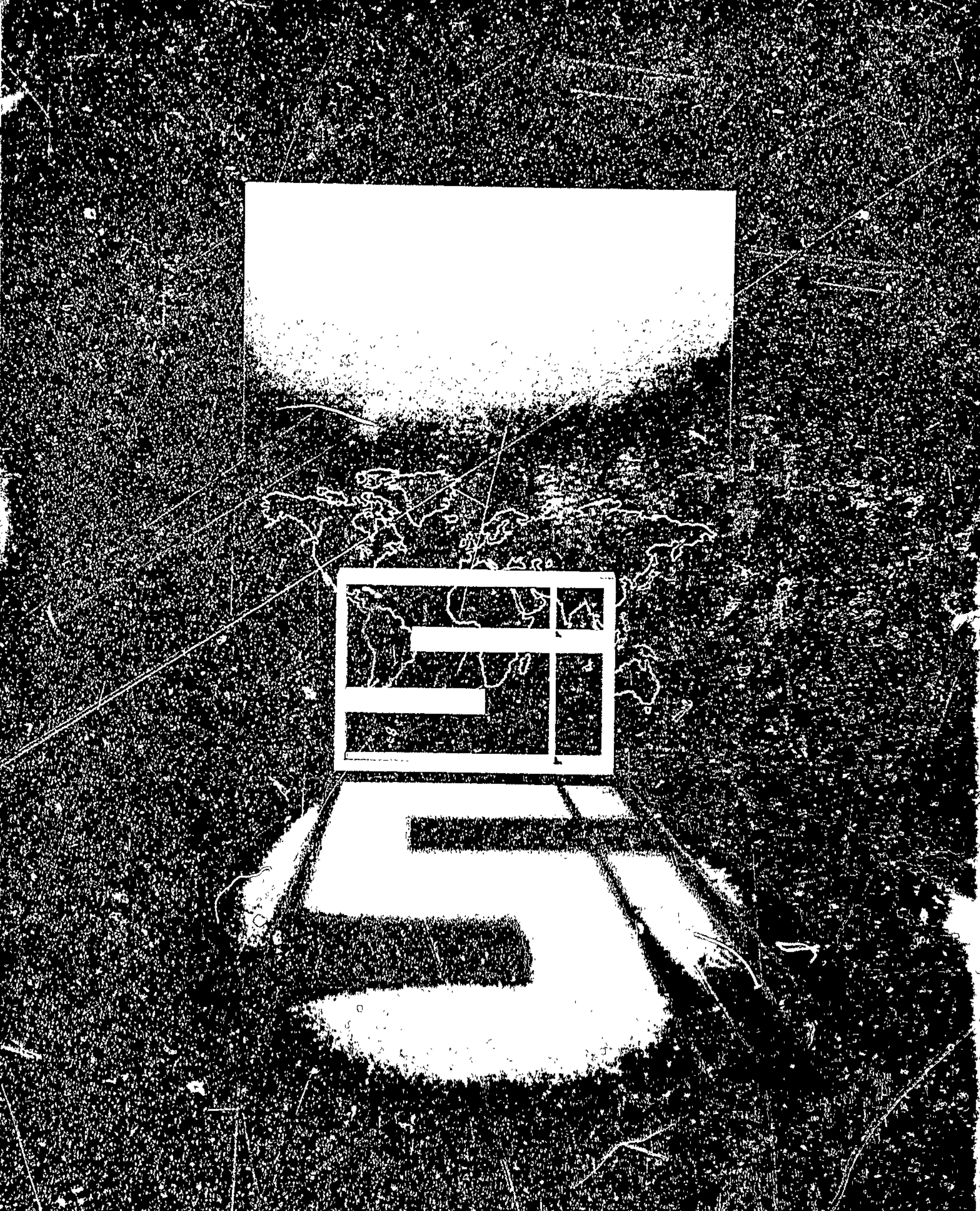
SMITHS INDUSTRIES



1987

SMITHS INDUSTRIES PLC

Report and Accounts for 52 weeks ended 1 August 1987

S12 137013

BOARD OF DIRECTORS

Sir Alex Jarratt
Chairman

F. Roger Hurn
Chief Executive & Managing Director

David L. Breeden

Sir James Hamilton

Alan K. Hornsby
Financial Director

George M. Kennedy
Chairman, Medical Systems Group

Sir Austin Pearce

A. Hugh Pope
Chairman, Aerospace & Defence Group

Neil M. Shaw

William F. Sykes
Chairman, Industrial Group

John W. Thompson
Deputy Managing Director

Sir Peter Thompson

PRESIDENT

Ralph Gordon-Smith

SECRETARY

Alan Smith

AUDITORS

Clark Whitehill

REGISTRAR

Lloyds Bank Plc, Registrar's Department
Transfer Office: Goring-by-Sea, Worthing, West Sussex BN12 6DA

Registered Office: 765 Finchley Road, London NW11 8DS
Incorporated in England No. 137013

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the seventy-third Annual General Meeting of Smiths Industries Public Limited Company will be held at 765 Finchley Road, London NW11 8DS on Tuesday, 15 December 1987 at 12.00 noon for the following purposes:-

Ordinary business

1 To adopt the reports of the directors and the auditors and the audited accounts for the fifty two weeks ended 1 August 1987.

2 To declare a final dividend on the ordinary shares.

3 To re-elect the following directors:
Mr A K Hornsby
Sir James Hamilton
Sir Austin Pearce

4 To re-appoint Clark Whitehill as auditors to the Company.

5 To authorise the directors to fix the remuneration of the auditors.

Special business

6 To consider and, if thought fit, pass the following ordinary resolution:
That, subject to and in accordance with Article 12 of the Articles of Association of the Company, the directors be and are hereby authorised to allot relevant securities having a nominal value not exceeding £23,982,197 in aggregate.
To consider and, if thought fit, pass the following special resolution:
That the directors be and are hereby empowered subject to and in accordance with Article 13 of the Articles of Association of the Company to allot equity securities for cash provided that this power shall be limited for the purposes described in paragraphs (a) to (c) inclusive of Article 13 and for the purposes of limitation of the said power referred to in paragraph (c) of Article 13 the nominal amount therein mentioned shall be £3,597,329

By Order of the Board
Alan Smith, Secretary
19 November 1987
London NW11 8DS

Notes

1 A member entitled to attend and vote may appoint a proxy or proxies to attend and, on a poll, to vote on his behalf. A proxy need not be a member. Proxy Forms must be deposited not later than 48 hours before the Meeting to be effective. In the case of a corporation, the appointment of a proxy must be made either under its common seal or by a duly authorised officer or attorney. In the case of joint holders, the vote of the first named on the register will be accepted to the exclusion of other joint holders.

2 A copy of the contract of service of each director of the Company with the Company or any of its subsidiaries will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays and Public Holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting on 15 December 1987

3 Subject to the final dividend for 1987 being approved at the Annual General Meeting, warrants will be payable on 6 January 1988 to the ordinary shareholders on the register at the close of business on 10 December 1987.

4 The market value of shares and stocks on 6 April 1965 for the purpose of capital gains tax were:

Ordinary Shares (written up to 50p from 25p on 8 December 1965 and subdivided into 25p on 14 January 1985)	20p
£1 Cumulative Preference Shares (Cancelled and replaced by 6% Irredeemable Second Debenture which in turn was cancelled and replaced by 60p nominal of 11¼% Debenture Stock 1995/2000 on 11 July 1975)	71p
7¼% (formerly 6%) Debenture Stock 1983/88	87½p

5 Although copies of the Annual Report are distributed to share-, stock- and option-holders only ordinary shareholders, or their proxies are entitled to attend and vote at the Meeting

6 The Company is not a close company

SALIENT POINTS FROM THE ACCOUNTS

	1987	1986
Turnover: Total	**£429.9m**	£401.2m
: Continuing Businesses	**£429.9m**	£373.5m
Profit before tax	**£65.7m**	£56.5m
Funds employed	**£197.4m**	£173.4m
Net cash	**£54.7m**	£20.6m
Earnings per share	**19.4p**	16.4p
Trading Profit: to Turnover	**14.5%**	13.9%
Profit before tax: to shareholders' funds	**33.3%**	32.6%
Dividend cover (Note)	**3.0**	3.0
Numbers employed at year end:		
United Kingdom	**8,700**	9,000
Overseas	**2,400**	2,600

Note: Excludes dividend on shares issued after 1 August 1987

Last year saw further significant improvements in profits, earnings per share and cash generation as well as a record spend on research and development and a high level of investment in fixed assets. These achievements demonstrate that Smiths Industries has not only been managing its current business very successfully but, simultaneously, has been laying sound foundations for its future.

It was with an eye to the future that, after the year-end, Smiths Industries purchased certain avionics companies of Lear Siegler Holdings Corp. in the United States. To operate successfully, aerospace contractors must be of a sufficient size in their chosen markets to sustain the research, development and production capabilities that are essential for meeting the increasingly sophisticated demands of customers in a world market but one which is, nevertheless, dominated by the United States. With this in mind your Company has been looking for some time for an opportunity to reinforce its highly regarded aerospace activities. The sale of these Lear Siegler avionics businesses offered a relatively rare chance of doing so, and we seized it. The acquisition is the most important step of its kind ever taken by Smiths Industries. We paid a sensible price and achieved an excellent fit with our strategic objectives.

The purchase was agreed only after careful examination and hard negotiation and I would like to place on record the board's appreciation of the executive team that carried the task through to a successful conclusion. We welcome our new American colleagues to the Company and look forward to working with them in the future.

I emphasised last year how much we depend on people in the various businesses that comprise Smiths Industries, and this year's results are again a tribute to their effectiveness and commitment. On behalf of the Board I thank and congratulate them on the outcome of their efforts. We expect high performance and do all we can to achieve it. This means training, developing and motivating our existing staff to the best of their ability and ours. It also means encouraging the right people to join the Company which is why we place increasing importance on explaining our activities to educational establishments and stimulating the interest of young people in careers in industry and, not least, in Smiths Industries. You will find a section of the Report devoted to this subject, underlining again our concern for the future.

The Board has been very glad to welcome Sir Austin Pearce, recently retired Chairman of British Aerospace, as a non-executive director; his knowledge of the industry will be of immense value to us. We shall, however, miss the wise counsel we have received for more than twenty years from David Breeden who retires at the Annual General Meeting on reaching his 70th birthday. Our sincere thanks for all his help in the past are joined with our warm wishes for the future.

I am writing this during a period of great volatility and uncertainty in financial and foreign exchange markets. The immediate effects on investors' wealth and confidence of the fall in share values and the subsequent re-alignment of currencies, especially the dollar, have been dramatic. The longer term effects on world economic activity and the underlying worth of industry and commerce are the subject of much debate but, as yet, no consensus. Even if the economic environment proves to be tougher, I have little doubt of the ability of well managed, well financed and forward looking companies to continue to perform well. Your Company can properly claim to be in this category as its current performance confirms.

Alex Jarratt

Sir Alex Jarratt
Chairman

Market Analysis

	Turnover		Profit	
	1987	1986	1987	1986
	£000	£000	£000	£000
Aerospace & Defence	189,050	159,600	27,152	23,517
Medical Systems	100,100	89,650	20,455	17,513
Industrial	112,750	100,550	11,969	12,311
Australia	28,050	23,700	2,642	2,562
	429,950	**373,500**	**62,218**	**55,903**
Discontinued businesses	—	27,700	—	−222
	429,950	**401,200**	**62,218**	**55,681**
Interest			+3,449	+836
			65,667	**56,517**

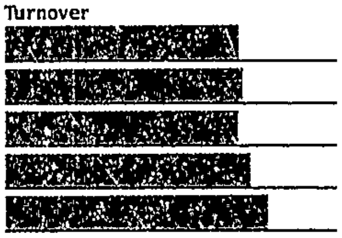
Geographical Analysis

	1987	1986	1987	1986
	£000	£000	£000	£000
United Kingdom	301,700	[illegible]	47,045	38,222
USA	90,400	[illegible]	9,207	11,959
US dollars	*(143,750)*	[illegible]	*(14,639)*	[illegible]
Australia	31,000	[illegible]	3,029	2,849
Australian dollars	*(70,700)*	[illegible]	*(6,906)*	[illegible]
Other overseas	26,450	[illegible]	2,937	[illegible]
Inter-company	−19,600	[illegible]	—	—
	429,950	373,500	**62,218**	55,903

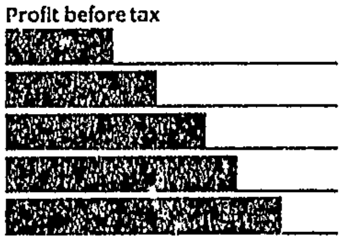
The results for 1987 were another record for the Company. Sales amounted to £430m and the profit before tax was £65.7m as compared with £56.5m last year. Earnings per share of 19.4p increased by 18%.

During the latter part of the year we began negotiations to buy certain avionics businesses in the USA from Lear Siegler Holdings Corp. The successful conclusion of these negotiations after the year end represents a very important step in our planned expansion in both civil and military avionics systems. This strategic acquisition more than doubles the size of our aerospace business as well as giving us world leadership in a number of important product areas. After several years of careful re-positioning of SI in certain chosen industries, I believe that this acquisition marks the beginning of the next phase of our development. An additional section has been added to this review on page 15 so that shareholders can get a better appreciation of this important development.

Turnover



Profit before tax



The analyses opposite show how the existing businesses fared in 1987. Within the Aerospace & Defence group all businesses achieved significant profit improvements. This success results from the continuing high level of expenditure on research and development combined with strong marketing reflected in full order books. The Medical Systems group again produced excellent results in the UK and maintained profits in the USA in a more settled, but still highly competitive, environment. Further good progress was made in developing the SIMCARE product range in the UK. In the USA the West Coast operation made progress and is expected to contribute to profits growth in the years ahead. Improved results from the Industrial group in the second half almost offset the decline that occurred in the first half, although results from two North American based industrial companies (SI-Tex Marine and Aero Connector Co) continued to disappoint and were the cause of the reduction in total dollar earnings.

Overall exports from the UK rose by 20% and account for 45% of UK sales. Particularly strong performances came from the Medical Systems group's sales to Japan and from the Aerospace & Defence group to all the major overseas aircraft constructors.

Total research and development spend, upon which so much of our future depends, was a new record of £53m or 12% of sales.

The Company's Balance Sheet was further enhanced by another year of good cash generation with a continuation of investment in fixed assets at recent high levels. Net cash balances increased by £34m to £55m.

1986/87 ended on a strong note which has continued into the early months of the current financial year. Prospects, including those for our recent North American aerospace acquisition, are encouraging and my confidence for profits growth in 1987/88 and beyond is high.

F Roger Hurn
Chief Executive & Managing Director

A record year with excellent prospects

The Aerospace & Defence group has the following main product areas:

Flight control systems
Autopilot autothrottle, flight management systems.

Electronic displays
Head-up displays, head-down displays, display computers.

Flight deck instruments
Air speed indicators, altimeters, engine instruments, solid-state displays.

Weapon systems
Missile management systems, data bus systems, interface computers.

Engine systems
Electronic engine control and measurement, ignition equipment.

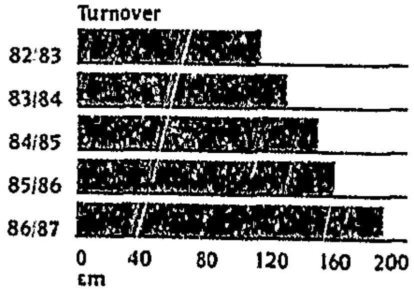
Fuel gauging
For fighters, helicopters and transport aircraft.

Naval and Defence systems
Radar plotting tables, equipment consoles.

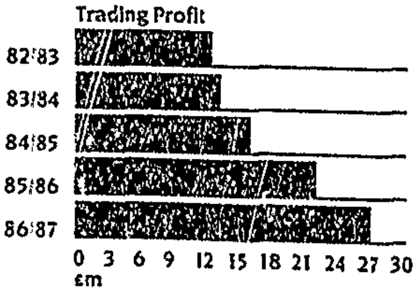
Components
Gyros and accelerometers

Micro electronics
Design and assembly of custom silicon chips

Turnover



Trading Profit



Another successful year for the Aerospace & Defence group ended with record results and full order books. High exports from the UK have been maintained, with the USA as the largest market: our US companies also achieved further growth. Marketing and technology strategies have been strengthened to maintain the balance between UK and overseas civil and military business.

The mainstream of military business from programmes on Tornado, AV-8B and GR5 versions of the Harrier, Jaguar and Hawk continued through the year. A major feature was the introduction into service of the digital engine control units fitted to the Rolls Royce Pegasus engine for the AV-8B. Towards the end of the year a successful bid was made for digital engine control units for the Pratt and Whitney '300' engine to be fitted to executive jets. The wide angle head-up display and multi-function colour display fitted to the night attack versions of the AV-8B Harrier and the F18 Hornet have now flown successfully and are at the end of the development stage. The company, as prime contractor, won a major contract to manage the retrofit of head-up display and complementary systems to the F5E Tiger II fighter aircraft for an overseas air force. Other successful bids included colour monitor displays for retrofit and subsequent new build of the Lockheed P3 anti-submarine patrol aircraft and for the Lockheed C130 transport aircraft programme. The multi-national EH101 helicopter programme includes three major SI avionic systems, the autoflight control system, the electronic instrumentation system and fuel gauging.

A characteristic of the civil aviation business is the wide range of systems, equipment and instruments provided for a significant number of aircraft types. The company's products are used in 30 types of commercial aircraft flown by 450 airlines. Civil aviation remained a strong market with good build programmes by constructors and high demand for support spares. Following the successful bid for the supply of solid-state panels on the MD88 aircraft, similar solid-state displays have been selected for the Boeing 737 family of aircraft. The retrofit of updated systems into existing aircraft provides a major opportunity in civil as well as military markets and recently the company won an important order for retrofit fuel gauging systems for approaching 200 aircraft in the Continental Airlines fleet in the USA. After five years of intensive research a low voltage high energy igniter for jet engines has been produced which Rolls Royce recommend as standard fit on all new production of RB211 engines.

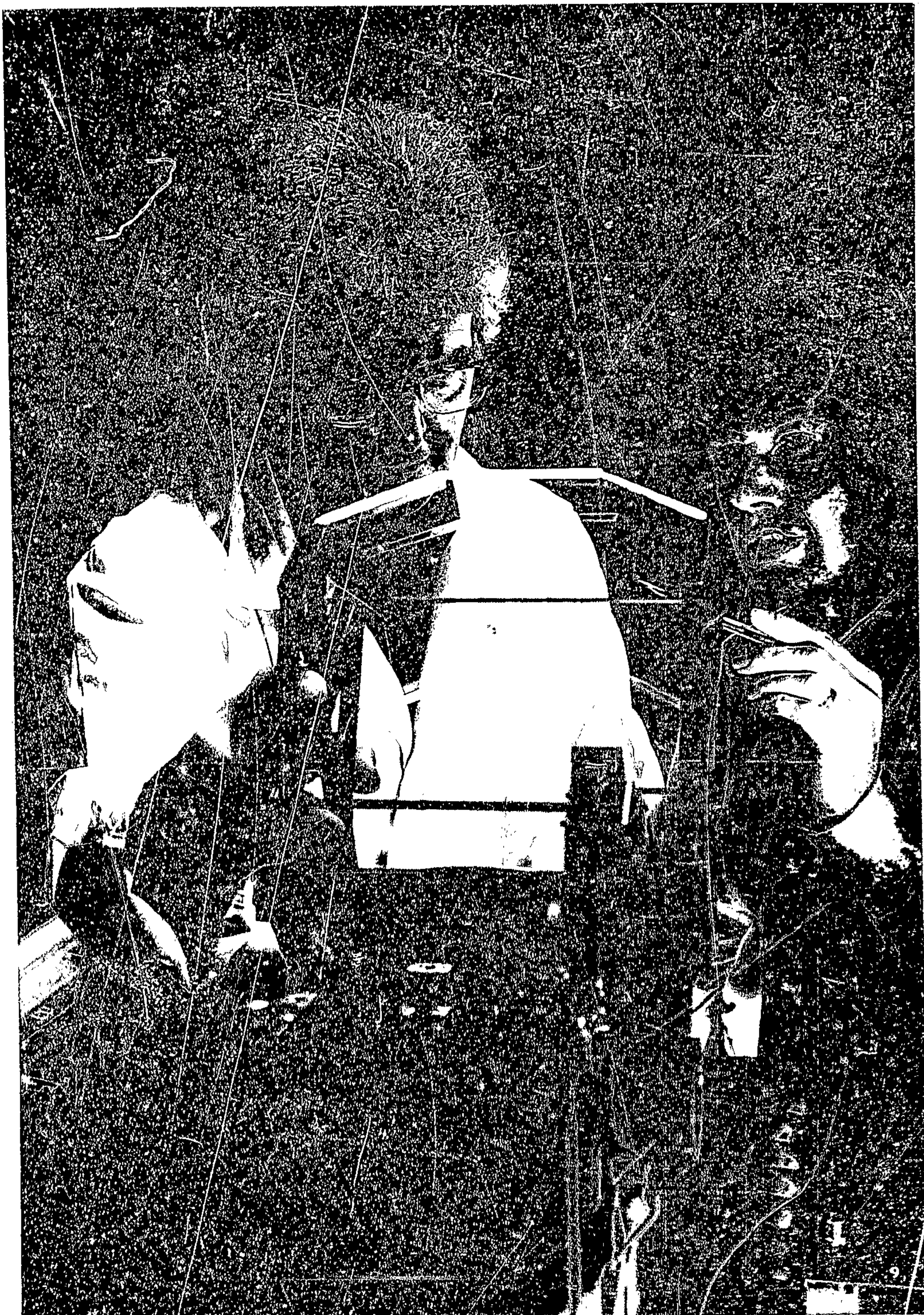
Modern technology systems and equipment require considerable expenditure on both facilities and engineering development. Major efforts are being concentrated on flat panel display technology and "knowledge-based" or "artificial intelligence" systems, the latter in conjunction with other UK companies. The company received a contract from the Civil Aviation Authority as part of a research programme into Health and Usage Monitoring Systems to improve helicopter safety by the application of digital technology and data transmission.

The micro electronics business continues to widen its base in its chosen market of small volume silicon 'chip' design services and is now gaining many repeat orders.

The marine business has continued to expand and maintain progress with another profitable year. During the year the new Kelvin Hughes high-refresh rate radar, CONCEPT, was successfully launched and was well received. This complements the type 1007 navigation radar used by the Royal Navy and increasingly being adopted by foreign navies. Submarine consoles and automatic plotting tables present further market opportunities. In December 1986 the businesses of J.D. Potter Ltd and Camper & Nicholsons Marine Equipment Ltd were acquired to provide fresh impetus to the successful Kelvin Hughes charts and maritime services business.

The group has a very high level of orders for both civil and military programmes which should ensure another successful year in 1987/88. For the longer term the combination with the recently acquired avionics activities of Lear Siegler will offer new opportunities in both civil and military markets and provide the size necessary to support the heavy development programmes now required.

Right: The initial design of Head-Up Displays (HUDs) employed refractive optics. Subsequent development introduced diffractive optics providing a greater field of vision but at the expense of increased weight. This night attack version of the AV-8B HUD developed at Cheltenham uses an interim stage of optics which minimises weight whilst providing an enhanced field of view.



Growing international status

The Medical Systems group has the following main product areas:

SINGLE-USE PRODUCTS FOR:

Anaesthesia, Respiratory Therapy & Intensive Care
Endotracheal & Tracheostomy tubes and connector systems
Epidural anaesthesia kits.

General Surgery
Thoracic & general wound drainage devices.

Urology
Foley & specialised balloon catheters.

Cardiovascular procedures
Angioplasty & embolectomy catheters.

Diagnostics
Instruments & blood gas analysis kits.

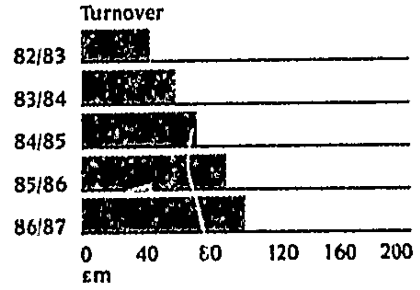
EQUIPMENT & INSTRUMENTS FOR:

Operating Theatres & Diagnostics
Operating tables, electrosurgery & suction systems. Titanium & stainless steel surgical instruments and orthopaedic implants
Diagnostic instruments & lighting.

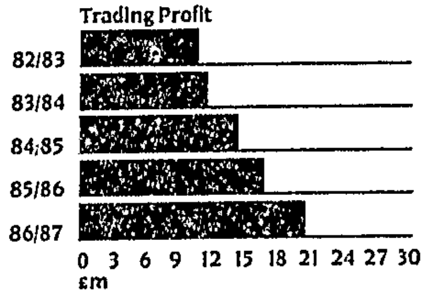
Sterilization
Steam autoclaves for hospitals & dental surgeries.

OSTOMY & INCONTINENCE:
A wide range of products for hospital and community use.

Turnover



Trading Profit



The growing international status of SIMS developed further during the year with achievements in marketing and new product introductions reflected in excellent results. Further investment is planned both in the UK and USA as a platform for sustained growth.

UK AND EUROPE

Medical (single-use products): Portex Ltd continues from strength to strength. The programme of product enhancements and significant productivity improvements contributed to increased sales and profits. Success in export markets is a feature of the Portex business and overseas sales rose significantly, particularly to Japan and Eastern Europe. Sales overseas accounted for 71% of total turnover. The complementary products of Eschmann Healthcare in the cardiovascular and urological areas provide greater marketing opportunities giving an expanded range of single-use products used in association with surgical procedures and intensive care. Concord Laboratories Ltd has become an established UK supplier of blood gas analysis kits; the introduction of new products together with export opportunities will ensure further progress. The amalgamated operations of the French companies (Laboratoires Eschmann SA and Laboratoire Lejeune Seitz & Ameline SA) achieved a significant improvement in profitability.

SIMCARE (home healthcare):
SIMCARE successfully completed its first year of trading following the merger of Downs Personal Products Division and the Stomacare business of Eschmann. The company, based at Lancing in Sussex, is now firmly established with a range of disposable ostomy and incontinence devices, and the new name, SIMCARE has been well accepted in the market. Investment this year in new product development, automated manufacture and an enlarged sales force should now begin to produce the growth which is expected of this already successful business. The main market for SIMCARE is currently the UK but in export areas a significant presence has been established in West Germany; other important markets are being developed.

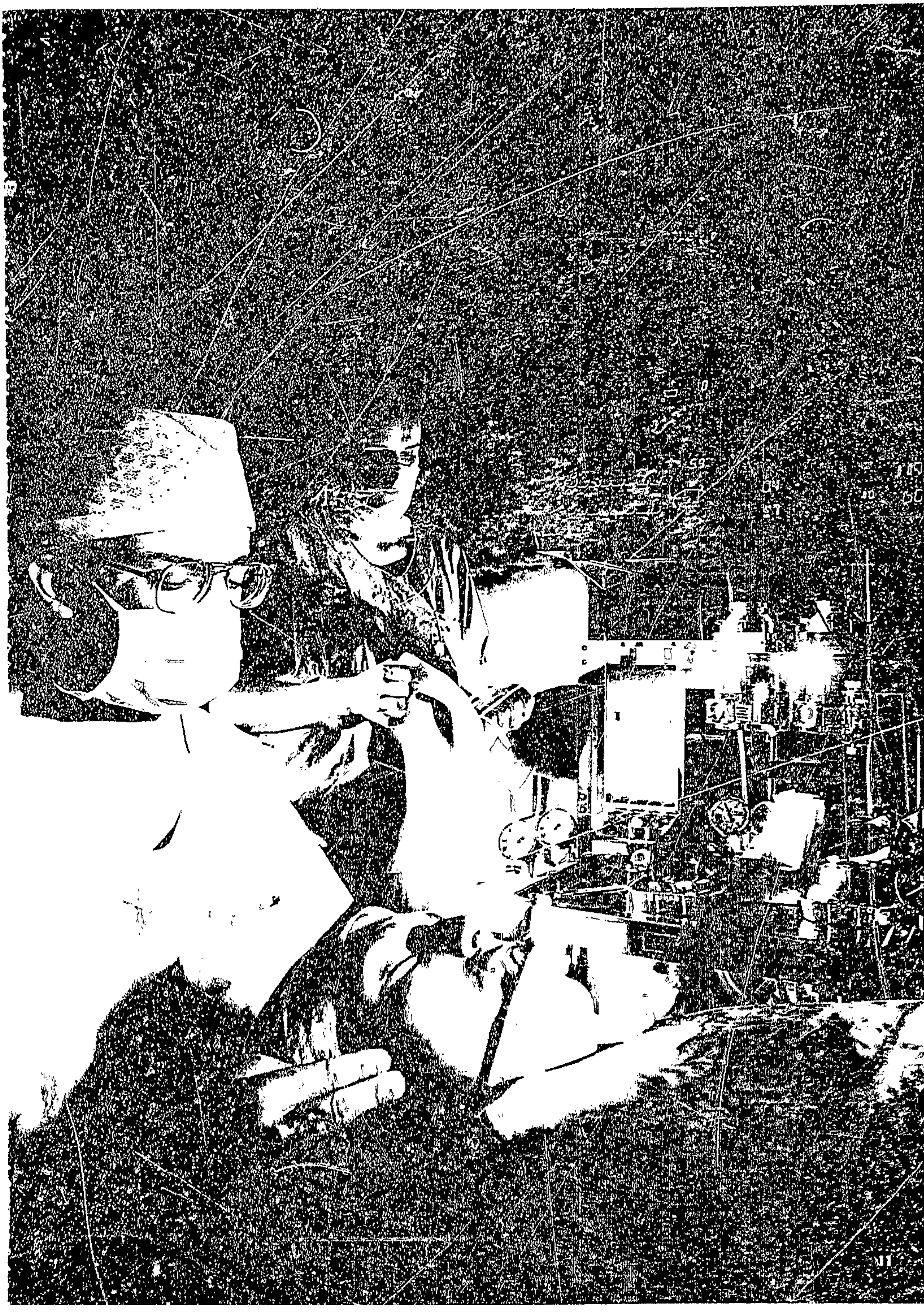
Surgical (instruments and equipment): Since the acquisition of Downs Surgical major efforts have been directed towards the traditional business of surgical instruments to improve quality and customer service as well as introducing new high-grade specialist instruments. Market share has been regained but profitability has yet to reach acceptable levels. The equipment businesses, on the other hand, saw the benefits of the concentrated efforts of recent years. Following its integration with the surgical companies, Eschmann Equipment, which dominates the UK market for operating tables, achieved a major improvement in overall performance. Surgical Equipment Supplies, while continuing in its traditional market for small sterilizers used in hospitals, achieved a major improvement in manufacturing efficiency to meet the rapidly expanding market for sterilizers in dental surgeries. In export markets the 'SES 2000' has been well received.

NORTH AMERICA

The two principal companies, Portex Inc. and Concord Laboratories Inc., maintained profits although with some pressure on the still satisfactory profit margins. As hospitals combine their purchasing power the trend toward larger buying groups has continued. Portex and Concord have combined their national account sales and marketing teams, with a catalogue covering a wide range of single-use products to meet this change. Closer integration of manufacturing, sterilizing and warehousing is planned which should bring further economies of scale and a high level of customer service. SIMS Western Region made further progress in establishing itself as a major distributor for that area although it is likely to be some time before its full potential, including some west coast manufacture, is realised. SIMS Canada had a disappointing year with the loss of a number of hospital contracts to low price tenders. The results were substantially below those of the previous year but with satisfactory rates of return on both sales and funds.

The North American companies all finished the financial year strongly, giving confidence for renewed progress in the current year.

Right: Modern surgical techniques are dependent not only on the skills of the surgeon, the anaesthetist, their respective teams and the general nursing staff but also on a wide range of sophisticated medical products, surgical instruments and equipment. The Medical Systems group design and manufacture just such a range, from sterile single-use items in plastics and latex, through surgical instruments and implants to the design, manufacture and installation of complete technical service systems for operating theatres.



Strong second half

The Industrial group has the following main product areas:

Ceramics
Alumina ceramics, ignition products, spark plug manufacturing plant, isostatic presses.

Connectors
Multi-pin electronic connectors.

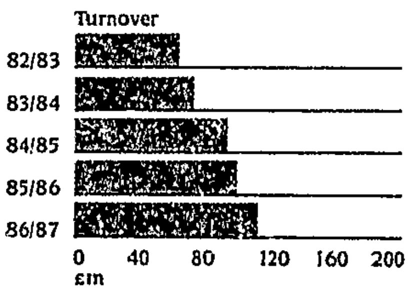
Environmental Control
Time switches, heating controls, air moving equipment.

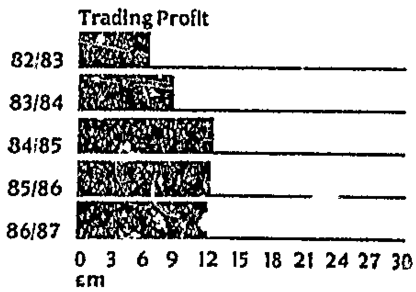
Marine Electronics
Distribution of small boat radar, echo sounders and position fixing equipment.

Specialist Conduit
Flexible and pliable pressure hoses and conduit manufactured from plastic and metal.

Rubber and Plastic
Flexible ducting manufactured from rubber and plastic; special rubber sheeting and mouldings.

Hydraulics
Design and manufacture of hydraulic power packs and specialist hydraulic products.





The Industrial companies generally experienced a slow start to the year and pressure on margins continued. In the second half business improved and most companies finished the year strongly and with increased order cover.

Ceramics: Lodge Ceramics continues to expand its customer base for metallized ceramics and good progress was made with the introduction of new products. However sales were badly affected by a fire at a major customer's premises and the reduced demand experienced for ignition products from oil related industries, which developed during the latter part of last year, became more severe. As a result sales and profits were below those of the previous year. SIMAC designs and makes machinery for the manufacture of spark plugs. Substantial deliveries were made against contracts which had been delayed during 1986 and a significant increase in sales was achieved with improved profits. Further large orders are anticipated for delivery to the USA and Europe in 1988 and 1989.

Connectors: Hypertac UK, which manufactures high integrity connectors, continues to achieve good results within a relatively stable market place. Sales to its subsidiary SI-Tac Connectors Inc. in the USA more than doubled. SI-Tac extended its breadth of customers and range of industries served and improved sales and profits substantially.

The Aero-Electric Connector Company Inc. operates from California and was acquired as part of the Superflexit Group. Major design problems became evident during the year and resulted in substantial losses being incurred. Investigations indicated that a large proportion of these design problems dated back to previous years. Corrective action, including management changes, has now been taken and this has resulted in the company operating at close to break-even. It is intended to integrate the USA connector businesses during the current financial year.

Environmental Controls: The three companies under this heading each reported record results. The Environmental Controls Company has a wide range of products, principally based upon controls activated by time, light, heat and movement. Its range of security systems using infra-red sensors was extended and together with its digital time controllers and electrical circuit breakers did particularly well. Sifan manufactures a large range of air-moving devices. It followed the previous year's record results with a further increase in profits, as many of its technical and commercial plans came to fruition. The introduction by domestic boiler manufacturers of fan assisted boilers was particularly beneficial, sales of warm air hand driers and computer cooling fans were the highest yet achieved. Hefac Engineering's main products are oil-fired heaters and a range of fuel heaters for diesel engines. Profits were well ahead of the previous record and further progress is predicted.

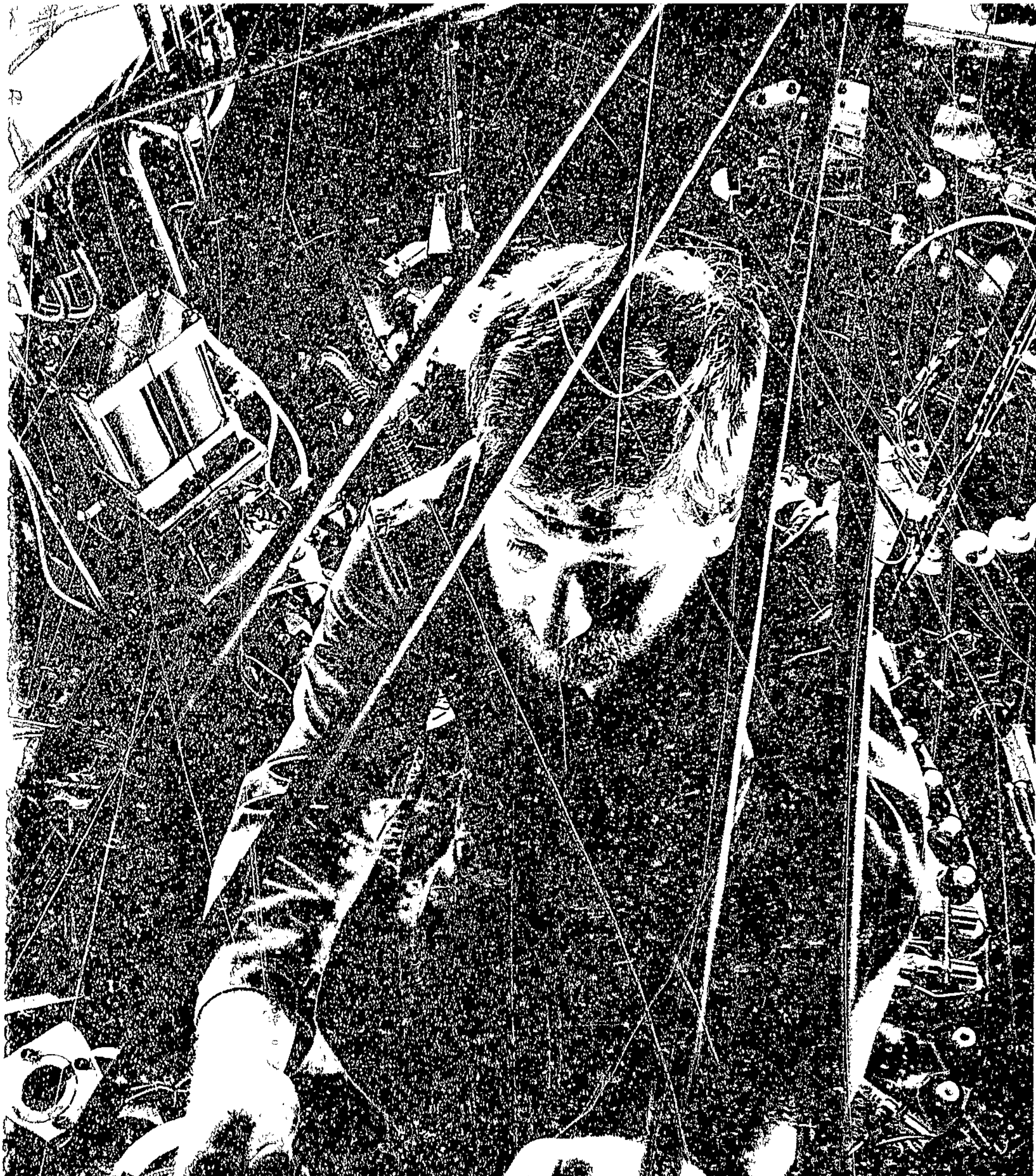
Marine Electronics: The small boat equipment supplied by SI-Tex Marine Electronics Inc. is sourced almost entirely from Japan and the strength of the yen against the dollar resulted in considerable competitive pressures. The company remained profitable but at a much reduced level as compared with previous years and although the company is a market leader in most of its product ranges, the immediate outlook remains difficult.

Specialist Conduit Companies: The Icore companies specialise in complex electrical conduit systems. The UK company was particularly successful in increasing its sales to Airbus Industrie and in the USA sales of industrial and aerospace products increased. In both companies orders improved and augur well for the current year. Fliteline had another record year with its high performance pressure hoses and made initial deliveries on the US military standardised aircraft ejector seat system. Exports also improved with the first deliveries against orders from Japan and increased sales to the Boeing Airplane Co. Further investment in design and production equipment is planned. Kopex International achieved good but lower results as the market for its traditional range of pliable and flexible conduit remains relatively static.

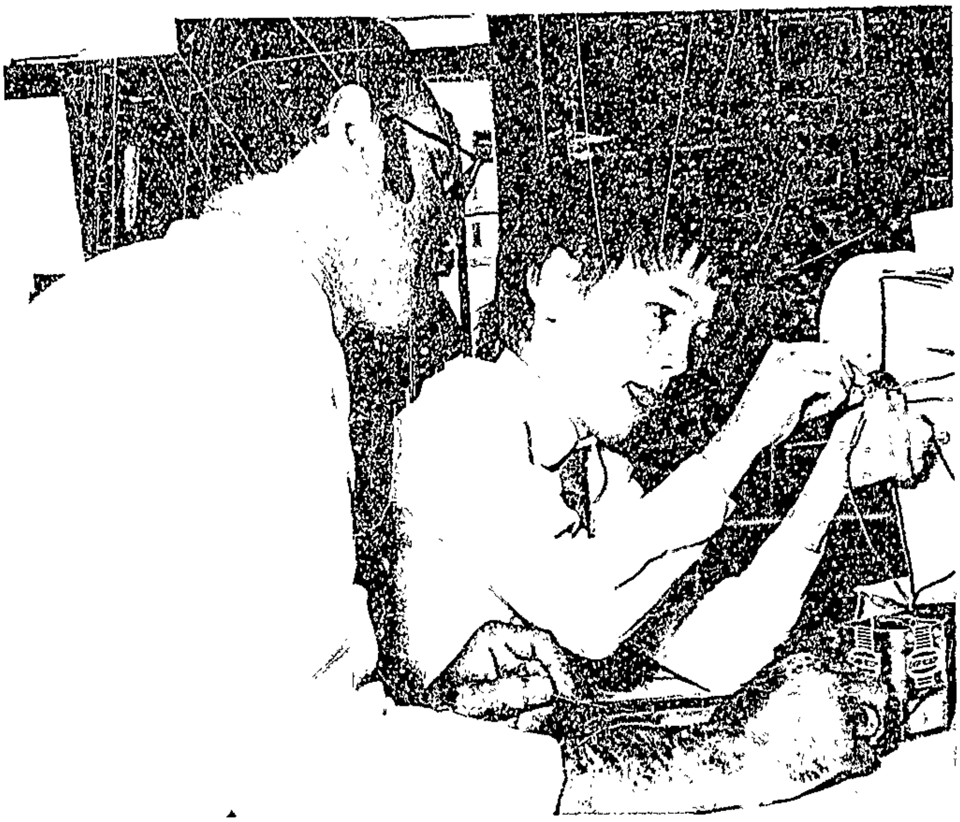
Rubber and Plastic Companies: MacLellan Rubber and its related subsidiaries made a useful recovery from the poor results of the previous year, although demand from the main industries served was low. A number of new applications for rubber sheeting are foreseen associated with public health, acid rain and fish farming; a start on all of these is expected in 1988. Unitex manufactures polyurethane rubber products for a specialist range of industrial applications and again returned exceptional results. Uniroof was sold to two purchasers including its principal supplier of roofing material shortly after the year end.

Hydraulics: The Hydraulics company increased its market share for mechanical handling power packs and continues to supply hydraulics for British Rail crossing barriers. The company is predicting further progress this year based on these products and a wide range of other industrial applications.

Right: The Industrial group is concerned with the development and production of a wide and diverse range of components, systems and services for a broad spectrum of industry



Looking to the future



Above: An exercise in concentration, as Basingstoke Site Training Manager Bram Corn guides a pupil through a practical demonstration.

In an inter-dependent and increasingly complex society, the need for education in industry has never been clearer. If the purpose of education is in part to equip men and women to lead useful and productive lives, so the duty of industry is in part to provide as comprehensive an understanding as possible of its realities, challenges and rewards to schools and universities alike.

In recent years, there have been genuine steps by industry to recognise this duty and to act upon it—although a great deal remains to be done. National schemes, such as Industry Year and Business in the Community, have provided a powerful boost, but much depends on a continuing effort, for many years to come, by individual companies.

SI's commitment to education is substantial. It needs to be, probably more so now than ever before. Without new recruits educated in specific disciplines our future prosperity is at stake, so we need to influence and guide the educators. It was understood many years ago that the initiative lay within: that it was up to the company to make contact with educationalists as a first step, rather than vice-versa. From these early, and occasionally tentative, approaches has developed a whole range of associations with universities, technical colleges and primary and secondary schools. SI employees are encouraged wherever possible to take an interest in local educational affairs. Currently more than 100 SI executives make such a contribution either as School Governors, Committee members or as visiting lecturers.

Technical and managerial talks are given in lecture halls and classrooms throughout the UK, providing a valuable insight into aspects of industry that would otherwise remain theoretical, remote or even unknown to those considering their careers. Equipment and occasionally financial support for specific projects are provided where this is practical.

But it is perhaps in the closer interfaces of work placement, work shadowing and school visits that the company offers its most valuable assistance to teachers and pupils. In one scheme, for example, SI subsidiary Hypertac Ltd based in North London allows children at The Hall School the opportunity of visiting the site for the first time when aged 9, and then again at 13, when their minds may be turning towards a future career. During the current financial year, SI subsidiaries again provided financial support for special demonstrations, diagrams and equipment associated with school visits. Work placement and work shadowing allow a priceless opportunity for a school leaver or teacher to form at first hand an impression of industry otherwise only gained later, after a commitment has been made.

Links such as these provide an additional and highly necessary facet to education in our schools and universities. It is essential that they are developed and fostered by industry as a whole in the years to come.

Right: Portex engineer Harry Bray introducing local school children to elementary computer techniques during an Open Day at the Hythe factory

AEROSPACE & DEFENCE GROUP

UK

- Smiths Industries Aerospace & Defence Systems Limited
- Kevin Hughes Limited
- Micro Circuit Engineering Limited

USA

- Smiths Industries Aerospace & Defense Systems Inc.
- SLI Avionic Systems Corp.
- SLI International Corp.

MEDICAL SYSTEMS GROUP

UK & EUROPE

SIMS Healthcare:

- Portex Limited
- Concord Laboratories Limited
- Laboratoire Portex SA—*France*
- Eschmann Bros & Walsh Limited (Healthcare)
- Grosvenor Surgical Supplies Limited
- Laboratoire Lejeune Seitz & Ameline SA—*France*
- SIMS—*Spain*
- SIMS—*West Germany*
- SIMS—*Singapore*

SIMCARE

Surgical Companies:

- Downs Surgical Limited
- Surgical Equipment Supplies Limited
- Eschmann Bros & Walsh Limited (Equipment)
- SIMS—*Australia*

SIMS—NORTH AMERICA

- Concord Laboratories Inc—USA
- Portex Inc—USA
- Downs Surgical Inc—USA
- SIMS (Western Region)—USA
- SIMS—*Canada*

INDUSTRIAL GROUP

Ceramics:

- Lodge Ceramics Limited
- SIMAC Limited

Connectors:

- Hypertac Limited
- The Aero-Electric Connector Co. Inc.—USA
- SI-Tac Connectors Inc.—USA

Environmental Control:

- Hefac Engineering Limited
- Sifan Systems Limited
- Smiths Industries Environmental Controls Co. Limited

Marine Electronics:

- SI-Tex Marine Electronics Inc—USA

Specialist Conduit Companies:

- Icore International Limited
- Icore International Inc.—USA
- Kopex International Limited
- Fliteline Limited

Rubber & Plastic Companies:

- Automated Engineering Products Limited
- Flexible Ducting Limited
- MacLellan Rubber Limited
- Medcraft Bros Limited
- Unitex Limited

Hydraulics:

- Smiths Industries Hydraulics Co. Limited

AUSTRALIA

- Smiths Industries Pty Limited
- Efco Manufacturing Pty Limited
- Furnco Industries Pty Limited
- Smiths Industries NZ Limited

The directors present their report for the 52 weeks ended 1 August 1987.

Principal activities

The Company is principally engaged in the development and manufacture of a wide range of control systems and instrumentation for the aerospace and marine industries and for general industrial applications; health-care products and surgical instruments; industrial ceramics; ceramic and spark plug machinery; electronic connectors; environmental controls; specialist conduits and rubber and plastic materials. The main countries in which the Company operates are the UK, USA and Australia.

Results and dividends

The results for the 52 weeks ended 1 August 1987 are set out in the Consolidated Profit and Loss Account on Page 24. Sales for the year were £430m, against £401m last year. The profit for the year after taxation amounted to £41.8m (1986 £35.3m).

An interim dividend of 2.0p per ordinary share of 25p was paid on 12 June 1987. The directors recommend for payment on 6 January 1988 a final dividend on each ordinary share of the Company of 4.5p, making a total dividend of 6.5p for the year.

The retained profit of £24.6m, was transferred to Reserves.

Research and Development

The amount spent on research and development during the financial year totalled £53m. Each business carries out research and development programmes to suit its own particular market and product needs. Interchange of technology and technical information between businesses in the manufacturing sector is centrally co-ordinated.

Changes in Company interests during the period

On 17 December 1986 the Company sold the issued share capital of Xionics Limited to its management for a nominal consideration.

On 18 December 1986 the Company purchased the issued share capitals of Camper & Nicholsons Marine Equipment Limited and J.D. Potter Limited from Crest Nicholson plc for £850,000.

On 23 December 1986 the Company sold the issued share capital and loan notes of Mecro Limited to Classburn Limited for £4,456,459.

On 12 January 1987 Smiths Industries, Inc. disposed of the assets (other than debtors) of Integrated Air Systems, Inc. to Donaldson Company, Inc. for US$3,000,000.

On 27 February 1987 the Company sold the issued share capital and loans of Contents Measuring Systems Limited to C.G.F. Automation Limited for a total of £177,417.

On 20 May 1987 the Company sold its holding in Avonicom Systems Limited to Marcol Computer Systems Limited (Marcol) for 351,000 ordinary shares in Marcol and £234,000 in cash.

Post Balance Sheet events

At an Extraordinary General Meeting of the Company on 20 August 1987 the shareholders by ordinary resolution approved the acquisition of the issued share capital and promissory notes of the avionics systems businesses of Lear Siegler Holdings Corp., pursuant to the Acquisition Agreement of 23 July 1987, and the financing of the acquisition by the issue of 71,944,368 new ordinary shares at 310p each as described in the circular letter to shareholders dated 28 July 1987.

Post Balance Sheet events

At the same meeting, subject to the Acquisition Agreement becoming unconditional, resolutions were also passed to:-

—increase the authorised share capital from £75,000,000 to £100,000,000.

—increase the authority of the Directors under Article 12 of the Articles of Association to allot relevant securities of up to £41,967,548 in nominal value.

—authorise the Directors in accordance with Article 13 of the Articles of Association to allot equity securities for cash pursuant to the Placing and Offer described in the circular letter of 28 July 1987.

—cancel the Company's share premium account.

The Acquisition Agreement became unconditional and was completed on 4 September 1987 when Smiths Industries, Inc. purchased the share capital and promissory notes of Lear Siegler Instrument and Avionics Systems Corp., Lear Siegler Avionics Systems Holdings Corp., and Lear Siegler International Corp. for US$350,000,000 in cash, subject to adjustment following valuation of the assets. On the same date 71,944,368 new ordinary shares were issued and allotted for an aggregate consideration of £223,027,540 (excluding interest received and commissions paid).

Application has been made to the Court for permission to cancel the Company's share premium account in accordance with the shareholders' resolution.

On 20 August 1987 the Company completed the sale of The K.L.G. Works, Roehampton Vale, London to Associated Dairies Ltd, a subsidiary of Asda-MFI plc for a total consideration of £10.4m of which £5m was paid on completion; the balance is payable not later than 20 August 1989. The business on this site will be rehoused on premises to be built on an adjacent site purchased in June 1987.

On 28 August 1987 the Company sold the assets of Uniroof Limited to Dunstable Rubber (Fabrications) Limited and Streamtrump Limited for a combined consideration of £283,179.

Future developments

The Company will pursue its existing international activities and continue to seek business opportunities in both the UK and overseas.

Fixed assets

The changes in tangible fixed assets in the year are detailed in Note 12 to the accounts. Freehold and Long Leasehold properties were professionally valued as at 4 August 1984. The valuation of those properties held at 1 August 1987 exceeded the book value by £13m.

Charitable and political donations

During the year the Company made donations of £86,800 for charitable purposes. Political donations given during the year amounted to £8,000 to the Conservative Party.

Directors

The names of persons who were directors at the end of the financial year are listed on page 35. On 31 August 1986 the Rt. Hon. The Earl Jellicoe, and on 16 December 1986 Sir Barrie Heath retired from the Board as non-executive directors. Sir Austin Pearce was appointed as a non-executive director on 1 September 1987.

Re-election of directors

The directors retiring by rotation under Article 87 and offering themselves for re-election are as follows:

Mr Alan K. Hornsby (executive) aged 58; appointed to the Board on 6 August 1978.

Sir James Hamilton (non-executive) aged 64; appointed to the Board on 1 March 1985.

Sir Austin Pearce will retire from office in accordance with Article 93, following his appointment during the year, and, being eligible, offer himself for re-election.

Mr David L. Breeden has attained the age of seventy since the last Annual General Meeting and will retire from office at the Meeting, in accordance with the requirements of section 293 of the Companies Act 1985. Mr Breeden has informed the directors of his intention not to offer himself for re-election and will retire from the Company at the conclusion of the meeting.

Directors' service contracts

Mr William F. Sykes, Mr John W. Thompson, Mr Alan K. Hornsby and Mr A. Hugh Pope have service contracts with the Company which expire on 11 April 1988, 30 June 1988, 17 October 1989 and 25 October 1990 respectively.

Mr F. Roger Hurn and Mr George M. Kennedy have service contracts with the Company which are subject to termination by three years' notice, given to expire at any time.

With the exception of these service contracts no director has had a beneficial interest in any contract to which the Company or any of its subsidiaries was a party during the year.

Non-executive directors

The following directors serve in a non-executive capacity:

Sir Alex Jarratt (Chairman)†–(British) aged 63; appointed to the Board on 1 February 1984. Previously Chairman of Reed International PLC; currently a Deputy Chairman and non-executive director of Midland Bank PLC and The Prudential Corporation PLC and a non-executive director of Imperial Chemical Industries PLC.

Mr David L. Breeden*†–(British) aged 70; appointed to the Board on 1 August 1967. Previously Chairman of Wilmot Breeden (Holdings) Limited.

Sir James Hamilton*†–(British) aged 64; appointed to the Board on 1 March 1985. Previously Permanent Under Secretary, Department of Education and Science; currently a non-executive director of Hawker Siddeley Group PLC and Devonport Royal Dockyard.

Sir Austin Pearce*†–(British) aged 66; appointed to the Board on 1 September 1987. Previously Chairman of British Aerospace PLC; currently a non-executive director of The Royal Bank of Scotland Group PLC, Pearl Group PLC; Jaguar Cars PLC; and Oxford Instruments Group PLC.

Mr Neil M. Shaw*†–(Canadian) aged 58; appointed to the Board on 1 September 1986. Chairman of Tate & Lyle PLC and a director of the World Sugar Research Organisation and TR North America Investment Trust.

Sir Peter Thompson*†–(British) aged 59; appointed to the Board on 1 September 1986. Chairman of the National Freight Consortium PLC and Community Hospitals PLC, and a director of Pilkington Brothers PLC and Granville & Co Limited.

*indicates membership of the Audit Committee
†indicates membership of the Standing Committee on Executive Remuneration

Interests in shares

On 1 January 1987, The Prudential Corporation PLC notified the Company of declarable interests in 11,009,520 ordinary shares, representing approximately 5.1% of the then issued share capital of the Company. As at 1 November 1987, no further disclosure had been made to the Company of any interest of 5% or more in the issued share capital of the Company.

Personnel policies

The declared policy of the Company for the provision of equal opportunity employment practices remains in force and extends to the fullest consideration of employment prospects for the disabled.

The Company continues to be actively involved in all aspects of the training and development of young persons, including government sponsored schemes and unit initiatives designed to ease the transition from school to work.

Share Option Schemes, first introduced in 1982, enable employees with three years continuous service to participate financially in the affairs of the Company.

As previously reported, employees are regularly provided with a wide range of information concerning the performance and prospects of the business in which they are involved, by means of Employee Councils and other similar consultative bodies which allow the views and opinions of personnel to be taken into account.

All matters concerning health and safety continue to be regulated by preventative, investigatory and consultative systems; issues relevant to the Company pension scheme are likewise covered by means of structured committees, including negotiation with representatives of recognised trade unions.

Authorities to issue shares

At the Annual General Meeting the authority given to the directors to allot shares for the purposes of section 80 of the Companies Act 1985 will be revised to reflect the increase in the Company's issued share capital since December 1986. The text of the ordinary resolution is set out on page 3 of this document.

Also on page 3 is the text of the special resolution to renew for a further twelve months the power granted to directors under section 95 of the Companies Act 1985. The new authority will be on substantially similar terms to those attaching to the existing authority and will permit the directors to allot equity securities

—in connection with a rights issue, pro rata to the rights of existing shareholders

—pursuant to the terms of any share scheme approved by the shareholders in General Meeting, and

—for any other purpose, provided that the aggregate value of such allotments does not exceed £3,597,329, (approximately 5% of the issued share capital).

It should be noted that The Stock Exchange no longer requires the consent of shareholders for each issue by the Company of equity shares for cash which are not made to existing shareholders in proportion to their existing shareholdings

Auditors

Resolutions to re-appoint Clark Whitehill as auditors to the Company and to authorise the directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board
Alan Smith, Secretary
11 November 1987

Accounting Convention

The accounts have been prepared under the historical cost convention modified to include the revaluation of certain properties.

Company Profit and Loss Account

In accordance with the concession granted under Section 228(7) of the Companies Act 1985 the profit and loss account of Smiths Industries PLC has not been separately presented in these accounts.

Basis of Consolidation

Goodwill arising on consolidation and representing the difference between the cost of acquisition of a subsidiary company and its net assets at the date of acquisition is written off to reserves in the year of acquisition.

Results of subsidiaries acquired during the year are consolidated from the date of acquisition.

Turnover

Turnover represents the invoiced amount of goods sold and services provided during the year from ordinary activities after the deduction of trade discounts and value added tax.

Research and Development

Expenditure, other than that rechargeable to third parties, is written off in the year in which it is incurred.

Fixed Assets

Depreciation is provided at rates estimated to write off the relevant assets by equal annual amounts over their expected useful lives

In general, the rates used are:
Freehold and long leasehold buildings—2%
Short leasehold property—over the period of the lease
Plant, machinery, etc.—10% to 20%
Motor vehicles—25%
Tools and other equipment—10% to 33%

Fixed assets under finance leases have been capitalised and depreciated in accordance with the Company's depreciation policy. The capital element of future lease payments is included in creditors.

Government Grants

Grants in respect of capital expenditure are deducted from the cost of the relevant assets.

Stocks

Stocks and work in progress are valued at cost, including related production overheads, reduced to estimated net realisable value where appropriate. Profit is taken on long-term contracts by reference to the work completed. Provision for losses is made as soon as they are recognised.

Foreign Currencies

Assets, liabilities and trading results in foreign currencies are translated into sterling at market rates ruling at the balance sheet date. Exchange adjustments arising from the re-translation of opening net assets in overseas subsidiaries are dealt with through reserves.

Taxation

Provision for deferred taxation liabilities is made when there is a reasonable probability that a liability will arise in the future. Account is taken of all short-term timing differences

	Note	52 weeks ended 1 August 1987	52 weeks ended 2 August 1986
		£000	£000
Turnover	1-2	429,950	401,200
Cost of sales		270,905	243,259
Gross profit		159,045	157,941
Operating expenses	3	96,827	102 260
Trading profit	4	62,218	55 681
Interest	5	+3,449	+836
Profit on ordinary activities before taxation		65,667	56 517
Taxation on profit on ordinary activities	8	23,867	21,194
Profit on ordinary activities after taxation		41,800	35 323
Minority interests		—	42
Profit before extraordinary items		41,800	35 281
Extraordinary items less taxation	9	+70	3 671
Profit attributable to members of the holding company		41,870	31 610
Dividends on shares in issue at 1 August 1987	10	14,030	11 834
Dividend on shares in issue after 1 August 1987	10	3,237	—
Retained profit for year		**24,603**	**19,776**

Movement on Profit and Loss Account		
At 3 August 1986	110,339	92 762
Retained profit for year	24,603	19 776
Goodwill on consolidation written off	—362	—971
Exchange rate changes	—1,178	—1 161
Other items	—	—67
At 1 August 1987	**133,402**	**110,339**

	Note		
Earnings per share	11	19.4p	16.4p

Notes on pages 26 to 35 form part of these accounts

Company 1 August 1987 £000	Company 2 August 1986 £000		Note	Consolidated 1 August 1987 £000	Consolidated 2 August 1986 £000
		Fixed assets			
26,406	24,857	Tangible assets	12	75,093	73,288
94,321	104,440	Investments and advances	13	823	859
120,727	129,297			75,916	74 147
		Current assets			
42,002	43,400	Stocks	15	96,750	107,495
54,232	42 041	Debtors	16	101,922	91 296
25,336	–	Investments	17	25,527	–
31,901	31 363	Cash at bank and on deposit		41,692	38,143
153,471	116,804			265,891	236,934
–71,748	–59,524	**Creditors: amounts falling due** within one year	18	–109,138	–96 243
81,723	57 280	**Net current assets**		156,753	140 691
202,450	**186,577**	**Total assets less current liabilities**		**232,669**	**214,838**
–19,648	–15,320	**Creditors: amounts falling due after** more than one year	18	–23,668	–18 775
–9,044	–13 277	**Provisions for liabilities and charges**	19	–11,641	–22 647
173,758	**157,980**	**Net assets**		**197,360**	**173,416**
		Capital and reserves			
53,959	53 788	Called up share capital	20	53,959	53 788
1,066	493	Share premium account	21	1,066	493
2,128	2 128	Revaluation reserve	21	7,002	6 964
1,328	1 324	Other reserves	21	1,931	1 832
115,277	100 247	Profit and loss account	21	133,402	110 339
173,758	**157,980**	**Shareholders' funds**		**197,360**	**173,416**

The accounts on pages 23 to 36 were approved by the board of directors on 11 November 1987 and were signed on its behalf by

Alex Jarrett

A. H. Hearley

1 Analysis by market of turnover and profit

	Turnover		Profit	
	1987	1986	1987	1986
	£000	£000	£000	£000
Aerospace & Defence	189,050	159,600	27,152	23,517
Medical Systems	100,100	89,650	20,455	17,513
Industrial	112,750	100,550	11,969	12311
Australia	28,050	23 700	2642	2,562
	429,950	**373,500**	**62,218**	**55,903**
Discontinued businesses	–	27 700	–	–222
	429,950	**401,200**	**62,218**	**55,681**
Interest			+3,449	+836
			65,667	**56,517**

2 Analysis of turnover within geographic areas

	Turnover	
	1987	1986
	£000	£000
United Kingdom	164,950	152,450
Europe	72,300	64 500
USA	120,000	117 150
Australia	33,300	28 700
Rest of the World	39,400	38 400
	429,950	**401,200**

	1987	1986
Turnover for use in UK	38%	37%
Direct Exports	32%	31%
Net additional turnover from overseas subsidiaries	30%	32%
	100%	100%

		1987	1986
		£000	£000
3 Operating expenses	Distribution costs	39,497	41 114
	Administrative expenses	57,330	61 146
		96,827	**102,260**
4 Trading profit is— after charging	Depreciation of fixed assets—Purchased	10,142	9 397
	—Leased	802	1 105
	Hire of plant and equipment	647	697
	Emoluments of Directors:		
	Fees	33	30
	Other emoluments	646	451
	Auditors' remuneration	654	670
after crediting	Surplus on sales of properties	3,303	2 140
5 Interest	Receivable	4,981	3 062
	Payable:		
	On loans and overdrafts—		
	Repayable within 5 years	−983	[illegible]
	Repayable in more than 5 years	−549	[illegible]
		+3,449	**+836**
6 Employees	Staff costs during the year:		
	Wages and salaries	122,553	[illegible]
	Social Security	9,564	[illegible]
	Company pension contributions	3,251	[illegible]
		135,368	**134 059**

	1987	[illegible]
The average number of persons employed was:		
Aerospace & Defence	5,458	[illegible]
Medical Systems	2,517	[illegible]
Industrial	2,401	[illegible]
Australia	671	[illegible]
	11,047	**11,610**

3 Operating expenses		1987	1986
		£000	£000
	Distribution costs	39,497	41,114
	Administrative expenses	57,330	61,146
		96,827	102,260

4 Trading profit is—after charging	Depreciation of fixed assets—Purchased	10,142	9,397
	—Leased	802	1,105
	Hire of plant and equipment	647	697
	Emoluments of Directors:		
	Fees	33	30
	Other emoluments	646	451
	Auditors' remuneration	654	670
after crediting	Surplus on sales of properties	3,303	2,340

5 Interest	Receivable	4,981	3,063
	Payable:		
	On loans and overdrafts—		
	Repayable within 5 years	−983	−1,613
	Repayable in more than 5 years	−549	−614
		+3,449	+836

6 Employees	Staff costs during the year:		
	Wages and salaries	122,553	[illegible]
	Social Security	9,564	[illegible]
	Company pension contributions	3,251	[illegible]
		135,368	134,059

	1987	[illegible]
The average number of persons employed was:		
Aerospace & Defence	5,458	[illegible]
Medical Systems	2,517	[illegible]
Industrial	2,401	[illegible]
Australia	671	[illegible]
	11,047	11,610

7 Directors and UK Employees

	1987	1986
Chairman £50,000 (1986 £30,000)		
Highest paid director: £159,250 (1986 £101,250)		
Other directors: £100,001—£105,000	1	–
£ 85,001—£ 90,000	1	–
£ 80,001—£ 85,000	2	–
£ 75,001—£ 80,000	1	–
£ 65,001—£ 70,000	–	1
£ 60,001—£ 65,000	–	3
£ 55,001—£ 60,000	–	1
£ 5,001—£ 10,000	4	4
£ Nil—£ 5,000	2	2
UK employees: £60,001—£65,000	1	–
£50,001—£55,000	4	1
£45,001—£50,000	–	5
£40,001—£45,000	9	1
£35,001—£40,000	6	10
£30,001—£35,000	14	11

8 Taxation

	1987	1986
	£000	£000
Taxation on the profit for the year:		
UK corporation tax at 35%	17,820	13,772
Deferred taxation	510	1,760
Overseas taxation	5,992	6,107
Double taxation relief	–455	–445
	23,867	**21,194**

9 Extraordinary items

	1987	1986
Provision against unlisted investments	–	372
Provisions for losses on disposal of businesses	1,175	5,473
	1,175	5,845
UK corporation tax	134	412
Overseas tax	1,111	1,762
	–70	**3,671**

10 Dividends

	1987	1986
Ordinary interim paid 2.0p per share [illegible]	4,317	3,765
Ordinary final proposed 4.5p per share [illegible]	12,950	8,069
	17,267	**11,834**

11 Earnings per share

Earnings after taxation of £41.8m [illegible] are related to the average number of shares in issue of 215,564,389 [illegible]

12 Tangible fixed assets

Consolidated	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost or valuation				
At 3 August 1986	37,592	32,864	52,631	123,087
Exchange adjustments	−16	−376	−127	−519
Additions	2,862	3,942	9,506	16,310
Acquisition/disposal of subsidiaries	−242	−1,686	−2,549	−4,477
Disposals	−733	−875	−4,281	−5,889
At 1 August 1987	39,463	33,869	55,180	128,512
Depreciation				
At 3 August 1986	4,067	20,303	25,429	49,799
Exchange adjustments	−45	−256	−159	−460
Acquisition/disposal of subsidiaries	−41	−1,208	−1,271	−2,520
Charge for year	591	2,665	7,688	10,944
Eliminated on disposals	−110	−856	−3,378	−4,344
At 1 August 1987	4,462	20,648	28,309	53,419
Net book value				
At 1 August 1987	**35,001**	**13,221**	**26,871**	**75,093**
At 3 August 1986	**33,525**	**12,561**	**27,202**	**73,288**

Company	Land and buildings £000	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost or valuation				
At 3 August 1986	3,513	10,064	32,078	45,655
Additions	211	805	6,665	7,681
Disposals	—	−123	−2,251	−2,374
At 1 August 1987	3,724	10,746	36,492	50,962
Depreciation				
At 3 August 1986	167	5,958	14,673	20,798
Charge for year	60	706	5,056	5,822
Eliminated on disposals	—	−142	−1,922	−2,064
At 1 August 1987	227	6,522	17,807	24,556
Net book value				
At 1 August 1987	**3,497**	**4,224**	**18,685**	**26,406**
At 3 August 1986	**3,346**	**4,106**	**17,405**	**24,857**

Tangible fixed assets continued

Land and buildings	Consolidated £000	Company £000
Cost	23,383	1,123
Valuation 1974	10,244	2,374
Valuation 1979	1,374	–
	35,001	**3,497**
Freehold	32,969	3,478
Long leasehold	182	–
Short leasehold	1,850	19
	35,001	**3,497**
If land and buildings had not been revalued they would have been included at the following amounts:		
Cost	31,700	1,512
Aggregate depreciation	3,961	83

13 Investments and advances

	1987 £000	1986 £000
Unlisted investments	745	779
Advances	78	80
Consolidated	**823**	**859**
Shares in subsidiary companies at cost or valuation	45,634	47,193
Due from subsidiary companies	58,481	62,577
	104,938	110,629
Due to subsidiary companies	10,617	6,189
Company	**94,321**	**104,440**

Unlisted investments are stated at cost after deducting provisions.
Details of the Company's subsidiaries are listed on page 41.

14 Capital commitments

Estimated commitments not included in the accounts:		
Company	2,005	1,414
Subsidiaries	4,075	957
	6,080	**2,371**
Amounts authorised by Directors but not committed:		
Company	3,052	1,768
Subsidiaries	4,861	4,384
	7,913	**6,152**

15 Stocks

	Consolidated		Company	
	1987	1986	1987	1986
	£000	£000	£000	£000
Stocks comprise:				
Raw materials and consumables	21,753	25,618	6,765	3,084
Work in progress	37,104	39,578	23,803	25,088
Finished goods	37,817	40,677	10,926	11,577
	96,674	105,873	41,494	39,749
Less: Payments on account	5,893	7,402	4,440	4,975
	90,781	98,471	37,054	34,774
Long-term contracts comprise:				
Cost and attributable profits less losses	30,399	28,759	28,225	27,573
Less: Payments on account	24,430	19,735	23,277	18,947
	5,969	9,024	4,948	8,626
	96,750	**107,495**	**42,002**	**43,400**

The inclusion of attributable net profit in long-term contracts in progress is in accordance with Statement of Standard Accounting Practice No. 9. Whilst this is a departure from the valuation requirements of the Companies Act 1985, it is required by Section 228(3) of the Companies Act 1985 to enable the accounts to give a true and fair view. It is not practicable to allocate progress payments between cost and profit nor therefore, to state the effect of this departure on the balance sheet.

16 Debtors

	Consolidated 1987 £000	Consolidated 1986 £000	Company 1987 £000	Company 1986 £000
Amounts falling due within one year:				
Trade debtors	90,959	83,381	46,600	[illegible]
Amounts owed by subsidiaries	—	—	2,325	[illegible]
Other debtors	6,328	4,100	3,236	[illegible]
Prepayments and accrued income	3,370	3,524	1,038	[illegible]
	100,657	[illegible]	53,199	[illegible]
Amounts falling due after more than one year:				
Other debtors	1,265	[illegible]	1,033	[illegible]
	101,922	**91,296**	**54,232**	**42,041**

17 Investments

	Consolidated 1987 £000	Consolidated 1986 £000	Company 1987 £000	Company 1986 £000
Investments are at cost, and comprise:				
Listed	5,674	-	5,674	
Unlisted	19,853	-	19,662	-
	25,527	–	**25,336**	–

The market value of listed investments is £5.7m

18 Creditors

	Consolidated		Company	
	1987	1986	1987	1986
	£000	£000	£000	£000
Amounts falling due within one year:				
Bank loans and overdrafts	4,215	7,605	168	5,330
Finance leases	335	689	294	596
Trade creditors	34,258	34,526	16,920	14,473
Bills of exchange payable	465	512	—	—
Amounts owed to subsidiaries	—	—	415	424
Other creditors	14,619	13,231	13,416	11,112
Proposed dividend	12,950	8,069	12,950	8,069
Corporation tax	17,212	7,858	13,162	7,536
Other taxation and social security costs	5,615	5,243	3,505	3,325
Accruals	19,469	18,510	10,918	8,659
	109,138	**96,243**	**71,748**	**59,524**
Amounts falling due after more than one year:				
7½% Debenture stock 1983/88	1,853	1,853	1,853	1,853
11¼% Debenture stock 1995/2000	4,900	4,900	4,900	4,900
9% Unsecured loan notes 1984/89	173	237	173	237
Bank loans	899	1,474	—	—
Finance leases	32	406	—	295
Mortgages	92	311	—	—
Other creditors	3,328	2,211	422	731
Corporation tax	12,391	7,383	12,300	7,304
	23,668	**18,775**	**19,648**	**15,320**

Bank loans and overdrafts at 1 August 1987 amounted to £5.1m of which £0.7m are secured.

Bank loans and overdrafts are repayable:

Within one year or on demand	£4.2m
Within one to two years	£0.4m
Within two to five years	£0.4m
After five years	£0.1m

The debenture stocks are secured by floating charges on the whole of the assets and undertaking of the company and charging subsidiaries

Obligations under finance leases are as follows.

	£000
1988	344
1989	31
1990	3
	378
Less finance charges allocated to future periods	11
	367

At 1 August 1987 the company had annual commitments under non-cancellable operating leases as follows

	Land and Buildings £000	Other £000
Expiring within one year	515	396
Expiring within two to five years	817	429
Expiring after five years	739	6
	2,071	**831**

19 Provisions for liabilities and charges

	Total	Pensions	Others	Deferred Taxation
	£000	£000	£000	£000
Consolidated				
At 3 August 1986	22,647	1,450	15,835	5,362
Profit and loss account	5,768	—	5,258	510
Utilisation	−16,774	−150	−12,070	−4,554
At 1 August 1987	**11,641**	1,300	9,023	1,318
Company				
At 3 August 1986	13,277	1,450	6,382	5,445
Profit and loss account	3,970	—	3,460	510
Utilisation	−8,203	−150	−5,191	−2,862
At 1 August 1987	**9,044**	1,300	4,651	3,093

	Consolidated		Company	
	1987	1986	1987	1986
	£000	£000	£000	£000
Deferred Taxation				
Accelerated capital allowances	8,188	8,709	8,188	8,709
Advance corporation tax	−4,790	−3,296	−4,790	−3,296
Short-term timing differences	−2,080	−51	−305	32
	1,318	**5 362**	**3,093**	**5,445**

No provision has been made for the potential corporation tax liability on capital gains amounting to £5.8m (1986 £5m). With this exception, full provision has been made for all taxation deferred by timing differences.

20 Called up share capital

	Shares	Issued Capital	Consideration
		£000	£000
At 3 August 1986	215,152,661	53,788	
Exercise of share options	685,068	171	769
At 1 August 1987	**215,837,729**	**53,959**	

The authorised share capital at 1 August 1987 consisted of 300,000,000 shares of 25p each.

At 1 August 1987 the following options had been granted and were still outstanding:

	Date issued	Number of shares	Subscription prices	Dates normally exercisable
SAYE	1982	1,756,136	88.50p	1988/1990
	1983	310,074	103.25p	1989/1991
	1984	816,524	148.50p	1990/1992
	1985	374,044	211.00p	1991/1993
	1986	443,963	240.00p	1992/1994
Executive	1984	1,069,780	171.75p	1987/1994
	1985	635,677	234.00p	1988/1995
	1986	530,709	270.00p	1989/1996

21 Share premium account and reserves

	Share premium account	Revaluation reserve	Other reserves	Profit and loss account
	£000	£000	£000	£000
Consolidated				
At 3 August 1986	493	6,964	1,832	110,339
Premium on allotments	598			
Retained profit				24,603
Exchange rate changes		71	99	−1,178
Goodwill on consolidation written off				−362
Disposals		−33		
Other items	−25			
At 1 August 1987	**1,066**	**7,002**	**1,931**	**133,402**
Company				
At 3 August 1986	493	2,128	1,324	100,247
Premium on allotments	598			
Retained profit				15,030
Exchange rate changes			4	
Other items	−25			
At 1 August 1987	**1,066**	**2,128**	**1,328**	**115,277**

22 Contingent liabilities

	1987	1986
	£000	£000
Guarantees by the Company of subsidiary companies' borrowings	1,000	4,000
Others	200	200

23 Pension commitments

Smiths Industries PLC and its subsidiaries have a number of pension schemes whose assets are independent of the Company's finances. The schemes are funded by contributions both from the employees and the Company at rates recommended by independent actuaries. The assets and liabilities of the main scheme in the United Kingdom were valued at 5 April 1986 by Bacon & Woodrow, consulting actuaries, whose report indicated that the value of the scheme's investments exceeded the value of the liabilities relating to existing pensions and to the benefits attributable to employee members' service to date. The present funding arrangements are considered to be satisfactory to meet the further liabilities of the scheme arising in the future. The next formal valuation will be at 5 April 1989.

24 Directors' interests in the Company's Shares

Director	Ordinary Shares of 25p		SAYE Share Option Scheme		Executive Share Option Schemes	
	1987	1986	1987	1986	1987	1986
D. L. Breeden	3,000	3,000				
Sir James Hamilton	800	Nil				
A. K. Hornsby	1,200	1,200	7,908	7,908	134,339	136,394
F. R. Hurn	Nil	Nil	8,380	8,380	229,369	207,343
Sir Alex Jarratt	4,000	4,000				
G. M. Kennedy	500	Nil	6,892	6,892	122,583	124,920
A. H. Pope	Nil	Nil	4,980	4,980	129,571	129,671
W. F. Sykes	Nil	Nil	6,892	6,892	87,397	117,029
J. W Thompson	1,312	1,312	7,908	7,908	126,091	131,800
N. M. Shaw	Nil	Nil				
Sir Peter Thompson	1,000	Nil				

On 4 September 1987 Sir Alex Jarratt was allotted 1,333 ordinary shares of 25p; Mr A. K. Hornsby 400 shares; and Mr J W Thompson 437 shares following their acceptance of the Offer to Shareholders made on 28 July 1987. The Company has not been notified of any other changes to the beneficial holdings of the directors and their families between 1 August and 1 November 1987.

Mr. F. R. Hurn has interests as a joint-trustee and as a potential beneficiary in 4,080 ordinary shares of 25p held by a family trust.

	1987 £000	1986 £000
Source		
Profit before taxation	65,667	56,517
Depreciation	10,944	10,502
Other items	−36	−6
Funds available	**76,575**	**67,013**
Disposition		
Dividends paid	12,385	10,213
Tax paid	12,215	12,563
Net expenditure on fixed assets	14,764	14,200
Increase in working capital:		
Stocks–decrease	−3,415	9,415
Debtors–increase	15,402	10,198
Creditors–increase	−2,945	−6,056
	9,042	13,557
Funds utilised	**48,406**	**50,533**
Cash movement related to trading	28,169	16,480
Non-trading items:		
Exchange rate changes on foreign currency borrowings	187	191
Share Issues: Options and Loan Stock	744	133
Sales of unlisted investments	36	–
Acquisitions/Disposals*	4,916	-2,179
Increase in net cash (including short term investments)	**34,052**	**14,625**

*Net Assets at date of acquisitions and disposals

	Acquisitions £000	Disposals £000
Fixed assets	126	2,082
Stocks	746	7,122
Debtors	742	3,708
Creditors	−927	−5,281
Cash	−126	–
Net assets	561	7,631
Consideration (£2.5m relates to a 1986 acquisition)	3,423	9,589
Cash	126	–
	3,549	9,589
Cash to be paid/received	250	1,374
Cash paid/received	3,299	8,215

AUDITORS' REPORT

TO THE MEMBERS OF SMITHS INDUSTRIES PLC

We have audited the accounts on pages 23 to 36 in accordance with approved Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 1 August 1987 and of the profit and source and disposition of funds of the Group for the 52 weeks then ended and comply with the Companies Act 1985.

Clark Whitehill
Chartered Accountants
London
11 November 1987

	1987	1986	1985	1984	1983
	£m	£m	£m	£m	£m
Turnover	**429.9**	401.2	383.0	388.7	380.7
Trading profit	**62.2**	55.7	48.9	39.2	31.4
Profit before taxation	**65.7**	56.5	47.6	36.2	26.8
Profit after taxation	**41.8**	35.3	27.6	21.5	17.5
Funds employed					
Shareholders' funds	**197.4**	173.4	160.2	153.6	151.2
Net borrowings	–	–	–	20.1	24.9
	197.4	173.4	160.2	173.7	176.1
Represented by:					
Fixed assets	**75.9**	74.1	70.9	82.0	80.0
Net current assets	**66.8**	78.7	83.3	91.7	96.1
Net cash	**54.7**	20.6	6.0	–	–
	197.4	173.4	160.2	173.7	176.1
Ratios					
Trading profit: Turnover (%)	**14.5**	13.9	12.8	10.1	8.3
Pre-tax profit: Shareholders' funds (%)	**33.3**	32.6	29.7	23.6	17.7
Taxation (%)	**36.3**	37.5	42.0	40.7	34.9
Turnover: Funds employed	**2.2**	2.3	2.4	2.2	2.2
Dividends					
Pence per share	**6.5**	5.5	4.5	3.5	2.9
Times covered	**3.0**	3.0	2.8	2.9	2.9
Earnings per share (p)	**19.4**	16.4	12.9	10.2	8.4
Number of employees (thousands)	**11.1**	11.6	11.0	11.2	13.2

	1987		1986	
	£000		£000	
Turnover	429,950		401,200	
Deduct:				
Purchased materials and services	221,420		200,958	
Value added	**208,530**		**200,242**	
Utilised as follows:		%		%
Wages, pension contributions and employee benefits	135,368	64.9	134,059	66.9
Taxation	23,867	11.5	21,194	10.6
Interest	+3,449	+1.7	+836	+0.4
Dividends	14,030*	6.7	11,834	5.9
Minority interests	—	—	42	—
Depreciation	10,944	5.3	10,502	5.3
Retained profit (before extraordinary items)	27,770*	13.3	23,447	11.7
Value added	**208,530**	**100**	**200,242**	**100**

*Note. Excludes dividend on shares issued after 1 August 1987

ANALYSIS OF ORDINARY SHAREHOLDERS

26 OCTOBER 1987

Class of Shareholders	No. of Holders	No. of Shares	% of total Issued Shares
Insurance Companies	85	63,157,494	21.95
Pension Funds	91	13,359,671	4.64
Banks	788	1,273,355	0.44
Nominees	785	150,865,808	52.42
Limited Companies and other Corporate Bodies	585	37,273,811	12.95
Individuals	6,127	21,856,232	7.60
Total	**8,461**	**287,786,371**	**100.00**

SUBSIDIARY COMPANIES

% of total Issued Shares
21.95
4.64
0.44
52.42
12.95
7.60
100.00

United Kingdom

Automated Engineering Products Ltd
Concord Laboratories Ltd
Downs Surgical Ltd
Eschmann Bros & Walsh Ltd
Flexible Ducting Ltd
Fliteline Ltd
Grosvenor Surgical Supplies Ltd
Hefac Engineering Ltd
Henry Hughes & Son Ltd
Hypertac Ltd
Icore International Ltd
Kelvin Hughes Ltd
Kopex International Ltd
Lodge Ceramics Ltd
MacLellan Rubber Ltd
Medcraft Bros Ltd
Micro Circuit Engineering Ltd
Ming Instruments Ltd
Portex Ltd
Sifan Systems Ltd
SIMAC Ltd
SI Properties Ltd
Smiths Industries Aerospace & Defence Systems Ltd
Smiths Industries Environmental Controls Co Ltd
Smiths Industries Hydraulics Co Ltd
Smiths Industries Management Ltd
Smiths Industries Medical Systems Ltd
Surgical Equipment Supplies Ltd
Unitex Ltd

Overseas

Australia
Smiths Industries Australia Pty Ltd
Downs Surgical (Australia) Pty Ltd
Efco Manufacturing Pty Ltd
Smiths Industries Pty Ltd

Canada
Smiths Industries North America Ltd
Smiths Industries Medical Systems Canada Ltd

Denmark
A/S Kelvin Hughes

France
Laboratoire Lejeune, Seitz & Ameline SA
Laboratoire Portex SA
Laboratoires Eschmann SA
Smiths Industries (France) SA

Japan
Smiths Industries (Japan) Ltd

Malaysia
Kelvin Hughes (Malaysia) Sdn Bhd

New Zealand
Smiths Industries NZ. Ltd

Singapore
Eschmann (Singapore) Pte Ltd
Kelvin Hughes (Singapore) Pte Ltd

Spain
Eschmann Española SA

USA
Smiths Industries, Inc.
Concord Laboratories Inc.
Downs Surgical Inc.
Icore International Inc.
Portex Inc.
SI-Tac Connectors Inc.
SI-Tex Marine Electronics Inc.
SLI Avionic Systems Corp.
SLI International Corp.
Smiths Industries Aerospace & Defense Systems Inc
Smiths Industries Medical Systems Inc.
The Aero-Electric Connector Co Inc

West Germany
Flexschlauch Produktions GmbH
Icore International GmbH
Medic-Eschmann GmbH

The Company's shareholdings are, so far as is material, of ordinary shares or common stock.

The Company also holds investments in other subsidiaries which are either non-trading or not significant. Details of these subsidiaries will be annexed to the Company's next annual return in compliance with Section 231(3) of the Companies Act 1985.

1987 November
11 1986/87 Final Results announced
19 1986/87 Report & Accounts published
23 Ordinary Shares Ex-dividend Date

December
10 Ordinary Shares Final Dividend Record Date
15 Annual General Meeting

1988 January
4 Debenture Stocks Interest Payments Record Date
6 Ordinary Shares Final Dividend payable
31 Debenture Stocks Interest payable

April
13 1987/88 Interim Results announced
1987/88 Interim Reports published
25 Ordinary Shares Ex-dividend Date

May
13 Ordinary Shares Interim Dividend Record Date

June
10 Ordinary Shares Interim Dividend payable

July
7 11¼% Debenture Stock Interest Payment Record Date
15 7½% Debenture Stock Register Closed
30 Smiths Industries financial year end
31 11¼% Debenture Stock Interest payable
7½% Debenture Stock Repayment Date

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