additions | 3.8 | 0.1 | 3.9 |
| **Cost at 31 December 1999** | **3.8** | **0.9** | **4.7** |
| Depreciation at 1 January 1999 | – | 0.4 | 0.4 |
| Charge for the year | 0.1 | 0.2 | 0.3 |
| **Depreciation at 31 December 1999** | **0.1** | **0.6** | **0.7** |
| Net book amounts | | | |
| **At 31 December 1999** | **3.7** | **0.3** | **4.0** |
| At 31 December 1998 | – | 0.4 | 0.4 |

**12. FIXED ASSET INVESTMENTS**

| | Share of net assets £million | Goodwill £million | Total £million |
|---|---|---|---|
| **Group** | | | |
| Investment in associate | | | |
| At 1 January 1999 | – | – | – |
| Transfer from other fixed asset investments | 8.6 | (0.5) | 8.1 |
| Share of profit of associate | 0.2 | – | 0.2 |
| **Net book amount at 31 December 1999** | **8.8** | **(0.5)** | **8.3** |

**12. FIXED ASSET INVESTMENTS** CONTINUED

| | UK Listed. at cost £million |
|---|---|
| **Group** | |
| At 1 January 1999 | 12.3 |
| Additions | 5.2 |
| Reclassification | (12.5) |
| Disposals | (5.0) |
| **At 31 December 1999** | **–** |

| | Associated undertakings £million | UK Listed. at cost £million | Subsidiary undertakings £million | Total £million |
|---|---|---|---|---|
| **Company** | | | | |
| At 1 January 1999 | – | 12.3 | 160.8 | 173.1 |
| Additions | – | 5.2 | 0.5 | 5.7 |
| Reclassification | 8.1 | (12.5) | 4.4 | – |
| Disposals | – | (5.0) | – | (5.0) |
| **At 31 December 1999** | **8.1** | **–** | **165.7** | **173.8** |

The reclassification of UK listed investments arises from the transfers of the shareholding in Johnston Group PLC to associated undertakings (£8.1 million) and of the shareholding in Prestwick Holdings plc to subsidiary undertakings (£4.4 million).

The Group's principal operating subsidiary undertakings and the location of their principal operations are shown on page 60.

TT Group PLC owns 100% of the ordinary share capital or equivalent and 100% of voting rights of all Group subsidiary undertakings other than Rodco Limited which is 60% owned. Shareholdings are held indirectly for all principal operating subsidiary undertakings except Prestwick Holdings plc. BAS Components Limited. Rodco Limited and Beatson Clark plc. which are directly held by TT Group PLC.

TT Group PLC owns 20.2% of the equity share capital of Johnston Group PLC which became an associated undertaking on 30 September 1999. The shares are listed on the London Stock Exchange with a market value at 31 December 1999 of £7.9 million.

Prestwick Holdings plc became a subsidiary on 28 May 1999. see note 24.

## Notes to the financial statements

CONTINUED

### 13. STOCKS

| | 1999 £million | 1998 £million |
|---|---|---|
| **Group** | | |
| Raw materials | **38.2** | 29.8 |
| Work in progress | **26.6** | 23.1 |
| Finished goods | **50.5** | 47.9 |
| | **115.3** | 100.8 |

Work in progress includes £2.0 million (1998 – £0.1 million) of long term contracts and is shown after deduction of payments on account of £1.5 million (1998 – £0.4 million).

### 14. DEBTORS

| | Group 1999 £million | Group 1998 £million | Company 1999 £million | Company 1998 £million |
|---|---|---|---|---|
| **Amounts falling due within one year** | | | | |
| Trade debtors | **100.9** | 105.6 | **–** | – |
| Amounts owed by subsidiary undertakings | | | **78.4** | 86.5 |
| Other debtors | **3.6** | 4.8 | **–** | – |
| Prepayments and accrued income | **11.0** | 8.7 | **0.6** | 0.6 |
| Advance corporation tax recoverable | **0.1** | 0.1 | **–** | 4.0 |
| Pension prepayment | **1.4** | 0.7 | **–** | – |
| | **117.0** | 119.9 | **79.0** | 91.1 |
| **Amounts falling due after more than one year** | | | | |
| Other debtors | **0.1** | – | **–** | – |
| Advance corporation tax recoverable | **0.3** | 0.9 | **–** | – |
| Pension prepayment | **1.1** | 1.1 | **–** | – |
| | **1.5** | 2.0 | **–** | – |
| | **118.5** | 121.9 | **79.0** | 91.1 |

## 15. CURRENT ASSET INVESTMENTS

| | Group UK Listed £million | Company UK Listed £million |
|---|---|---|
| At 1 January 1999 | 2.1 | 0.9 |
| Additions | 1.3 | 1.2 |
| Disposals | (2.4) | (1.1) |
| **At 31 December 1999** | **1.0** | **1.0** |

The UK listed investments are all listed on the London Stock Exchange and are classified as liquid resources in the consolidated cash flow statement.

The market value of investments at 31 December 1999 is £1.0 million (1998 – £2.1 million) for the Group and £1.0 million (1998 – £1.1 million) for the Company.

## 16. CREDITORS FALLING DUE WITHIN ONE YEAR

| | **Group 1999 £million** | Group 1998 £million | **Company 1999 £million** | Company 1998 £million |
|---|---|---|---|---|
| Bank overdrafts | **20.4** | 15.9 | **0.1** | – |
| Loan notes | **0.1** | 0.1 | **0.1** | 0.1 |
| Bank loans | **1.8** | 0.9 | **–** | – |
| Other loans | **–** | 0.1 | **–** | – |
| Amounts due under finance leases | **1.8** | – | **–** | – |
| Trade creditors | **72.0** | 66.0 | **0.4** | 0.3 |
| Amounts owed to subsidiary undertakings | | | **30.2** | 30.1 |
| Corporation tax | **11.6** | 14.0 | **2.5** | 2.5 |
| Advance corporation tax | **–** | 1.5 | **–** | 1.5 |
| Taxation and social security | **6.3** | 8.6 | **2.4** | 1.9 |
| Other creditors | **5.6** | 3.0 | **–** | – |
| Accruals and deferred income | **21.9** | 22.7 | **3.0** | 3.3 |
| Dividends | **10.2** | 10.2 | **10.2** | 10.2 |
| | **151.7** | 143.0 | **48.9** | 49.9 |

Amounts due under finance leases are secured on assets to which they relate.

The loan notes of the Company bearing interest at 9% per annum (gross) were issued on 11 July 1991 and are redeemable at par value at the option of the holders on 30 June and 31 December in any year with a final redemption date of 31 December 2001. The comparatives for the Group have been restated to reflect the transfer of provisions to provisions for liabilities and charges, in accordance with Financial Reporting Standard 12 Provisions, Contingent Liabilities and Contingent Assets.

# Notes to the financial statements

CONTINUED

### 17. CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR

| | Group 1999 £million | Group 1998 £million | Company 1999 £million | Company 1998 £million |
|---|---|---|---|---|
| Bank loans | **22.1** | 23.8 | **20.0** | 20.0 |
| Amounts due under finance leases | **1.7** | – | **–** | – |
| Accruals and deferred income | **2.2** | 2.6 | **–** | – |
| Pension accrual | **3.4** | 3.3 | **–** | – |
| | **29.4** | 29.7 | **20.0** | 20.0 |

### 18. BORROWINGS AND FINANCIAL INSTRUMENTS

TT Group's borrowings are primarily bank overdrafts and a £20 million fixed interest rate medium term sterling loan. The Group has no interest rate swaps or forward interest rate agreements. The Group has not hedged the exposure to translation differences of its overseas subsidiary balance sheets held in foreign currencies. There is also a currency exposure on the translation of profits earned in overseas subsidiaries, primarily in North America and Continental Europe. Exchange differences arising from the retranslation of the Group's investment in overseas subsidiaries are dealt with as a movement on reserves and reported in the Statement of Total Recognised Gains and Losses. The Group seeks to avoid currency exposures on sales and purchasing transactions by the use of forward currency contracts. Apart from purchases and sales of current asset investments the Group does not trade in financial instruments.

Short term debtors and creditors have been excluded from the following disclosures, other than the currency risk disclosures.

**Financial liabilities**

The interest rate profile of the Group's financial liabilities at 31 December 1999 was:

| | Weighted average fixed interest rate % | Period for which rate is fixed in years | Fixed rate £million | Floating rate £million | Total £million |
|---|---|---|---|---|---|
| **1999** | | | | | |
| Sterling | 11.4 | 2.6 | 23.6 | 13.8 | 37.4 |
| US Dollar | – | – | – | 5.0 | 5.0 |
| Euro currencies | 5.2 | 3.3 | 3.2 | 2.1 | 5.3 |
| Other | – | – | – | 0.2 | 0.2 |
| | | | **26.8** | **21.1** | **47.9** |
| **1998** | | | | | |
| Sterling | 11.4 | 3.6 | 20.1 | 8.1 | 28.2 |
| US Dollar | – | – | – | 7.7 | 7.7 |
| Euro currencies | 5.4 | 4.2 | 4.0 | 0.7 | 4.7 |
| Other | 16.7 | 0.7 | 0.2 | – | 0.2 |
| | | | 24.3 | 16.5 | 40.8 |

The floating rate debts in sterling and US dollars bear interest based on the UK base rate and US prime rate respectively.

**18. BORROWINGS AND FINANCIAL INSTRUMENTS** CONTINUED

**Maturity profile of financial liabilities**

| | **Group 1999 £million** | Group 1998 £million | **Company 1999 £million** | Company 1998 £million |
|---|---|---|---|---|
| **In less than one year or on demand** | | | | |
| Bank borrowings | **22.2** | 16.8 | **0.1** | – |
| Finance leases | **1.8** | – | **–** | – |
| Other loans | **0.1** | 0.2 | **0.1** | 0.1 |
| **Between one and two years** | | | | |
| Bank borrowings | **0.7** | 1.3 | **–** | – |
| Finance leases | **1.7** | – | **–** | – |
| **Between two and five years** | | | | |
| Bank borrowings | **21.0** | 20.6 | **20.0** | 20.0 |
| **After five years** | | | | |
| Bank borrowings | **0.4** | 1.9 | **–** | – |
| | **47.9** | 40.8 | **20.2** | 20.1 |

Bank loans of £0.2 million (1998 – £0.2 million) are secured on land and buildings pertaining to the particular facility. Certain bank overdrafts are subject to cross guarantees within the Group.

Undrawn committed borrowing facilities at 31 December 1999, which are due for renewal in October 2000, amounted to £9.3million (1998 – £6.0 million).

**Fair values**

The fair values of financial assets and liabilities are shown below:

| | **31 December 1999** | | 31 December 1998 | |
|---|---|---|---|---|
| | **Book value £million** | **Fair value £million** | Book value £million | Fair value £million |
| **Financial Assets** | | | | |
| Fixed asset investments | **8.3** | **8.3** | 12.3 | 8.2 |
| Current asset investments | **1.0** | **1.0** | 2.1 | 2.1 |
| Cash | **4.4** | **4.4** | 4.6 | 4.6 |
| **Financial Liabilities** | | | | |
| Bank overdrafts | **(20.4)** | **(20.4)** | (15.9) | (15.9) |
| Loan notes | **(0.1)** | **(0.1)** | (0.1) | (0.1) |
| Other loans | **–** | **–** | (0.1) | (0.1) |
| Bank loans due within one year | **(1.8)** | **(1.8)** | (0.9) | (0.9) |
| Finance leases due within one year | **(1.8)** | **(1.8)** | – | – |
| Bank loans due after one year | **(22.1)** | **(23.6)** | (23.8) | (25.8) |
| Finance leases due after one year | **(1.7)** | **(1.7)** | – | – |
| | **(34.2)** | **(35.7)** | (21.8) | (27.9) |

**Currency exposures on monetary assets and liabilities**

The Group's policy is to hedge short term debtors and creditors by the use of forward currency contracts and there are no material currency exposures on monetary assets and liabilities.

### 19. PROVISIONS FOR LIABILITIES AND CHARGES

| | Other provisions £million | Deferred tax £million | Total £million |
|---|---|---|---|
| **Group** | | | |
| At 1 January 1999 | 3.0 | 8.3 | 11.3 |
| Charged to profit and loss account | (0.5) | 0.7 | 0.2 |
| Acquisitions | 0.4 | (1.4) | (1.0) |
| Exchange translation differences | – | 0.1 | 0.1 |
| **At 31 December 1999** | **2.9** | **7.7** | **10.6** |

| | **1999 Amount provided £million** | 1998 Amount provided £million | **1999 Amount unprovided £million** | 1998 Amount unprovided £million |
|---|---|---|---|---|
| The deferred tax provision comprises: | | | | |
| Accelerated capital allowances | **7.0** | 9.6 | **2.7** | 2.8 |
| Other short term timing differences | **0.7** | (1.3) | **–** | – |
| | **7.7** | 8.3 | **2.7** | 2.8 |

The amount unprovided represents a contingent liability at the balance sheet date. There are unrelieved tax losses of approximately £6.0 million (1998 – £5.8 million) not utilised against the deferred tax provisions noted above and available for relief against future profits in certain subsidiary undertakings. No provision is made for any liability that may arise in the event that any reserves of overseas subsidiary undertakings are distributed. There is no unprovided deferred tax in respect of the Company.

Other provisions are mainly for environmental costs and onerous contracts. The comparatives for the Group have been restated to reflect the transfer of provisions to provisions for liabilities and charges, in accordance with Financial Reporting Standard 12, Provisions, Contingent Liabilities and Contingent Assets.

The Company had no provisions for liabilities and charges (1998 – £nil million).

### 20. MINORITY INTERESTS

Minority interests comprise a 40 per cent equity interest in Rodco Limited not owned by the Group.

## 21. SHARE CAPITAL

| | 1999 £million | 1998 £million |
|---|---|---|
| **Authorised** | | |
| 226,000,000 (1998 – 226,000,000) ordinary shares of 25p each | **56.5** | 56.5 |
| 22,500,000 (1998 – 22,500,000) 10.875% convertible cumulative redeemable preference shares 1997 of £1 each | **22.5** | 22.5 |
| | **79.0** | 79.0 |
| **Issued, called up and fully paid** | | |
| 166,366,767 (1998 – 166,366,767) ordinary shares of 25p each | **41.6** | 41.6 |

Ordinary shares of 25p each are equity share capital.

10.875% convertible cumulative redeemable preference shares 1997 of £1 each represent non-equity authorised share capital.

**Share option schemes** At 31 December 1999 options were exercisable over 3,118,628 (1998 – 2,340,815) ordinary shares under the Group share option schemes up to 2009. Subscription prices range from 136.0p to 359.0p with an average of 244.0p. Subsequent to 31 December 1999 no options have been exercised or have lapsed.

**Executive Scheme** This scheme for senior executives was approved at an Extraordinary General Meeting on 30 November 1984. The ability to grant options under this scheme terminated in November 1994.

The options outstanding at the date of this report are over a total of 580,688 ordinary shares and such options are:

| Exercisable on or after | Options | Subscription price |
|---|---|---|
| 18.11.1996 | 279,592 | 219.3p |
| 09.11.1997 | 301,096 | 232.0p |

**1994 Executive Scheme** This scheme for senior executives was approved at the Annual General Meeting on 24 May 1994. On 31 March 1999 options over 421,657 ordinary shares exercisable at 177.5p were granted. The options outstanding at the date of this report are over 1,100,543 ordinary shares and such options are:

| Exercisable on or after | Options | Subscription price |
|---|---|---|
| 04.04.1998 | 189,315 | 241.0p |
| 15.04.1999 | 170,275 | 319.0p |
| 22.04.2000 | 123,208 | 359.0p |
| 24.03.2001 | 233,434 | 300.0p |
| 31.03.2002 | 384,311 | 177.5p |

**21. SHARE CAPITAL** CONTINUED

**1996 Executive Scheme** This scheme for senior executives was approved at the Annual General Meeting on 14 May 1996. On 31 March 1999 options over 255,137 ordinary shares exercisable at 177.5p were granted. On 15 September 1999 options over 514,703 ordinary shares exercisable at 136.0p were granted. The options outstanding at the date of this report are over 1,437,397 ordinary shares and such options are:

| Exercisable on or after | Options | Subscription price |
|---|---|---|
| 06.06.1999 | 213,050 | 353.0p |
| 22.04.2000 | 300,073 | 359.0p |
| 24.03.2001 | 178,096 | 300.0p |
| 31.03.2002 | 231,475 | 177.5p |
| 15.09.2002 | 514,703 | 136.0p |

Options issued under the 1994 and 1996 Executive Share Option Schemes may not be generally exercised for a period of three years from the date of grant and are conditional on there being an increase in headline consolidated earnings per share (excluding any exceptional and/or extraordinary items) as shown in the audited financial statements of the Company and its subsidiaries over any consecutive three year period between the date of grant and the date of exercise of an average of 2 per cent per annum above the increase in the All Items Index of Retail Prices over the same period. For this purpose headline consolidated earnings per share on any relevant date is that shown in the audited financial statements of the Company and its subsidiaries last published prior to such date.

**22. RESERVES**

| | Share premium account £million | Capital redemption reserve £million | Merger reserve £million | Profit and loss account £million |
|---|---|---|---|---|
| **Group** | | | | |
| At 1 January 1999 | 56.0 | 1.5 | – | 129.2 |
| Retained profit for the year | – | – | – | 11.0 |
| Exchange translation differences | – | – | – | (0.8) |
| **At 31 December 1999** | **56.0** | **1.5** | **–** | **139.4** |

The goodwill arising on the acquisition of subsidiary undertakings charged to reserves at 31 December 1999, amounts to £75.3 million (1998 – £75.3 million) of which £70.3 million has been previously written off to merger reserve and the balance to profit and loss account.

## 22. RESERVES CONTINUED

| | Share premium account £million | Capital redemption reserve £million | Merger reserve £million | Profit and loss account £million |
|---|---|---|---|---|
| ***Company*** | | | | |
| At 1 January 1999 | 56.0 | 1.5 | 70.3 | 26.8 |
| Retained profit for the year | – | – | – | (7.1) |
| **At 31 December 1999** | **56.0** | **1.5** | **70.3** | **19.7** |

In accordance with the exemption allowed by Section 230 of the Companies Act 1985, the Company has not presented its own profit and loss account. Of the profit available for appropriation, the sum of £9.2 million (1998 – £24.4 million) has been dealt with in the financial statements of the Company.

## 23. RECONCILIATION OF GROUP OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | **1999 £million** | 1998 £million |
|---|---|---|
| Total operating profit | **41.6** | 66.5 |
| Depreciation | **28.3** | 26.3 |
| Amortisation | **0.2** | – |
| Government grants credited to profit | **(0.7)** | (0.7) |
| Profit on sale of tangible fixed assets | **(0.4)** | (0.7) |
| Share of profits of associated undertaking | **(0.3)** | – |
| (Increase)/Decrease in stocks | **(11.9)** | 7.7 |
| Decrease in debtors | **9.1** | 2.3 |
| (Decrease) in creditors | **(2.7)** | (23.2) |
| Loss/(Profit) on disposal of current asset investments | **0.4** | (0.4) |
| Movement on pension prepayments and accruals | **0.2** | 0.3 |
| Exchange translation differences | **(0.3)** | (1.7) |
| ***Net cash inflow from operating activities*** | **63.5** | 76.4 |

**24. ACQUISITION**

Prestwick Holdings plc, a manufacturer of printed circuit boards, became a subsidiary of the Group on 28 May 1999.

| **Assets acquired:** | Book value £million | Valuation adjustments £million | Book value and fair value £million |
|---|---|---|---|
| Tangible fixed assets (i) | 11.3 | (5.4) | 5.9 |
| Stocks (ii) | 4.1 | (1.4) | 2.7 |
| Debtors | 5.6 | 0.1 | 5.7 |
| Net cash/(overdrafts) | (2.4) | – | (2.4) |
| Bank loan | (0.1) | – | (0.1) |
| Trade and other creditors | (7.0) | (0.4) | (7.4) |
| Hire purchase | (4.4) | – | (4.4) |
| Deferred tax (iii) | (0.1) | 1.5 | 1.4 |
| Total net assets | 7.0 | (5.6) | 1.4 |
| Goodwill | | | 3.2 |
| Cost of acquisition | | | 4.6 |

| Satisfied by: | £million |
|---|---|
| Consideration – cash | 0.6 |
| – transfer from fixed asset investments | 3.8 |
| Cash costs | 0.2 |
| | 4.6 |

**Notes**

(i) Property has been increased by £0.1 million to reflect current market value. The value of plant and machinery has been reduced by £5.5 million based on the lower of depreciated replacement cost and recoverable amount.

(ii) Stocks have been restated using TT Group accounting policies.

(iii) Deferred tax adjustments arise from the fair value adjustments to plant and equipment and the ability to utilise Prestwick tax losses.

| **Cash outflows in respect of acquisitions** | £million |
|---|---|
| Consideration | 0.6 |
| Cash costs | 0.2 |
| Net bank overdrafts | 2.4 |
| | 3.2 |

## 25. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | Cash at bank £million | Bank overdrafts £million | Net cash/ (overdraft) £million | Short term investments £million | Loans and finance lease obligations £million | Net debt £million |
|---|---|---|---|---|---|---|
| *Balance at 31 December 1997* | 9.6 | (4.1) | 5.5 | 3.1 | (25.9) | (17.3) |
| Cash flow | (5.1) | (12.0) | (17.1) | (0.1) | 1.0 | (16.2) |
| Exchange differences | 0.1 | 0.2 | 0.3 | – | – | 0.3 |
| Other non cash movements | – | – | – | (0.9) | – | (0.9) |
| Balance at 31 December 1998 | 4.6 | (15.9) | (11.3) | 2.1 | (24.9) | (34.1) |
| Cash flow | (0.4) | (4.3) | (4.7) | (0.7) | 1.5 | (3.9) |
| Acquisition | – | – | – | – | (4.5) | (4.5) |
| Exchange differences | 0.2 | (0.2) | – | – | 0.4 | 0.4 |
| Other non cash movements | – | – | – | (0.4) | – | (0.4) |
| **Balance at 31 December 1999** | **4.4** | **(20.4)** | **(16.0)** | **1.0** | **(27.5)** | **(42.5)** |

## *26. GUARANTEES AND FINANCIAL COMMITMENTS*

Financial commitments relating to bank loans are set out in notes 16 and 18. The Company has no guarantees or contingent financial commitments.

## 27. CONTINGENT LIABILITIES

Apart from deferred taxation shown in note 19 the Group has contingent liabilities amounting to £1.8 million (1998 – £2.7 million) in respect of performance bonds and guarantees entered into during the normal course of business.

The Company and the Group have no other contingent liabilities which could have a material adverse effect on their financial position.

### 28. CAPITAL COMMITMENTS

| | 1999 £million | 1998 £million |
|---|---|---|
| **Group** | | |
| Commitments were: | | |
| Contracted | **6.5** | 8.2 |
| Authorised but not contracted | **12.0** | 10.6 |

The Company had capital commitments of £nil million at 31 December 1999 (1998 – £0.1 million).

### 29. OBLIGATIONS UNDER OPERATING LEASES

The operating lease payments due within one year to which the Group and the Company were committed at 31 December 1999 were:

| | 1999 Land and buildings £million | 1999 Other £million | 1999 Total £million | 1998 Land and buildings £million | 1998 Other £million | 1998 Total £million |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| On leases expiring: | | | | | | |
| within one year | **0.1** | **0.1** | **0.2** | 0.1 | 0.1 | 0.2 |
| *between two and five years* | **0.4** | **0.3** | **0.7** | 0.4 | 0.2 | 0.6 |
| over five years | **1.9** | **–** | **1.9** | 1.7 | – | 1.7 |
| | **2.4** | **0.4** | **2.8** | 2.2 | 0.3 | 2.5 |
| **Company** | | | | | | |
| On leases expiring: | | | | | | |
| within one year | **–** | **0.1** | **0.1** | – | 0.1 | 0.1 |
| | **–** | **0.1** | **0.1** | – | 0.1 | 0.1 |

## 30. PENSION SCHEMES

During the year the Group operated twelve defined benefit pension schemes in the UK, the assets of which were held under trusts and were therefore independent of the Group. The schemes were broadly associated with each of the principal subsidiary undertakings of the Company. The Group also operated four money purchase schemes to provide benefits for eligible employees.

**Defined benefit schemes**

Actuarial valuations of the various schemes were carried out by independent qualified actuaries between April 1996 and July 1998 principally using the projected unit cost method. The principal assumptions used were that investment returns would be between 1.5 per cent and 2 per cent higher than the growth in annual salaries and that pensions in the course of payment could increase by up to 5 per cent. The combined actuarial valuation at the actuarial dates of the schemes operated by the Group was £144 million. The actuarial valuations represented between 92 per cent and 144 per cent of the benefits accrued, on a continuance basis, to the members of the schemes. The surpluses take account of the improvements to benefits agreed by the trustees of certain schemes following the actuarial valuations. The deficits should be eliminated at current funding rates over the average expected remaining working lives of current employees. The ongoing pension costs are based on the advice of the schemes' actuaries and are reduced where appropriate by the amortisation of the surplus over the average expected working lives of the members.

The total UK contributions charged by the Group in respect of the year ended 31 December 1999 were £5.4 million (1998 – £5.1 million). The differences between the accumulated charge and payments made to the schemes is dealt with in debtors and creditors as appropriate.

**Defined contribution schemes**

The assets of the schemes were in funds, administered by trustees, independent from those of the Group. The total UK contributions charged by the Group in respect of the year ended 31 December 1999 were £0.3 million (1998 – £0.2 million).

## 31. POST BALANCE SHEET EVENT

On 8 January 2000 the Group entered into an agreement to acquire BI Technologies from Emerson Electric Inc for a cash consideration of £39.7 million. This consideration is subject to the agreement of completion accounts and certain local regulatory requirements. The consideration was satisfied from existing facilities. Net assets acquired are estimated at £15.0 million.

# Report on Directors' remuneration

The Board submits its report on Directors' remuneration for the year ended 31 December 1999.

It is the policy of the Company that executive remuneration should be competitive and that most senior executives of the Group should be remunerated by packages comprising a basic salary and, to align the interests of executives with those of shareholders, a bonus linked to performance. Additionally, share options have been granted annually to all key executives of the Group.

Within the policy for executive remuneration laid down by the Board, the Remuneration Committee makes recommendations to the Board on the Company's framework of executive remuneration and its cost. It also decides on the remuneration packages for each of the executive Directors. The Remuneration Committee consults the Executive Chairman on these proposals relating to the other executive Directors. They have taken outside professional advice to ensure that the remuneration packages of the Executive Chairman and other executive Directors are competitive in relation to the remuneration packages of executive directors of other comparable companies and have also had regard to remuneration levels and rates of increase within the Group. Executive Directors also receive benefits in kind in line with competitive practice.

In setting the remuneration packages of the executive Directors, the Remuneration Committee has set the respective levels of basic salary paid to each of the executive Directors. The remuneration package provided to S W A Comonte entitled him, in addition to a basic salary, to an annual bonus related to increases in the Group's pre tax profits. R W Weaver and J W Armstrong are each eligible to receive an annual discretionary bonus of an amount decided by the Remuneration Committee. The discretionary bonuses paid to R W Weaver and J W Armstrong during 1999, in respect of the year ended 31 December 1998, were £13,000 and £7,000 respectively.

The Remuneration Committee may grant options at full market value to executive Directors under the terms of the 1994 and 1996 Executive Share Option Schemes. Options under these schemes are generally exercisable not less than three and not more than ten years after their grant, and then only if a performance criterion has been achieved. It is the current policy that options offered to executive Directors under these schemes should not be exercisable unless the Remuneration Committee is satisfied that at the end of any period of three consecutive years after their grant the Group's earnings per share have increased at a rate greater than 2 per cent above any increase in the All Items Index of Retail Prices. The existing options held by the executive Directors under these schemes and under the previous executive share option schemes of the Company are set out in the table on pages 55 and 56.

On 9 September 1999 the Remuneration Committee established a long-term incentive plan for executive Directors and senior executives. The plan allows the participant, subject to a pre exercise condition, to transfer up to 50 per cent of any bonus entitlements into a trust established by the Company. This will be used to purchase shares in the Company at market value, and be matched by a similar amount paid by the Company into the trust to buy a matching number of shares. The shares acquired by the contribution from the Company may not generally be transferred to the participant until the expiry of three years from the date of the matching award. At the date of this report there are no participants in the plan.

No Director has a service contract or is employed on terms which require more than three months' notice on either side.

The remuneration of the non-executive Directors is decided by other members of the Board. No benefits in kind are provided for non-executive Directors.

**Summary remuneration table**

Set out below are tables of remuneration of the Directors during the year ended 31 December 1999 and their share options. The amount of each element in the remuneration received by the Directors in the year or to date of resignation including basic salary and fees, annual bonuses and benefits in kind was:

| | Salary/fees £000 | Bonus £000 | Benefits £000 | 1999 Total £000 | 1998 Total £000 |
|---|---|---|---|---|---|
| **Executive Directors** | | | | | |
| J W Newman | 369 | – | 27 | **396** | 363 |
| S W A Comonte | 220 | 9 | 20 | **249** | 228 |
| M R Eke (resigned 19 March 1999) | 35 | – | 3 | **38** | 222 |
| D E A Crowe | 73 | – | 6 | **79** | 97 |
| R W Weaver | 142 | 13 | 12 | **167** | 145 |
| J W Armstrong (appointed 16 November 1998) | 97 | 7 | 12 | **116** | 13 |
| **Non-executive Directors** | | | | | |
| T H Reed | 27 | – | – | **27** | 23 |
| M J Mallett | 20 | – | – | **20** | 17 |
| M S Evans | 20 | – | – | **20** | 17 |
| | 1,003 | 29 | 80 | **1,112** | 1,125 |

The bonus awarded to S W A Comonte was related to the increase in headline earnings per share in the year ended 31 December 1998 over that for 1997. The bonus award was paid in arrears. The bonuses awarded to R W Weaver and J W Armstrong were discretionary amounts. The value of benefits in kind received during the year comprised principally company car benefits and medical cover.

**Directors' share options** Options set out below granted under the executive share option scheme adopted in 1984 are marked (1), the 1994 Executive Share Option Scheme are marked (2) and the 1996 Executive Share Option Scheme are marked (3).

| | 1 January 1999 | Granted in the period | Lapsed in the period | 31 December 1999 | Exercise price pence | Exercise period |
|---|---|---|---|---|---|---|
| J W Newman | 116,563 | | 116,563 | **–** | 125.4 | Nov 1995 – Nov 1999 |
| | 112,500 | | | **112,500**(1) | 219.3 | Nov 1996 – Nov 2000 |
| | 65,019 | | | **65,019**(1) | 232.0 | Nov 1997 – Nov 2001 |
| | 62,332 | | | **62,332**(2) | 241.0 | Apr 1998 – Apr 2005 |
| | 47,100 | | | **47,100**(3) | 353.0 | Jun 1999 – Jun 2006 |
| | 87,743 | | | **87,743**(3) | 359.0 | Apr 2000 – Apr 2007 |
| | 19,825 | | | **19,825**(3) | 300.0 | Mar 2001 – Mar 2008 |
| | – | 147,058 | | **147,058**(3) | 136.0 | Sep 2002 – Sep 2009 |
| | 511,082 | 147,058 | 116,563 | **541,577** | | |
| S W A Comonte | 38,854 | | 38,854 | **–** | 125.4 | Nov 1995 – Nov 1999 |
| | 37,500 | | | **37,500**(1) | 219.3 | Nov 1996 – Nov 2000 |
| | 35,445 | | | **35,445**(1) | 232.0 | Nov 1997 – Nov 2001 |
| | 33,980 | | | **33,980**(2) | 241.0 | Apr 1998 – Apr 2005 |
| | 25,700 | | | **25,700**(3) | 353.0 | Jun 1999 – Jun 2006 |
| | 43,732 | | | **43,732**(3) | 359.0 | Apr 2000 – Apr 2007 |
| | 28,333 | | | **28,333**(3) | 300.0 | Mar 2001 – Mar 2008 |
| | – | 147,058 | | **147,058**(3) | 136.0 | Sep 2002 – Sep 2009 |
| | 243,544 | 147,058 | 38,854 | **351,748** | | |

# Report on Directors' remuneration

CONTINUED

| | 1 January 1999 | Granted in the period | Lapsed in the period | **31 December 1999** | Exercise price pence | Exercise period |
|---|---|---|---|---|---|---|
| D E A Crowe | 22,500 | | | **22,500**(1) | 219.3 | Nov 1996 – Nov 2000 |
| | 35,445 | | | **35,445**(1) | 232.0 | Nov 1997 – Nov 2001 |
| | 22,659 | | | **22,659**(2) | 241.0 | Apr 1998 – Apr 2005 |
| | 17,150 | | | **17,150**(3) | 353.0 | Jun 1999 – Jun 2006 |
| | 21,448 | | | **21,448**(3) | 359.0 | Apr 2000 – Apr 2007 |
| | 10,932 | | | **10,932**(3) | 300.0 | Mar 2001 – Mar 2008 |
| | 130,134 | – | – | **130,134** | | |
| R W Weaver | 4,725 | | | **4,725**(1) | 219.3 | Nov 1996 – Nov 2000 |
| | 4,470 | | | **4,470**(1) | 232.0 | Nov 1997 – Nov 2001 |
| | 6,198 | | | **6,198**(2) | 241.0 | Apr 1998 – Apr 2005 |
| | 17,150 | | | **17,150**(3) | 353.0 | Jun 1999 – Jun 2006 |
| | 26,183 | | | **26,183**(3) | 359.0 | Apr 2000 – Apr 2007 |
| | 20,000 | | | **20,000**(3) | 300.0 | Mar 2001 – Mar 2008 |
| | – | 147,058 | | **147,058**(3) | 136.0 | Sep 2002 – Sep 2009 |
| | 78,726 | 147,058 | – | **225,784** | | |
| J W Armstrong | 10,489 | | 10,489 | – | 125.4 | Nov 1995 – Nov 1999 |
| | 4,725 | | | **4,725**(1) | 219.3 | Nov 1996 – Nov 2000 |
| | 4,470 | | | **4,470**(1) | 232.0 | Nov 1997 – Nov 2001 |
| | 4,285 | | | **4,285**(2) | 241.0 | Apr 1998 – Apr 2005 |
| | 3,250 | | | **3,250**(3) | 353.0 | Jun 1999 – Jun 2006 |
| | 2,786 | | | **2,786**(3) | 359.0 | Apr 2000 – Apr 2007 |
| | 5,033 | | | **5,033**(3) | 300.0 | Mar 2001 – Mar 2008 |
| | – | 73,529 | | **73,529**(3) | 136.0 | Sep 2002 – Sep 2009 |
| | 35,038 | 73,529 | 10,489 | **98,078** | | |

T H Reed, M J Mallett and M S Evans have not been granted share options.

The closing middle market prices for an ordinary share of 25p of the Company on 31 December 1998 and 1999 as derived from the Stock Exchange Daily Official List were 213.5p and 124.0p respectively. During the year the middle market price of TT Group PLC ranged between 213.5p and 115.0p.

The ability to grant options under the executive share option scheme adopted in 1984 expired in November 1994.

The criteria for exercise of the above options are set out on page 48.

None of the Directors of the Company has been granted any options under other share option schemes of the Group. No options have been granted to Directors or been exercised or have lapsed between 1 January 2000 and 24 March 2000.

**Executive Directors' pensions**

Each of the executive Directors (other than D E A Crowe) is a member of the Company's pension scheme, which covers most senior employees of the Company. The Company contributed £10,000 (1998 – £12,000) to personal pension schemes for D E A Crowe.

| | Age at 31 December 1999 | Directors' contributions £000 | Increase in accrued pension £000 | **Accrued pension at 31 December 1999 £000** |
|---|---|---|---|---|
| J W Newman | 54 | 17 | 18 | **125** |
| S W A Comonte | 60 | 10 | 12 | **77** |
| R W Weaver | 49 | 7 | 5 | **31** |
| J W Armstrong | 51 | 4 | 4 | **17** |

**Notes**

(a) Contributions paid in the year by the executive Directors are the ordinary employee contributions payable under the rules of the scheme.

(b) Members of the scheme have the option to pay additional voluntary contributions; neither these contributions nor the resulting benefits are included in the above table.

(c) The increase in accrued pension during the year excludes any increases for inflation.

(d) Each executive Director has a normal retirement date of their sixty-fifth birthday.

(e) No actuarial reduction is made in respect of early retirement between the ages of 60 and 65.

(f) Accrued pension is that which would be paid annually on retirement at normal retirement date based on service and final pensionable salary to 31 December 1999.

(g) Pensions in payment accrued post 1 January 1989 for J W Newman, S W A Comonte, and J W Armstrong and in total for R W Weaver, are increased annually in line with the annual rise in the All Items Index of Retail Prices subject to a maximum of 5 per cent per annum.

(h) In the event of the death of an executive Director, a pension equal to one half of the Director's pension will become payable to a surviving spouse.

Approved by the Board on 24 March 2000 and signed on its behalf by

**M G Leigh**
Secretary

# Historical record

| Accounting year | | 1999 | 1998 | 1997 | 1996 | 1995 | 1987 |
|---|---|---|---|---|---|---|---|
| Turnover | (£million) | **612.4** | 619.9 | 631.6 | 520.4 | 479.5 | 16.7 |
| Profit before taxation | (£million) | **38.0** | 65.0 | 62.5 | 53.5 | 44.9 | 1.1 |
| Ordinary dividend | (£million) | **16.3** | 16.3 | 14.9 | 12.5 | 10.4 | 0.3 |
| Ordinary dividend per share | (p) | **9.79** | 9.79 | 8.76 | 7.59 | 6.52 | 1.27 |
| Earnings | (£million) | **27.3** | 46.9 | 43.6 | 36.8 | 30.9 | 0.8 |
| Average ordinary shares in issue | (million) | **166.4** | 168.9 | 166.6 | 161.9 | 158.5 | 21.0 |
| Basic earnings per ordinary share | (p) | **16.4** | 27.8 | 26.2 | 22.7 | 19.5 | 3.9 |
| Shareholders' funds | (£million) | **238.5** | 228.3 | 207.2 | 181.6 | 169.2 | 7.6 |
| Asset value per ordinary share in issue at 31 December | (p) | **143** | 137 | 122 | 108 | 101 | 30 |

**Note**

1987 comparison is reported as this was the first year of trading under the present management team.

# Notice of meeting

Notice is hereby given that the Annual General Meeting of TT Group PLC will be held at the Ironmongers' Hall, Shaftesbury Place, Barbican, London EC2Y 8AA on Thursday 11 May 2000 at 12 noon for the following purposes:

(1) To receive the Financial Statements for 1999, the Directors' Report and the Auditors' Report.

(2) To declare a dividend of 6.10p per ordinary share.

(3) To re-elect S W A Comonte a Director.

(4) To re-elect M S Evans a Director.

(5) To re-elect M J Mallett a Director.

(6) To reappoint Grant Thornton as auditors and to authorise the Directors to fix the auditors' remuneration.

As special business to consider and, if thought fit, to pass the following resolutions of which resolution 8 will be proposed as an ordinary resolution and resolutions 7, 9 and 10 will be proposed as special resolutions.

**Cancellation of Preference Shares**

(7) THAT the authorised share capital of the Company be diminished from £79,000,000 to £56,500,000 by the cancellation of 22,500,000 10.875% convertible cumulative redeemable preference shares 1997 of £1 each which at the date of this resolution are unissued and have not been taken or agreed to be taken by any person.

**General Allotment Authority**

(8) THAT the Directors of the Company, in substitution for all authorities previously conferred upon them (save to the extent that the same may already have been exercised), be and they are hereby authorised generally and unconditionally for the purposes of Section 80 of the Companies Act 1985 (the "Act") to allot relevant securities (within the meaning of Section 80(2) of the Act) up to a maximum aggregate nominal amount of £13,863,897, such authority to expire on 30 June 2001 save where the Directors exercise such authority pursuant to an offer or agreement made prior to that date.

**Disapplication of Pre-emption Rights**

(9) THAT the Directors of the Company be and they are hereby empowered in accordance with Section 95 of the Companies Act 1985 (the "Act") to allot equity securities (as defined in Section 94 of the Act) for cash, pursuant to the general authority conferred by resolution 8 above as if sub-section (1) of Section 89 of the Act did not apply to any such allotment, provided that the power conferred by this resolution shall be limited to:

(i) the allotment of equity securities in connection with an issue or offering by way of rights in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective number of ordinary shares held by them on the record date of such allotment subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems arising in any overseas territory or the requirements of any regulatory body in any territory or any other matter whatsoever; and

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) of this resolution) of equity securities up to an aggregate nominal value not exceeding £2,079,584

and this power, unless renewed or revoked, shall expire on 30 June 2001 but shall extend to the making, before such expiry, of any offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired and so that all previous authorities of the Directors pursuant to Section 89 of the Act, save to the extent to which any such previous authorities have already been exercised, be and they are hereby revoked.

**Purchase of Own Shares**

(10) THAT the Company be and is hereby generally and unconditionally authorised, pursuant to the provisions of Article 74 of the Company's Articles of Association, to make one or more market purchases (within the meaning of Section 163(3) of the Companies Act 1985) on the London Stock Exchange Limited (the "Exchange") of ordinary shares of 25p each in the capital of the Company ("ordinary shares") provided that:

(i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 24,955,015 representing approximately 15 per cent of the Company's issued ordinary share capital;

(ii) the minimum price which may be paid for such ordinary shares is 25p per ordinary share (exclusive of expenses);

(iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share is not more than 5 per cent above the average of the market values for an ordinary share as derived from the Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased;

(iv) unless previously revoked or varied, the authority hereby conferred shall expire on 30 June 2001; and

(v) the Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By Order of the Board

**M G Leigh**
Secretary

11 April 2000

Members are entitled to appoint one or more proxies to attend and, on a poll, to vote for them. A proxy need not be a member of the Company. Proxies, to be effective, must be lodged with Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 3UF at least forty-eight hours before the time appointed for the Meeting.

No service agreement exists or is proposed between any Director of the Company and the Company or any subsidiary undertaking of the Company which is terminable on notice of longer than three months.

A FORM OF PROXY IS ENCLOSED

# Principal operating subsidiaries

**ELECTRONIC**

**Resistors**
AB Mikroelektronik GmbH, Austria
International Resistive Company Inc., USA
Welwyn Components Limited

**Sensors**
AB Automotive Inc., USA
AB Elektronik GmbH, Germany

**Automotive Systems**
AB Automotive Electronics Limited

**PCB Manufacture**
Prestwick Circuits Limited

**Post balance sheet acquisition**
BI Technologies

**INDUSTRIAL ENGINEERING**

**Power Technology**

**Ferrites and Laminations**
Linton and Hirst Limited
MMG North America Inc., USA
Neosid Limited

**Power Generation**
Erskine Systems Limited
Genergy plc
Houchin Aerospace Limited
Ottomotores SA de CV, Mexico

**Wire and Cables**
AEI Cables Limited
AEI Compounds Limited
F. D. Sims Limited
Winding Wires (Proprietary) Limited, South Africa
W T Henley Limited

**Industrial**

**PCB Assembly**
AB Electronic Assemblies Limited
Welwyn Systems Limited

**Fasteners and Connectors**
AB Connectors Limited
BAS Components Limited

**Packaging**
Beatson Clark plc
Twine & Cordage Manufacturing Company (Private) Limited, Zimbabwe
United Packaging PLC

**Notes:**
(a) Companies are located in the United Kingdom except where indicated.

(b) Addresses and telephone numbers are shown on the TT Group PLC Website: www.ttgroup.com

(c) BI Technologies manufactures resistors, trimmers and sensors in the USA, United Kingdom, Mexico and Malaysia.

# Financial calendar

| | |
|---|---|
| **Annual General Meeting**<br>11 May 2000 | **Interim ordinary dividend 2000 paid**<br>Late October 2000 |
| **Final ordinary dividend paid**<br>25 May 2000 | **Preliminary announcement of 2000 results**<br>Mid March 2001 |
| **Announcement of 2000 half year results**<br>Mid September 2000 | **Annual Report 2000 posted**<br>Mid April 2001 |

TT Group PLC

Clive House, 12-18 Queens Road
Weybridge, Surrey KT13 9XB

Telephone: +44 (0) 1932 841310
Facsimile: +44 (0) 1932 846724
Website: www.ttgroup.com