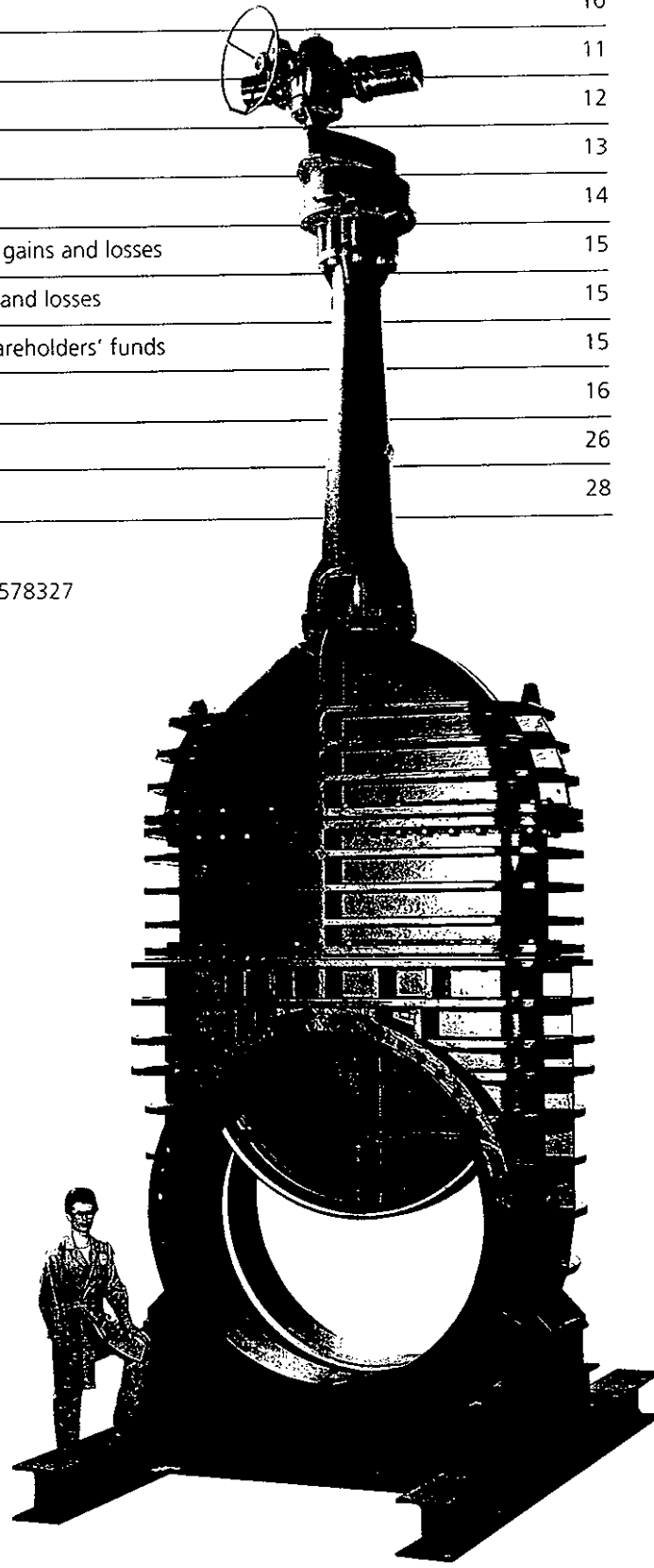


578327



| | |
|--|----|
| Chairman's review | 1 |
| Business review | 2 |
| Report of the directors | 6 |
| Report of the remuneration committee | 9 |
| Board of directors | 10 |
| Report of the auditors | 11 |
| Group profit and loss account | 12 |
| Balance sheets | 13 |
| Statement of group cash flow | 14 |
| Statement of the group's total recognised gains and losses | 15 |
| Note on the group's historical cost profits and losses | 15 |
| Reconciliation of movements in Rotork shareholders' funds | 15 |
| Notes to the financial statements | 16 |
| Directory | 26 |
| Notice of meeting | 28 |

Rotork p.l.c. is registered in England, No. 578327



The strong order-book and buoyant sales at the start of 1996 presaged another good year for the group and so it turned out. Turnover increased by 13% and operating profit by 25%.

The turnover of Rotork Actuation improved by over 15%, with every company within this division increasing its sales and operating profit. There was another outstanding year for the main assembly plant in Bath, while the operations in the United States, Singapore and France each recorded profits in excess of £1m. Eight of the other overseas companies each made more than £0.5m. The previous year's problems at the gearbox subsidiary in Leeds were eradicated and a significant profit improvement was recorded.

Attractive products and extensive market coverage enabled the division to expand its sales on a broad front. The hydro-carbon markets in the Far East and South America were buoyant. While the UK was relatively quiet, there was a continuing expansion of sales to the US water and waste-water, Chinese power and Eastern European markets.

As a direct result of restructuring the pneumatic actuator side of the business in the United States, there was a welcome increase in the level of orders taken in the final quarter of 1996.

Continuing its strategy of establishing companies in areas of increasing importance for the future, Actuation purchased its agent in South Africa in October 1996 and incorporated a company in Thailand at the beginning of 1997.

Cost-cutting action taken during 1995 enabled Rotork Instruments to return to operating profit, albeit on a smaller turnover. The order-book at the end of 1996 was significantly ahead of the previous year-end so the current year's trading should show a marked improvement.

The two businesses within Rotork Analysis were sold on 31 December 1996 and gave rise to the non-operating exceptional charge of £1.39m. This figure represents the reversal of goodwill previously written off through reserves. It had no cash impact nor any effect on shareholders' funds.

The dividend for 1996 has been increased by 48%. As mentioned in the last interim announcement, the cash generating strength of the group justifies relaxation of the two-times cover for the foreseeable future.

On 31 December 1996 orders were 20% ahead of the previous year-end. For the Rotork group, which operates on a short order-book, this should indicate further growth in 1997. However, if sterling remains at its present level or continues to strengthen against the currencies of most of the countries in which Rotork has subsidiaries, there is bound to be some adverse effect on margins and translated profits. That said, there is firm expectation of more progress in the year ahead.

Jeremy Lancaster
Chairman
23 April 1997

| | | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|----|-------|-------|-------|-------|-------|
| Sales to UK customers | £m | 20.07 | 19.51 | 21.16 | 21.46 | 17.12 |
| Sales to overseas customers | £m | 70.75 | 60.49 | 55.95 | 49.29 | 40.02 |
| Sales to external customers | £m | 90.82 | 80.00 | 77.11 | 70.75 | 57.14 |
| Operating profit | £m | 17.68 | 14.10 | 13.44 | 11.92 | 9.48 |
| Profit before taxation | £m | 17.66 | 15.34 | 14.03 | 12.92 | 10.51 |
| Profit before taxation: capital employed | % | 39.75 | 36.26 | 37.71 | 39.85 | 33.43 |
| Net assets per ordinary share | p | 48.92 | 46.55 | 40.57 | 35.33 | 34.49 |
| Earnings per ordinary share - basic | p | 11.91 | 11.11 | 10.01 | 9.38 | 7.56 |
| Earnings per ordinary share - pre exceptional | p | 13.50 | 11.11 | 10.01 | 9.38 | 7.56 |
| Dividends per ordinary share | p | 8.00 | 5.40 | 4.80 | 4.25 | 3.72 |
| Shareholders' funds | £m | 44.42 | 42.31 | 37.01 | 32.25 | 31.44 |

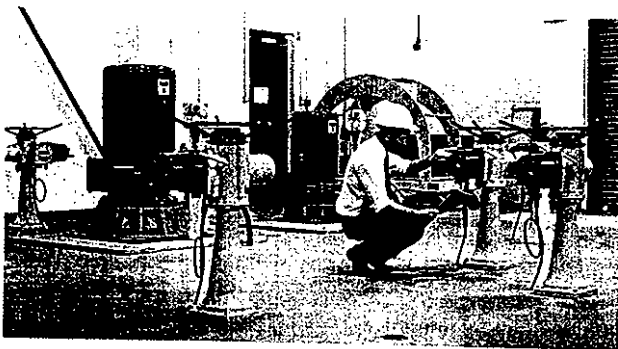
rotork actuation

Rotork Actuation had an extremely successful year. Order input at the start of 1996 was strong and it quickly became apparent that the capacity of the main plant in Bath would have to be increased. Rotork's policy of subcontracting the manufacture but retaining the assembly of its actuators helps to avoid the capacity constraints common to many manufacturing companies. Production management with the support of suppliers achieved a 20% increase in unit output over the prior year.



IQ actuators installed on an oil loading jetty in Japan.

One of the major strengths of Rotork is its international spread. In many years this has meant that good trading conditions in one part of the world have compensated for lacklustre markets in another. 1996 saw all companies exceed their previous year's profits.

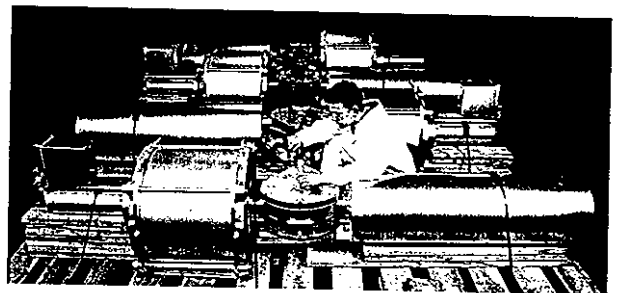


Rotork IQ actuators control the flow of waste water at a new pumping station at Ardrossan, Scotland, UK.

The Far East continued to be an important area, with the companies in Singapore, Korea, Hong Kong and Australia showing strong growth.

Sales offices were set up in the region to add to our presence in China and other high potential markets. Early 1997 saw the registration of a new subsidiary in Thailand.

All five continental European companies exceeded their budgets. The benefits of the new actuator designs coupled with Rotork's clear lead in actuator control systems allowed them to benefit from their domestic and export markets.



Rotork 'P' Range pneumatic valve actuators awaiting shipment to Saudi Arabia for installation at an oil refinery

1995 was a difficult year for Rotork in the USA. However, the company entered 1996 with a much improved order-book due to its success in the water and waste-water markets and 1996 saw a rebound in profits and continued success in widening the market appeal for its products. Western Canada benefited from major projects. The value of earlier investment in Rotork Venezuela was reinforced by good profits and a substantial order-book at the year-end.

The power-generation construction market in India continued to face uncertainties and a lack of investment. This had been the major marketplace for locally produced Rotork actuators. It was, therefore, considerably to Rotork Controls (India) Ltd's credit that record profits were produced by focusing on the non-power markets, which generated better margins.

The UK market was short of major projects so, despite maintaining a strong share, it continues to decline as a percentage of the division's total business. The forecasts and evidence of early trading indicate an improvement in 1997. Rotork Controls Ltd

benefited from world-wide sales volumes, improvements in productivity and subdued input costs to record a significant increase in its sales and profits. The company has embarked on a project with Bath University under the 'Teaching Company Scheme' to make a substantial increase in the capacity of the Bath plant within its existing site and to position the company to meet ever increasing improvements in customer service and reduction of delivery lead-times.

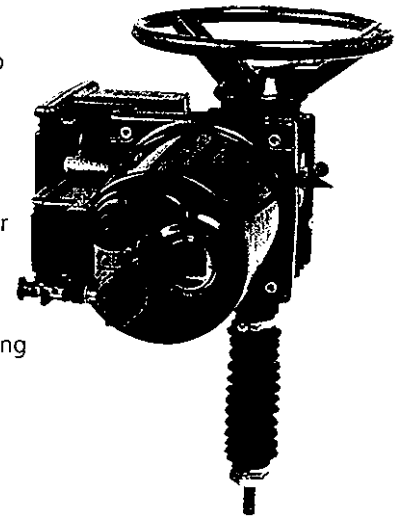


IQ actuators control the flow of water at an irrigation system in Australia.

October saw the purchase of the independent distributor which had been successful in selling Rotork's actuators in South Africa. Rotork Africa (Pty) Ltd becomes the first subsidiary in that continent and will distribute the company's products in Southern Africa, focusing on opportunities in infrastructure projects.

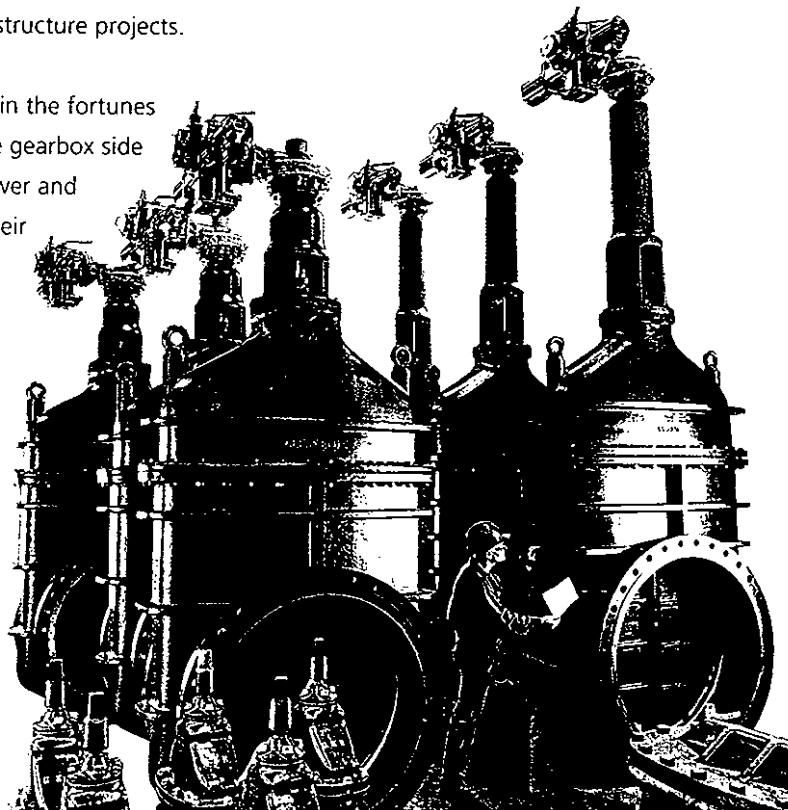
There was a dramatic turnaround in the fortunes of Exeeco Ltd, based in Leeds. The gearbox side led the way but both the fluid power and contracting units also exceeded their targets. Plans to expand the overseas sales of gearboxes were implemented during the year, and an exercise is currently underway to rationalise and increase the capacity of the factory.

Rotork's main pneumatic/fluid-power actuator activities are based in Rochester, USA. In the past these have been largely

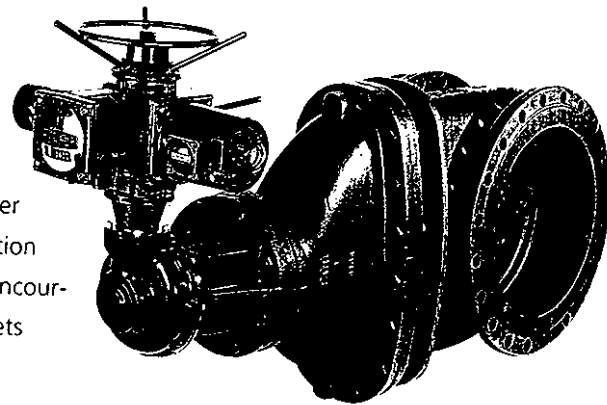


The IQ modulating valve actuator for continuous operation of process control valves and dampers.

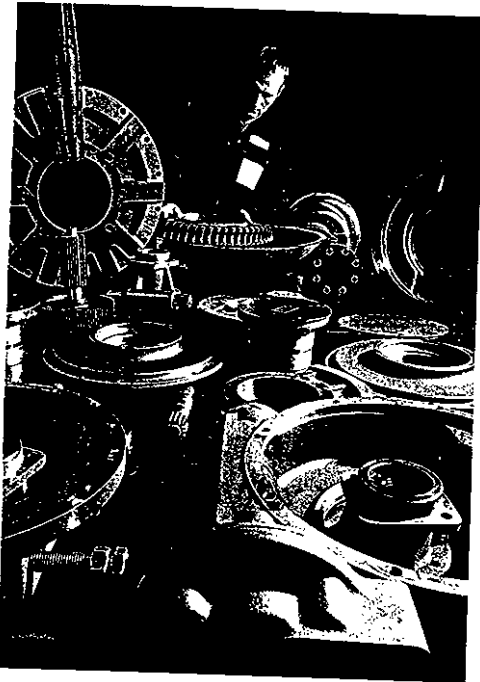
Gate valves at a valvemaker's factory fitted with Rotork IQ actuators prior to shipment to the Middle East.



integrated with the dominant electric actuator business. It was decided to create an independent cell for this business in order to generate more focus on market penetration and product development. Early signs are encouraging, and ambitious targets have been set for 1997.



A gate valve controlled by a Rotork IQ actuator and Exeeco gearbox combination.



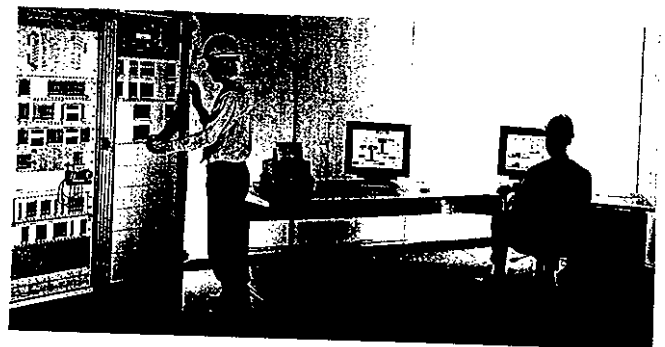
Inspection and assembly at Rotork's Exeeco gearbox manufacturing plant, Leeds, UK.

Creative product development has been fundamental to Rotork's growth. In-depth understanding of our customers' processes coupled with a desire to introduce new technology has driven product introduction programmes. 1996 saw a continuing investment in enhancing existing products and much work in developing original solutions to create new opportunities within the division's areas of competence. The importance of this work has been recognised by the appointment of a research and development director within Rotork Actuation.

The rapid rise in the value of sterling in the last quarter of 1996 and the start of 1997 has not been welcome. Over 70% of Actuation's sales are exported from the UK and a substantial portion of the division's profits are earned by the overseas subsidiaries. Forward currency contracts mitigated the impact in 1996 and will continue to do so for some of 1997. In spite of the currency concern the division has set challenging growth targets. Input levels are healthy and the order book stands 15% above the January 1996 level, even allowing for the reduced sterling value of the overseas order book.

rotork instruments

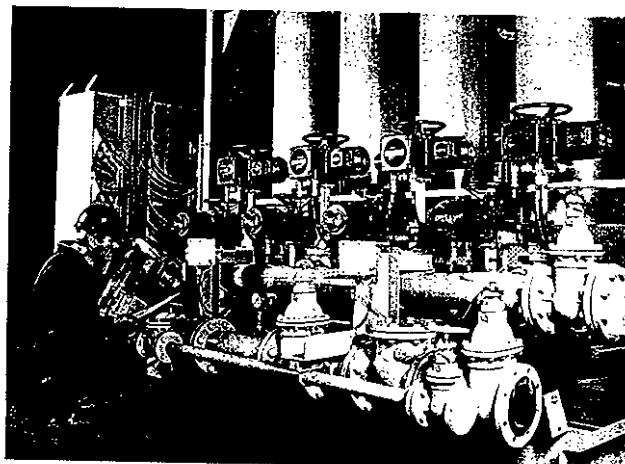
Rotork Instruments recorded a turnaround from its loss in 1995. Although the operating profit was modest the company ended a year of change on a very positive note. The order-book was more than 150% up on the modest figure at the start of the year. The new management team refocused on achievable objectives and more tightly defined the areas of business on which to concentrate. An improved distributed control system, Orbus™, was launched during the year, and by the year-end had enjoyed some



Demonstration room at Rotork Instrument's Luton, UK, factory for the new Orbus™ control system.

substantial orders on significant projects. Higher value emergency shutdown systems were also realised. Rotork Instruments continues to engineer and manufacture Pakscan™ systems for Rotork Actuation. These actuator control systems have for many years made an important contribution to Actuation's market position. Order intake in the first months of 1997 is also encouraging, so a more successful year is expected.

Rotork Analysis' businesses were disposed of at the end of the year after a strategic review of the group's operations.



IQ actuators form an integral part of this transformer cooling system for a power station in China.

Rotork's products are used to ensure the safety and environmental integrity of processes around the world. There is, therefore, a significant commitment and dedication by Rotork's employees to comply with the highest standards of health, safety and environmental awareness during the assembly of the group's products.

By the nature of its business, Rotork relies heavily on the expertise, enthusiasm and loyalty of its employees around the world. There are over 750 staff in twenty-three countries. I wish to thank them all for their contribution to the continuing success of the group.

WH Whiteley
Chief executive
23 April 1997



In 1997 Rotork celebrates 40 years of successful product design and development in the business of valve actuation

REPORT OF THE DIRECTORS

for the year ended 31 December 1996

Activities

Rotork p.l.c. is a holding company. The Rotork group is a supplier of control and instrumentation equipment worldwide.

Rotork Actuation provides a range of products, systems and services for the motorisation of industrial valves and dampers. Actuated valves are major control elements in refineries, pipelines, power stations and water distribution systems, sewage and effluent treatment plants and in all industries in which liquids or gases are transported through pipes.

Rotork Instruments designs control and safety systems and also manufactures and markets a wide range of electronic instrumentation for use throughout process control industries.

During the year, Rotork Analysis manufactured analysers for use in environmental and refinery applications. The oil refinery products and the gas analysis businesses of Rotork Analysis Ltd were sold with effect from 31 December 1996.

The business carried on by Rotork Actuation's agent in the Republic of South Africa was acquired with effect from 1 October 1996 for Rand 8.8m. See note 13 on page 21 for details.

| | 1996 | 1995 |
|---|--------|--------|
| Summary of group results | £'000 | £'000 |
| Turnover | 90,817 | 79,998 |
| Profit on ordinary activities before taxation | 17,656 | 15,336 |
| Taxation | -7,075 | -5,425 |
| Profit after taxation | 10,581 | 9,911 |

Proposed dividend

The directors recommend a final dividend of £4,385,000 for the year, payable on 23 May 1997 to shareholders on the register on 7 April 1997. This represents 5.00p per share (1995: 3.30p) which, with the interim dividend of 3.00p per share (1995: 2.10p), will produce a total dividend per ordinary share of 8.00p (1995: 5.40p).

Significant shareholdings

At 31 March 1997, the company had been formally notified that the following are interested in 3% or more of the issued ordinary share capital of the company.

| <i>Material</i> | No. | % |
|--|-----------|------|
| Prudential Corporation group of companies | 6,074,101 | 6.93 |
| Britannic Assurance plc and subsidiaries (2,800,000 excluding Britannic Staff Superannuation Scheme) | 3,490,000 | 3.98 |
| The Equitable Life Assurance Society | 2,751,000 | 3.17 |
| Legal & General group of companies | 2,659,800 | 3.06 |
| Royal & Sun Alliance group | 2,638,800 | 3.01 |

For information, non-material interests in 3% or more of the issued ordinary share capital of which the company is aware were:

| <i>Non-material</i> | No. | % |
|---|-----------|------|
| Gartmore Investment Management Ltd | 6,034,729 | 6.88 |
| Schroder Investment Management Ltd | 5,390,200 | 6.15 |
| Scottish Widows Investment Management Ltd | 2,730,000 | 3.11 |

Shares issued

Details of the ordinary shares issued during 1996 are shown in note 19 on page 23.

At 31 December 1996 332,169 options, at prices ranging from 76p to 182p, were outstanding under The Rotork Employee Share Option Scheme. At 31 December 1996 259,573 options at 192p were outstanding under The Rotork 1995 Employee Share Option Scheme.

Research and development

Total group expenditure on research and development in the year was £1,294,000 (1995: £1,061,000) with the majority of this being spent on the development of new products.

Charitable donations

During the year the group made charitable donations of £16,585 (1995 : £14,825).

Directors

The members of the board are as shown on page 10. J Lancaster, RC Lockwood, PME Pavy, DT Smith and WH Whiteley served throughout the year. The interests of the directors in the shares of the company are as shown in note 10 on page 19.

None of the directors had, either during the year or at the end of the year, any material interest in a contract with the company or any of its subsidiary undertakings which was of significance in relation to the company's business, other than in connection with a service agreement.

WH Whiteley, DT Smith and GE Malcolm (who joined the board on 12 February 1997) have service agreements with two years' notice. Dr R Hawley joined the board on 26 September 1996 and has a three year engagement. TW Eassie retired on 6 March 1996 and rejoined the board as a non-executive director on 20 March 1997 and has a three year engagement. J Lancaster and RC Lockwood do not have formal contracts. PME Pavy ceased to be a director of the company with effect from 31 December 1996.

At the annual general meeting J Lancaster will retire and will not offer himself for re-election. Dr R Hawley, GE Malcolm and TW Eassie will retire and, being eligible, offer themselves for re-election.

Corporate governance

The board continues to support the principles contained in the Report of the Committee on the Financial Aspects of Corporate Governance which was published on 1 December 1992. All of the recommendations have been reviewed and the board is satisfied that following the appointment of a third non-executive director to the board on 26 September 1996 the company has complied with all of the recommendations in the Report. The company has also complied with the best practice provisions regarding Remuneration Committees set out in the Greenbury Study Group report on directors' remuneration which was published in July 1995 and in the Listing Rules save that further guidance is awaited on the basis of calculation of pension entitlements. The report of the Remuneration Committee is set out on pages 9 and 10.

The group has a system of internal financial controls for which the board is responsible.

The key elements of the system are as follows:

- a) there is an organisational structure with clearly defined allocations of responsibility and delegation of authority from the board to the operating companies;
- b) the board has established procedures for financial reporting, accounting, risk management,

capital expenditure appraisal and corporate governance;

c) there is a comprehensive system of financial reporting to the board, based on monthly reporting of results against budget. Annual budgets and three year plans are prepared for all operating companies; and

d) the Audit Committee deals with matters identified by external auditors.

The Audit Committee has reviewed the effectiveness of the group's system of internal financial controls. Internal financial controls are intended to provide reasonable assurance of the maintenance of proper accounting records and the reliability of financial information used within a business or for publication. No system of internal financial controls can provide absolute assurance against material misstatement or loss.

The auditors, KPMG Audit Plc, have confirmed that in their opinion with respect to the directors' statement on internal financial control set out above, and on going concern set out on page 8, the directors have provided the disclosures required by the Listing Rules (which were previously set out in the Code of Best Practice to the Report) and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements: and that the directors' statement set out below appropriately reflects the company's compliance with the other paragraphs of the Code specified by the Listing Rules for their review. They have carried out their review in accordance with the relevant guidance issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on either the effectiveness of the group's system of internal financial control or corporate governance procedures, or on the ability of the group to continue in operational existence.

Statement of directors' responsibility for preparing the financial statements

The following statement, which should be read in conjunction with the auditors' Statement of Auditors' Responsibilities set out on page 11, is made with a view to distinguishing for shareholders the respective responsibilities of directors and of the auditors in relation to the 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 consider that in preparing the financial statements on pages 12 to 27, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed subject to any explanations and any material departures disclosed in the notes to the financial statements. The directors are required to use a going concern basis in preparing the financial statements unless this is inappropriate. After making enquiries, the directors had at the time of approving the financial statements a reasonable expectation that the company and the group have 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 directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

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

The directors, having prepared the financial statements, have permitted the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.

Directors' authority to issue and repurchase shares

At the annual general meeting an ordinary resolution will be proposed giving the directors a general authority to allot the unissued securities of the company. A special resolution will also be proposed giving a limited authority to issue equity shares for cash notwithstanding the pre-emption provisions of section 89 of the Companies Act

1985. The limited authority so conferred would empower the directors to make such cash issues other than proportionately to equity shareholders, provided that such issues did not exceed in aggregate an amount equal to 5% of the issued ordinary share capital of the company. These authorities will expire on the date of the following annual general meeting. A special resolution will also be proposed which will give a renewed limited authority to repurchase shares on the market as the directors consider it desirable for this general authorisation to be available to provide flexibility in the management of the company's capital reserves. The authority will supersede that granted on 24 May 1996 and will cover a maximum of 8,500,000 ordinary shares (9.70% of the company's issued share capital) and it also sets the minimum and maximum prices which may be paid. The authority will only be exercised to improve earnings per share and in the interests of the shareholders generally. The directors intend to seek renewal of this power at future annual general meetings.

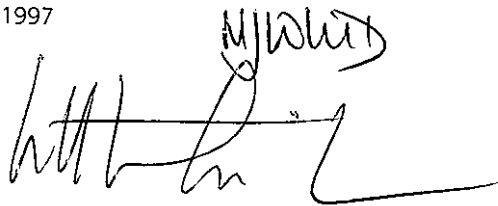
Auditors

In accordance with section 385 of the Companies Act 1985, a resolution to re-appoint KPMG Audit Plc as auditors and to authorise the directors to fix the remuneration of the auditors is to be proposed at the forthcoming annual general meeting.

Payments to suppliers

Operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is group policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions.

On behalf of the board
WH Whiteley, *Chief executive*
MJ White, *Secretary*
23 April 1997



The remuneration of executive directors is determined by the Remuneration Committee of the board. J Lancaster is the chairman and RC Lockwood and Dr R Hawley are members of this Committee. None of the executive directors is a member of this Committee.

The task of the Committee is to determine annually the individual salaries and other terms and conditions of employment for the executive directors. The Committee also determines the terms of any discretionary share schemes in which executive directors may be invited to participate. The board as a whole determines the level of remuneration of the non-executive directors.

During 1996, the Remuneration Committee carried out a review of pay and terms and conditions for the executive directors, and has given full consideration to, and complied with, the best practice provisions set out in both the Greenbury Study Group report on Directors' Remuneration which was published in July 1995 and in the Listing Rules.

In the current challenging environment, it is critical that the group has remuneration policies which enable it to recruit, retain and motivate high quality management. In setting the level of remuneration for executive directors, the Remuneration Committee compared the company's pay levels with a broad cross-section of UK-based companies from the electrical, electronics and engineering sectors with financial dimensions broadly similar to those of the company.

The Remuneration Committee determined that the annual commission plan for executive directors which pays non-pensionable commission in accordance with the percentage increase in profit for the year in question over the highest average annual profit of any prior period of three consecutive years and which has been in place since 1 January 1983 remained entirely appropriate. The profit used for the calculation of commission was group profit for WH Whiteley, DT Smith and TW Eassie and group profit and Rotork Analysis' profit for PME Pavy, calculated as to 0.5% of salary for each 1% growth in average group profits and a sliding scale of commission of up to a maximum of £10,000 if Rotork Analysis' budgeted profit exceeded £260,000. The Remuneration Committee did not consider it appropriate to pay any other form of bonus to any director other than under the Rotork p.l.c. 1995

and 1996 profit related pay schemes. The amounts paid under the profit related pay schemes are deducted from commission payable under the 1983 commission scheme.

The Rotork Employee Share Option Scheme which was introduced in 1985 enabled all UK employees to acquire a one-off grant of options to the value of 50% of their salaries. This has now closed. The Rotork 1995 Employee Share Option Scheme, which is an all employee scheme and has broadly the same terms as the 1985 scheme with the addition of corporate performance criteria, was approved by the members on 26 May 1994. No options have been granted to any executive director since 1987, and no option granted to any executive director remains unexercised. The current policy usually adopted with regard to the grant of share options is that all employees must have completed five calendar years of service before a grant is made and only one grant per employee is normally made throughout his or her employment by the group.

The interests of the directors in the ordinary share capital of the company are set out on page 19. In common with all employees with two complete calendar years of service, all executive directors receive an entitlement to ordinary shares under The Rotork Profit-Linked Share Scheme which was approved by the Inland Revenue in 1979. Up to 5% of profits are distributed to employees each year in the form of ordinary shares. The distribution is calculated by reference to years of service and salary. Details of allocations made in 1996 are set out on page 19.

None of the executive directors has any external directorships.

The Remuneration Committee decided in 1994 that three year rolling service contracts were no longer appropriate. All the executive directors then on the board voluntarily and without compensation agreed to reduce their notice periods and are now on two year rolling service contracts. This reduction was a move to address concerns expressed over the length of executive directors' contracts and consequent levels of compensation paid on termination whilst, at the same time, enabling the group to retain and motivate senior management. There is no fixed compensation commitment included in any contract which would operate on early termination.

In light of the review conducted by the Remuneration Committee, executive directors' base salaries have been increased to levels equal to, or below, the lower quartile of annual cash compensation of comparative companies. Full details of all of the requisite elements of the directors' remuneration packages are set out on page 19.

The chairman's employing companies, Wolseley plc and Rexam plc, received fees for his services of £20,000 in aggregate in 1996. In 1996, RC Lockwood was paid £15,000 and Dr R Hawley was paid at the rate of £20,000 p.a. from 26 September 1996. TW Eassie was appointed on 20 March 1997 at an initial £15,750 p.a. The non-executive directors do not participate in any of the commission, profit related pay, share or pension schemes operated by the group (save for TW Eassie who is in receipt of a pension from the pension scheme). GE Malcolm's salary on appointment was £64,500 together with commission based upon Rotork Actuation profit.

J Lancaster
Chairman, Remuneration Committee
 23 April 1997

Non-executive

J Lancaster (61)

A director since 1977, chairman since 1984 and a member of the Audit, Remuneration and Nomination Committees. He is also a director of Tomkinsons plc, The Kleinwort Benson Group plc, deputy chairman of Hepworth plc and chairman of Rexam plc.

TW Eassie (61)

A director since 1997. He was originally appointed to the board in 1972 and was group chief executive from 1984 until his retirement in March 1996.

R Hawley (60)

A director since 1996. He is a member of the Audit, Remuneration and Nomination Committees. He is also chief executive of British Energy plc and a director of WS Atkins plc.

RC Lockwood (51)

A director since 1988. He is a member of the Audit, Remuneration and Nomination Committees.

Executive

WH Whiteley (48)

A director since 1984 and group chief executive since March 1996. He is also responsible for the Actuation division and is a member of the Nomination Committee.

GE Malcolm (51)

A director since 1997. He has been operations director of the Actuation division since 1993.

DT Smith (58)

Group finance director since 1975.

Secretary and registered office
 MJ White
 Rotork House
 Brassmill Lane
 Bath BA1 3JQ

to the members of Rotork p.l.c.

We have audited the financial statements on pages 12 to 27.

Respective responsibilities of directors and auditors

As described on pages 7 and 8, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

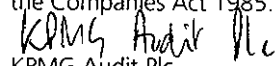
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 as at 31 December 1996 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


KPMG Audit Plc
Bristol
Chartered Accountants
Registered Auditor
23 April 1997

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1996

| | Notes | Continuing operations | |
|--|-------|-----------------------|---------------|
| | | 1996 £'000 | 1995 £'000 |
| Turnover | | 90,817 | 79,998 |
| Cost of sales | | -48,731 | -45,216 |
| Gross profit | | 42,086 | 34,782 |
| Distribution costs | | -1,486 | -1,252 |
| Administrative expenses | | -22,688 | -19,830 |
| Other operating expenses/income | | -230 | 399 |
| Operating profit | | 17,682 | 14,099 |
| Loss on sale of businesses | 2 | -1,390 | - |
| Interest receivable and similar income | 3 | 1,511 | 1,388 |
| Interest payable and similar charges | 4 | -147 | -151 |
| Profit on ordinary activities before taxation | 5 | 17,656 | 15,336 |
| Taxation on profit on ordinary activities | 6 | -7,075 | -5,425 |
| Profit on ordinary activities after taxation | | 10,581 | 9,911 |
| Minority equity interest | | - | -43 |
| Profit for the financial year | 7 | 10,581 | 9,868 |
| Preference dividends on non-equity shares | | -147 | -147 |
| Ordinary dividends on equity shares | 8 | -7,013 | -4,719 |
| | | -7,160 | -4,866 |
| Retained profit for the financial year | 20 | 3,421 | 5,002 |
| | | pence | pence |
| Earnings per share - pre exceptional item | | 13.5 | 11.1 |
| loss on exceptional item | | -1.6 | - |
| - basic | 9 | 11.9 | 11.1 |

The notes on pages 16 to 27 form part of these financial statements.

BALANCE SHEETS

at 31 December 1996

| | Notes | Group 1996 £'000 | Group 1995 £'000 | Company 1996 £'000 | Company 1995 £'000 |
|---|-------|------------------------|------------------------|--------------------------|--------------------------|
| Fixed assets | | | | | |
| Tangible assets | 11 | 9,430 | 9,619 | 686 | 62 |
| Investments | 12 | 29 | 122 | 14,724 | 16,474 |
| | | 9,459 | 9,741 | 15,410 | 16,536 |
| Current assets | | | | | |
| Stocks | 14 | 11,115 | 10,679 | - | - |
| Debtors | 15 | 22,980 | 20,321 | 1,705 | 1,852 |
| Cash at bank and in hand | | 29,313 | 23,912 | 17,049 | 18,013 |
| | | 63,408 | 55,012 | 18,754 | 19,866 |
| Creditors: amounts falling due within one year | 16 | -25,145 | -20,749 | -5,913 | -9,385 |
| Net current assets | | 38,263 | 34,263 | 12,841 | 10,481 |
| Total assets less current liabilities | | 47,722 | 44,004 | 28,251 | 27,017 |
| Creditors: amounts falling due after more than one year | 17 | - | -62 | - | - |
| Provisions for liabilities and charges | 18 | -3,306 | -1,636 | -2,123 | -173 |
| Net assets | | 44,416 | 42,306 | 26,128 | 26,844 |
| Capital and reserves | | | | | |
| Called up share capital | 19 | 5,932 | 5,928 | 5,932 | 5,928 |
| Share premium account | 20 | 2,648 | 2,584 | 2,648 | 2,584 |
| Revaluation reserve | 20 | 2,383 | 2,383 | - | - |
| Merger reserve | 20 | - | - | 9,254 | 9,254 |
| Profit and loss account | 20 | 33,453 | 31,411 | 8,294 | 9,078 |
| Rotork shareholders' funds | | 44,416 | 42,306 | 26,128 | 26,844 |
| Equity | | 42,865 | 40,735 | 24,577 | 25,293 |
| Non-equity | | 1,551 | 1,571 | 1,551 | 1,551 |
| Shareholders' funds | | 44,416 | 42,306 | 26,128 | 26,844 |

The notes on pages 16 to 27 form part of these financial statements.

These financial statements were approved by the board of directors on 23 April 1997 and were signed on its behalf by WH Whiteley and DT Smith, Directors.

13 

STATEMENT OF GROUP CASH FLOW

for the year ended 31 December 1996

| | Notes | 1996 £'000 | 1995 £'000 |
|---|-------|---------------|---------------|
| Net cash inflow from operating activities | 21 | 17,904 | 14,117 |
| Returns on investments and servicing of finance | | | |
| Interest and similar income received | | 1,523 | 1,346 |
| Interest paid | | -135 | -138 |
| Interest element of finance lease payments | | -12 | -2 |
| Dividends paid on: | | | |
| Non-equity preference shares | | -221 | -147 |
| Equity ordinary shares | | -5,518 | -3,375 |
| Net cash outflow on returns on investments and servicing of finance | | -4,363 | -2,226 |
| Taxation | | | |
| UK Corporation tax paid | | -2,401 | -2,493 |
| Overseas tax paid | | -3,034 | -2,819 |
| Tax paid | | -5,435 | -5,312 |
| Investing activities | | | |
| Purchase of tangible fixed assets | | -1,780 | -1,051 |
| Sale of tangible fixed assets | | 129 | 674 |
| Purchase of businesses | 13 | -883 | -515 |
| Sale of businesses | 2 | 130 | - |
| Deferred consideration on sale of business | | - | 94 |
| Net cash outflow on investing activities | | -2,404 | -798 |
| Net cash inflow before financing activities | | 5,702 | 4,681 |
| Financing | | | |
| Issue of ordinary share capital | | 68 | 119 |
| Repayment of amounts borrowed | | -43 | -124 |
| Capital element of finance lease payments | | -17 | -42 |
| Net cash inflow/outflow from financing | 21 | 8 | -47 |
| Increase in cash and equivalents | 21 | 5,710 | 4,634 |

STATEMENT OF THE GROUP'S TOTAL RECOGNISED GAINS AND LOSSES

| | 1996 £'000 | 1995 £'000 |
|---|---------------|---------------|
| Profit for the financial year | 10,581 | 9,868 |
| Exchange differences | -2,121 | 386 |
| Total recognised gains and losses for the year | 8,460 | 10,254 |

NOTE ON THE GROUP'S HISTORICAL COST PROFITS AND LOSSES

| | | |
|---|---------------|---------------|
| Reported profit on ordinary activities before taxation | 17,656 | 15,336 |
| Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amounts | 181 | 113 |
| Historical cost profit on ordinary activities before taxation | 17,837 | 15,449 |
| Historical cost retained profit for the financial year | 3,602 | 5,115 |

RECONCILIATION OF MOVEMENTS IN ROTORK SHAREHOLDERS' FUNDS

| | | |
|---|---------------|---------------|
| Profit for the financial year | 10,581 | 9,868 |
| Preference dividends on non-equity shares | -147 | -147 |
| Ordinary dividends on equity shares | -7,013 | -4,719 |
| Retained profit for the financial year | 3,421 | 5,002 |
| Exchange differences | -2,121 | 386 |
| New ordinary share capital issued | 68 | 119 |
| Goodwill written back on sale | 1,390 | - |
| Goodwill written off | -648 | -216 |
| Net additions to shareholders' funds | 2,110 | 5,291 |
| Shareholders' funds at beginning of the year | 42,306 | 37,015 |
| Shareholders' funds at end of the year | 44,416 | 42,306 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 1996

Except where indicated values in these notes are in £'000

1 Accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements of the group and of the company.

Basis of accounting

The financial statements have been prepared under the historical cost convention supplemented by the revaluations explained in note 11 to the financial statements and have been prepared in accordance with applicable accounting standards.

Consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary undertakings together with the group's share of the results and net assets of its associated undertakings for the year to 31 December 1996.

Goodwill purchased is written off directly against reserves in the year of acquisition. A separate profit and loss account dealing with the results of the company only has not been presented, as permitted by section 230(4) of the Companies Act 1985.

Foreign exchange

Assets and liabilities of subsidiary undertakings in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of foreign subsidiary undertakings are translated at the average rate of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary undertakings, and from the translation of the results of those undertakings at average rate, are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Depreciation and amortisation

Freehold land is not depreciated. Long leasehold buildings are amortised over fifty years or the expected useful life of the building where less than fifty years. Other assets are depreciated by equal annual instalments by reference to their estimated useful lives and residual values at the following annual rates:

| | |
|--------------------------------|-----------------|
| Freehold buildings | 2% to 4% |
| Short leasehold buildings | period of lease |
| Machinery, plant and equipment | 10% to 30% |

Leasing

Where fixed assets are financed by leasing agreements, which give rights approximating to ownership, the assets are treated as if they had been purchased and the capital element of the leasing commitments is shown as obligations under finance leases. The rentals payable are apportioned between interest, which is

charged to the profit and loss account, and capital, which reduces the outstanding obligation so as to give a constant rate of charge on the outstanding lease obligations. Costs in respect of operating leases are charged in arriving at the operating profit.

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost on a 'first in, first out' basis and net realisable value. In respect of work in progress and finished goods, cost includes all production overheads and the attributable proportion of indirect overhead expenses.

Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future. Advance corporation tax recoverable in future years is deducted in arriving at the balance on the deferred taxation account.

Segmental information

The group has taken advantage of the provisions of the Companies Act 1985 (sch. 4, para. 55(5)) and of SSAP 25 not to disclose segmental or geographical market information on the grounds that, in the opinion of the directors, such disclosure would be seriously prejudicial to the interests of the group.

Turnover

Turnover represents gross sales made and services supplied in engineering, excluding value added tax and returns and allowances. Long-term contracts are included in turnover on the basis of the sales value of work performed during the year.

Expense classification

Cost of sales includes all direct manufacturing costs and related overheads including depreciation. Distribution costs consist of transport and marketing costs, but exclude all other overheads. Administrative expenses include costs of product development and all other overheads.

Research and development

Expenditure on research and development of the group's products is written off against profits in the year in which it is incurred.

Pensions

The group operates a number of pension schemes and contributes to these schemes in accordance with qualified actuaries' recommendations. Contributions are charged to the profit and loss account so as to spread the cost over the remaining working lives of the employees within the schemes. Further details are given in note 23 to the financial statements.

2 Loss on sale of businesses

The loss related to the disposal of the businesses of Rotork Analysis Ltd on 31 December 1996.

| | |
|--|-------|
| Fixed assets including goodwill of £1,390,000 previously written off | 1,426 |
| Stocks and work in progress | 934 |
| Net assets | 2,360 |
| Redundancy costs | 415 |
| Total | 2,775 |
| Consideration | |
| Cash | 130 |
| Loan notes | 1,255 |
| | 1,385 |
| Loss on sale of businesses | 1,390 |

In the year to 31 December 1996, the businesses had recorded sales of £3,983,000 and an operating loss of £163,000, both of which figures have been included in the group results for the year.

| 3 Interest receivable and similar income | Group 1996 | Group 1995 |
|---|---------------|---------------|
| Short term deposits | 732 | 778 |
| Gains on disposal of investments | 779 | 610 |
| | <u>1,511</u> | <u>1,388</u> |

4 Interest payable and similar charges

| | | |
|---------------------------|------------|------------|
| Bank overdrafts and loans | 44 | 48 |
| Finance leases | 12 | 11 |
| Term loan | 5 | 9 |
| Discount on bills | 56 | 57 |
| Other | 30 | 25 |
| | <u>147</u> | <u>151</u> |

All the interest payable and similar charges were on borrowings repayable within five years.

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging or *crediting* the following:

| | | |
|--|-------|-------|
| Depreciation and other amounts written off tangible fixed assets: | | |
| Owned assets | 1,465 | 1,418 |
| Assets held under finance lease contracts | 8 | 13 |
| Profit on sale of tangible fixed assets | -46 | -229 |
| Research and development expenditure | 1,294 | 1,061 |
| Hire of plant and machinery | 529 | 586 |
| Other operating lease rentals | 181 | 161 |
| Auditors: | | |
| Audit fees and expenses | 163 | 147 |
| Taxation and consultancy fees paid to KPMG Audit Plc and its associates in respect of UK companies | 5 | 248 |
| Exchange differences realised | -29 | 16 |

Taxation and consultancy fees paid to KPMG Audit Plc and its associates in respect of the company were £nil (1995 £239,000).

6 Taxation on profit on ordinary activities

Taxation based on the profit for the year of the company and its subsidiary undertakings:

| | | |
|-------------------------------------|--------------|--------------|
| UK taxes: | | |
| Corporation tax at 33% | 5,326 | 4,406 |
| Deferred taxation | -286 | -51 |
| Under/over-provision in prior years | 20 | -29 |
| | <u>5,060</u> | <u>4,326</u> |
| Double taxation relief | -1,461 | -1,700 |
| | <u>3,599</u> | <u>2,626</u> |
| Overseas taxes: | | |
| Current taxation charge | 3,495 | 2,758 |
| Deferred taxation | -19 | 8 |
| Under-provision in prior years | - | 33 |
| | <u>3,476</u> | <u>2,799</u> |
| | <u>7,075</u> | <u>5,425</u> |

The taxation charge includes £42,625 (1995 £41,742) unrelieved overseas tax arising from the payment of intra group dividends.

Taxation on the £1,390,000 goodwill write-off in 1996 is £nil.

7 Profit for the financial year

| | Group 1996 | Group 1995 |
|---|---------------|---------------|
| Dealt with in the financial statements of the company | 6,375 | 8,312 |
| Retained by subsidiary undertakings | 4,206 | 1,556 |
| | <u>10,581</u> | <u>9,868</u> |

8 Ordinary dividends

| | | |
|---|--------------|--------------|
| Interim paid 3.00p per share (1995 2.10p) | 2,628 | 1,827 |
| Final proposed 5.00p per share (1995 3.30p) | 4,385 | 2,892 |
| | <u>7,013</u> | <u>4,719</u> |

9 Earnings per share

The basic earnings per ordinary share is based on earnings attributable to ordinary shareholders of £10,434,000 (1995 £9,721,000) and on the weighted average issued ordinary shares of 87,597,309 (1995 87,472,743).

The potential dilution which could arise from outstanding options is not material.

10 Employees

During the year, the average weekly number of employees, analysed by business activity, was:

| | No. | No. |
|---------------|------------|------------|
| Actuation | 689 | 681 |
| Instruments | 77 | 87 |
| Analysis | 59 | 60 |
| Rotork p.l.c. | 6 | 7 |
| | <u>831</u> | <u>835</u> |

| | | |
|----------|------------|------------|
| UK | 489 | 500 |
| Overseas | 342 | 335 |
| | <u>831</u> | <u>835</u> |

Staff costs during the year were:

| | £'000 | £'000 |
|-----------------------|---------------|---------------|
| UK: | | |
| Wages and salaries | 9,873 | 9,620 |
| Social security costs | 843 | 806 |
| Pension costs | 710 | 862 |
| | <u>11,426</u> | <u>11,288</u> |
| Overseas: | | |
| Wages and salaries | 6,060 | 5,433 |
| Social security costs | 736 | 658 |
| Pension costs | 269 | 257 |
| | <u>7,065</u> | <u>6,348</u> |
| Worldwide: | | |
| Wages and salaries | 15,933 | 15,053 |
| Social security costs | 1,579 | 1,464 |
| Pension costs | 979 | 1,119 |
| | <u>18,491</u> | <u>17,636</u> |

Note 10 continued

Directors' emoluments

| | salary and fees | commission (note a) | benefits (note b) | 1996 total | 1995 total | 1996 pensions (note c) | 1995 pensions (note c) |
|---------------------------------|--------------------|------------------------|----------------------|---------------|---------------|------------------------------|------------------------------|
| Executive directors | | | | | | | |
| TW Eassie to 6 March 1996 | 22 | 8 | 5 | 35 | 130 | 8 | 44 |
| PME Pavy (note d) | 70 | 8 | 8 | 86 | 79 | 16 | 17 |
| DT Smith | 80 | 28 | 6 | 114 | 87 | 32 | 29 |
| WH Whiteley | 120 | 42 | 8 | 170 | 104 | 31 | 17 |
| Non-executive directors | | | | | | | |
| R Hawley from 26 September 1996 | 5 | - | - | 5 | - | - | - |
| J Lancaster (Chairman, note e) | 20 | - | - | 20 | 20 | - | - |
| RC Lockwood | 15 | - | - | 15 | 14 | - | - |
| | 332 | 86 | 27 | 445 | 434 | 87 | 107 |

a The commission scheme for executive directors has been in effect since 1 January 1983. Commission is based on the percentage increase in profit for the year in question over the highest average annual profit of any prior period of three consecutive years.

b Benefits comprised cars, fuel and private medical insurance.

c These represent cash contributions paid by the group.

d A payment for a restrictive covenant and damages for breach of contract of up to £170,000 are payable.

e These fees were paid to Wolseley plc and Rexam plc.

f No separate banding schedule is given as the information above encompasses that required by Schedule 6 to the Companies Act 1985.

g For further details see the Report of the Remuneration Committee on pages 9 and 10.

Directors' interests

Interests in shares

The interests of the directors in the ordinary share capital of the company according to the register required to be kept by Section 325 of the Companies Act 1985, at 31 December 1996 (compared with interests at 31 December 1995 or at date of appointment) were as follows:

| | 1996 | | 1995 | |
|-------------|------------|----------------|------------|----------------|
| | beneficial | non beneficial | beneficial | non beneficial |
| R Hawley | 800 | - | - | - |
| J Lancaster | - | - | - | - |
| RC Lockwood | - | - | - | - |
| PME Pavy | 36,008 | - | 35,004 | - |
| DT Smith | 22,500 | 33,200 | 21,527 | 33,200 |
| WH Whiteley | 75,437 | - | 73,893 | - |

The beneficial interests as at 31 December included the following ordinary shares held under The Rotork Profit-Linked Share Scheme:

| | 1996 | 1995 |
|-------------|-------|-------|
| PME Pavy | 3,353 | 6,510 |
| DT Smith | 3,240 | 6,191 |
| WH Whiteley | 3,552 | 6,639 |

The Rotork Profit-Linked Share Scheme was approved by the Inland Revenue in 1979. Up to 5% of profits are distributed to employees annually, by reference to years of service and salary, in the form of ordinary shares. Allocations to directors in 1996 were:

| | 1996 | 1995 |
|-------------|-------|-------|
| PME Pavy | 1,004 | 1,219 |
| DT Smith | 973 | 1,179 |
| WH Whiteley | 1,007 | 1,314 |

These figures are included in the beneficial interests.

Save as disclosed, no director or his family had any interest in the shares of the company at 31 December 1996.

Share options

Interests of directors in the company's Employee Share Option Schemes were nil (1995 nil).

There have been no changes in the interests in shares or options of the directors listed above between 31 December 1996 and 31 March 1997, apart from any which relate to PME Pavy who ceased to be a director with effect from 31 December 1996.

Directors appointed since 1 January 1997

On 12 February 1997, the date of his appointment as an executive director, GE Malcolm owned beneficially 9,872 ordinary shares (including 2,383 under The Rotork Profit-Linked Share Scheme) and non-beneficially 1,341 ordinary shares.

On 20 March 1997, the date of his appointment as a non-executive director, TW Eassie owned beneficially 86,213 ordinary shares (including 3,557 under The Rotork Profit-Linked Share Scheme). These interests were unchanged on 31 March 1997.

11 Tangible fixed assets

| | Group land and buildings | machinery, plant and equipment | total | Company land and buildings | machinery, plant and equipment | total |
|--|--------------------------------|--------------------------------------|---------------|----------------------------------|--------------------------------------|--------------|
| Cost or valuation at 1 January 1996 | 8,037 | 12,500 | 20,537 | 170 | 66 | 236 |
| Exchange differences | -338 | -438 | -776 | - | - | - |
| Additions | 469 | 1,222 | 1,691 | - | 2 | 2 |
| New business | - | 73 | 73 | - | - | - |
| Disposals | - | -587 | -587 | - | - | - |
| Transfers from subsidiary undertakings | - | - | - | 809 | - | 809 |
| At 31 December 1996 | 8,168 | 12,770 | 20,938 | 979 | 68 | 1,047 |
| Depreciation at 1 January 1996 | 1,388 | 9,530 | 10,918 | 120 | 54 | 174 |
| Exchange differences | -75 | -337 | -412 | - | - | - |
| Charge for year | 328 | 1,145 | 1,473 | 101 | 4 | 105 |
| Disposals | - | -471 | -471 | - | - | - |
| Transfers from subsidiary undertakings | - | - | - | 82 | - | 82 |
| At 31 December 1996 | 1,641 | 9,867 | 11,508 | 303 | 58 | 361 |
| Net book value at 31 December 1996 | 6,527 | 2,903 | 9,430 | 676 | 10 | 686 |
| at 31 December 1995 | 6,649 | 2,970 | 9,619 | 50 | 12 | 62 |
| Net book value included finance leased assets at 31 December 1996 | | 50 | 50 | | | |
| at 31 December 1995 | | 60 | 60 | | | |
| Land and buildings stated in accordance with historical cost convention were: | 1996 | 1995 | | 1996 | 1995 | |
| Cost | 6,296 | 6,225 | | 736 | 21 | |
| Depreciation | -1,383 | -1,306 | | -114 | -15 | |
| Net book value at 31 December | 4,913 | 4,919 | | 622 | 6 | |
| Net book value included: | | | | | | |
| Freehold land (not depreciated) | 1,067 | 1,116 | | 110 | - | |
| Freehold buildings | 3,364 | 3,462 | | 526 | - | |
| Long leasehold | 2,056 | 2,021 | | - | - | |
| Short leasehold | 40 | 50 | | 40 | 50 | |
| Net book value at 31 December | 6,527 | 6,649 | | 676 | 50 | |
| The cost or valuation figure of £8,168,000 (1995 £8,037,000) included the following properties at the revalued amounts shown. The year of revaluation is also given. | | | | | | |
| London leasehold, 1983 | 170 | 170 | | 170 | 170 | |
| Bath freehold, 1991 | 105 | 105 | | - | - | |
| Bath leasehold, 1991 | 2,245 | 2,245 | | - | - | |
| | 2,520 | 2,520 | | 170 | 170 | |

The revaluations were based on the market value for the existing use.

| 12. Investments (held as fixed assets) | Group 1996 | Group 1995 | Company 1996 | Company 1995 |
|--|---------------|---------------|-----------------|-----------------|
| Cost of shares in group companies (note a) | - | - | 14,724 | 16,474 |
| Cost of shares in associated undertakings (note b) | - | 93 | - | - |
| Share of post acquisition profit (note c) | 29 | 29 | - | - |
| | <u>29</u> | <u>122</u> | <u>14,724</u> | <u>16,474</u> |

a On 31 December 1996 the company made a provision of £1,750,000 for the diminution in value of its investment in Rotork Analysis Ltd.

b The investment in the joint venture with Shenzhen Sinopec of China was written off during the year.

c The company owns 25% of the total issued 100 equity ordinary shares of £1 each of Graphics Interface Ltd, an undertaking which is incorporated in England and has graphic design and printing as its principal activity. It has a year end of 31 December and no debt securities. (See directory on page 26).

13 Purchase of business

Rotork Africa (Pty) Ltd, a wholly owned subsidiary undertaking of Rotork Overseas Ltd, acquired the business of Rotork Actuation's South African agent at the end of 1996. The provisional fair values, which were not materially different from the book values of the identifiable assets and liabilities, included:

| | |
|--------------------------------|------------|
| Machinery, plant and equipment | 73 |
| Stocks | 94 |
| Debtors | 145 |
| Creditors | -77 |
| | <u>235</u> |
| Goodwill | 648 |
| | <u>883</u> |

In addition, the company completed the purchase of the agent's land and buildings on 28 February 1997 at a fair value of £225,000.

14 Stocks and work in progress

| | | |
|--|---------------|---------------|
| Raw materials and purchased components | 6,163 | 7,133 |
| Work in progress | 3,329 | 2,567 |
| Finished stocks | 1,623 | 979 |
| | <u>11,115</u> | <u>10,679</u> |

15 Debtors

| | | | | |
|---|---------------|---------------|--------------|--------------|
| Amounts falling due within one year: | | | | |
| Trade debtors | 19,517 | 18,800 | - | - |
| Amounts owed by subsidiary undertakings | - | - | - | 1,715 |
| Other debtors | 922 | 500 | 55 | 104 |
| Prepayments and accrued income | 838 | 736 | 25 | 34 |
| Taxation recoverable | 14 | 185 | - | - |
| Deferred taxation | 396 | 107 | 332 | - |
| Advance corporation tax recoverable | 38 | - | 38 | - |
| Deferred consideration | 155 | - | 155 | - |
| | <u>21,880</u> | <u>20,328</u> | <u>605</u> | <u>1,853</u> |
| Amounts falling due after more than one year: | | | | |
| Trade debtors | - | 90 | - | - |
| Other debtors | - | 3 | - | - |
| Deferred consideration | 1,100 | - | 1,100 | - |
| | <u>1,100</u> | <u>93</u> | <u>1,100</u> | <u>-</u> |
| | <u>22,980</u> | <u>20,421</u> | <u>1,705</u> | <u>1,853</u> |

| 16 Creditors: amounts falling due within one year | Group 1996 | Group 1995 | Company 1996 | Company 1995 |
|--|---------------|---------------|-----------------|-----------------|
| Industrial Development Revenue Bond | 49 | 54 | - | - |
| Bank loans and overdrafts | 464 | 270 | - | 5,785 |
| Net obligations under finance leases | 8 | 23 | - | - |
| | <u>521</u> | <u>347</u> | <u>-</u> | <u>5,785</u> |
| Borrowings | | | | |
| Trade creditors | 7,147 | 6,493 | 2 | 24 |
| Amounts due to subsidiary undertakings | - | - | 1,282 | - |
| Amounts owed to associated undertaking | 3 | 3 | - | - |
| Bills of exchange | 112 | 138 | - | - |
| Corporation tax | 5,071 | 3,721 | - | - |
| Other taxes and Social Security | 758 | 661 | 22 | 57 |
| Other creditors | 1,169 | 1,410 | 11 | 92 |
| Accruals and deferred income | 5,979 | 5,084 | 211 | 535 |
| Dividends payable | 4,385 | 2,892 | 4,385 | 2,892 |
| | <u>25,145</u> | <u>20,749</u> | <u>5,913</u> | <u>9,385</u> |

17 Creditors: amounts falling due after more than one year

| | | | | |
|--|------------|------------|----------|--------------|
| Industrial Development Revenue Bond | - | 43 | - | - |
| Net obligations under finance leases | - | 3 | - | - |
| Other creditors | - | 16 | - | - |
| | <u>-</u> | <u>62</u> | <u>-</u> | <u>-</u> |
| Borrowings | | | | |
| Total borrowings comprise: | | | | |
| Secured: | | | | |
| Industrial Development Revenue Bond | 49 | 97 | - | - |
| Bank loans and overdrafts | 464 | 270 | - | - |
| | <u>513</u> | <u>367</u> | <u>-</u> | <u>-</u> |
| Unsecured: | | | | |
| Bank loans and overdrafts | - | - | - | 5,785 |
| Net obligations under finance leases | 8 | 26 | - | - |
| | <u>521</u> | <u>393</u> | <u>-</u> | <u>5,785</u> |
| Analysis for cash flow purposes (see note 21 on page 24) | | | | |
| Overdrafts and short-term loans | 464 | 270 | | |
| Financing | 57 | 123 | | |
| | <u>521</u> | <u>393</u> | | |

Industrial Development Revenue Bond

Under an agreement dated 1 December 1982, Rotork Controls Inc entered into an agreement to finance the purchase of its factory through a US\$1,000,000 Industrial Development Revenue Bond. The term of the agreement is 15 years, with quarterly payments of US\$16,670 which began on 1 April 1983. Interest is payable quarterly at a rate based on 86.75% of the prime rate, which was 8.25% at 31 December 1996.

Bank loans and overdrafts

The secured bank loans and overdrafts represent a working capital loan and overdraft facilities for Rotork Controls (Korea) Co., Ltd and Rotork-Controls de Venezuela SA, the amounts of which are secured by accepted letters of credit.

All of the borrowings (including obligations under finance leases) outstanding at 31 December 1996 are repayable within one year or on demand.

Obligations under operating leases are shown under note 22.

| 18 Provisions for liabilities and charges | Group | | | | | Company | | |
|---|-------------------|----------|----------|-------|-------|-------------------|-------|-------|
| | deferred taxation | warranty | pensions | other | total | deferred taxation | other | total |
| Balance at 1 January 1996 | 25 | 754 | 522 | 335 | 1,636 | - | 173 | 173 |
| Exchange differences | -8 | -25 | -61 | -8 | -102 | - | - | - |
| Utilised during the year | -10 | -367 | -54 | -132 | -563 | - | -62 | -62 |
| Charged in the profit and loss account | 2 | 735 | 136 | 1,462 | 2,335 | - | 2,012 | 2,012 |
| Balance at 31 December 1996 | 9 | 1,097 | 543 | 1,657 | 3,306 | - | 2,123 | 2,123 |

| | Group 1996 amount provided | Group 1996 full potential liability | Group 1995 amount provided | Group 1995 full potential liability |
|--|------------------------------|---------------------------------------|------------------------------|---------------------------------------|
| The amounts provided for deferred taxation and the full potential liability are: | | | | |
| Difference between accumulated depreciation and capital allowances | 71 | 71 | 90 | 90 |
| Other timing differences | -458 | -691 | -172 | -172 |
| UK | -364 | -364 | -78 | -78 |
| Overseas | -23 | -256 | -4 | -4 |
| | <u>-387</u> | <u>-620</u> | <u>-82</u> | <u>-82</u> |
| Included within debtors | -396 | | -107 | |
| Included within provisions for liabilities and charges | 9 | | 25 | |
| | <u>-387</u> | | <u>-82</u> | |
| | Company 1996 amount provided | Company 1996 full potential liability | Company 1995 amount provided | Company 1995 full potential liability |
| Other timing differences | -332 | -332 | -46 | -46 |

No provision for deferred taxation has been made in relation to the surplus on the revaluation of land and buildings included in the revaluation reserve. If these properties were disposed of at their values in the accounts, it is estimated that there would be no taxation liability after relief for available losses.

The majority of the pensions provision related to projected obligations under Rotork Controls Inc's Employee Benefit Plan.

| 19 Share capital | Authorised | | Issued and fully paid up | |
|--|--------------|--------------|--------------------------|--------------|
| | 1996 | 1995 | 1996 | 1995 |
| Non-equity 9½% cumulative preference shares of £1 each | 1,551 | 1,551 | 1,551 | 1,551 |
| Equity ordinary shares of 5p each | 5,449 | 5,449 | 4,381 | 4,377 |
| | <u>7,000</u> | <u>7,000</u> | <u>5,932</u> | <u>5,928</u> |

The preference shareholders take priority over the ordinary shareholders on a distribution in the winding up of the company or on a reduction of capital involving a return of capital. The holders of preference shares are entitled to vote at a general meeting of the company if a preference dividend is in arrear for six months or the business of the meeting includes the consideration of a resolution for winding up the company or the alteration of the preference shareholders' rights.

The only ordinary shares issued during the year were 63,741 (1995 143,799) under The Rotork Employee Share Option Scheme, at prices between 76p and 145p.

| 20 Equity reserves | Group share premium | revaluation reserve | profit and loss account | Company share premium | merger reserve | profit and loss account |
|----------------------------------|---------------------------|------------------------|----------------------------|-----------------------------|-------------------|----------------------------|
| As at 1 January 1996 | 2,584 | 2,383 | 31,411 | 2,584 | 9,254 | 9,078 |
| Profit/deficit retained | - | - | 3,421 | - | - | -784 |
| Premium on new shares issued | 64 | - | - | 64 | - | - |
| Goodwill written off | - | - | -648 | - | - | - |
| Goodwill written back on sale | - | - | 1390 | - | - | - |
| Exchange translation differences | - | - | -2,121 | - | - | - |
| As at 31 December 1996 | 2,648 | 2,383 | 33,453 | 2,648 | 9,254 | 8,294 |

Goodwill of £17,136,000 (1995 - £17,878,000) in respect of subsidiary undertakings which continue to be members of the group and businesses acquired has been written off against the group equity profit and loss and merger reserves. The goodwill written off during the year related to the acquisition of the business in South Africa (see note 13 on page 21).

| 21 Cash flow analysis | Group 1996 | Group 1995 |
|---|---------------|---------------|
| Reconciliation of operating profit to net cash flow from operating activities | | |
| Operating profit | 17,682 | 14,099 |
| Depreciation charge | 1,473 | 1,431 |
| Other | -34 | -217 |
| Increase/decrease in stocks | -1,951 | 46 |
| Increase in debtors | -2,554 | -2,557 |
| Increase in creditors and provisions | 3,288 | 1,315 |
| | 17,904 | 14,117 |

Analysis of changes in financing during the year

| | share capital (inc share premium) | loans and finance leases (see note 17) | net financing |
|---------------------------------|---|---|------------------|
| Balance at 31 December 1994 | 8,455 | 290 | 8,745 |
| Net cash outflow from financing | 119 | -166 | -47 |
| Exchange differences | - | -1 | -1 |
| Balance at 31 December 1995 | 8,574 | 123 | 8,697 |
| Net cash inflow from financing | 68 | -60 | 8 |
| Exchange differences | - | -6 | -6 |
| Balance at 31 December 1996 | 8,642 | 57 | 8,699 |

Analysis of changes in cash and cash equivalents

| | cash at bank and in hand | bank loans and overdrafts (see note 17) | net cash and cash equivalents |
|-----------------------------|--------------------------------|--|-------------------------------------|
| Balance at 31 December 1994 | 19,072 | -159 | 18,913 |
| Net cash inflow in 1995 | 4,803 | -169 | 4,634 |
| Exchange differences | 37 | 58 | 95 |
| Balance at 31 December 1995 | 23,912 | -270 | 23,642 |
| Net cash inflow in 1996 | 5,991 | -281 | 5,710 |
| Exchange differences | -590 | 87 | -503 |
| Balance at 31 December 1996 | 29,313 | -464 | 28,849 |

| 22 Commitments | Group 1996 | Group 1995 | Company 1996 | Company 1995 |
|---|---------------|---------------|-----------------|-----------------|
| Capital commitments at 31 December, for which no provision has been made in these accounts, were: | | | | |
| Contracted | 599 | 166 | 225 | - |
| Authorised but not contracted | 1,725 | 991 | 15 | 5 |
| | <u>2,324</u> | <u>1,157</u> | <u>240</u> | <u>5</u> |

| Commitments under operating leases: | land and buildings | machinery, plant and equipment | total | machinery, plant and equipment |
|--|-----------------------|--------------------------------------|------------|--------------------------------------|
| Instalments falling due within one year for leases expiring: | | | | |
| Within one year | 3 | 87 | 90 | - |
| From two to five years | 22 | 249 | 271 | 11 |
| Over five years | 16 | 26 | 42 | - |
| At 31 December 1996 | <u>41</u> | <u>362</u> | <u>403</u> | <u>11</u> |
| Within one year | 31 | 126 | 157 | 3 |
| From two to five years | 72 | 372 | 444 | 12 |
| Over five years | 10 | - | 10 | - |
| At 31 December 1995 | <u>113</u> | <u>498</u> | <u>611</u> | <u>15</u> |

23 Pensions

The group operates a number of pension plans in the UK and overseas, devised in accordance with local conditions and practices. The majority of the group's employees are members of funded defined benefit schemes. The assets of these schemes are held in separate trustee administered funds.

The total pension cost for the group was £979,000 (1995 £1,120,000) of which £269,000 (1995 £257,000) related to the overseas schemes.

The pension cost relating to the principal scheme which covers 82% of UK employees is assessed in accordance with the advice of an independent qualified actuary using the projected unit method over a 20 year control period. The latest actuarial valuation of the principal UK scheme was as at 31 March 1995. The assumptions which have the most significant effect on the valuation are those relating to the rate of return on investments (8.5% per annum), the rate of increase in salaries (7.5% per annum) and the rate of increase in present and future pensions (4.5% per annum).

At the date of the latest actuarial valuation, the market value of the assets of the principal UK scheme was £21,169,945. The actuarial value of the assets was sufficient to cover 124% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The on-going contribution rates for members and employers have been reduced on the recommendation of the actuary. The pension costs of the other defined benefit scheme which covers US employees have been determined in accordance with advice from an independent qualified actuary.

An amount of £483,993 (1995 £514,319) is included in provisions, which represents the excess of the accumulated pension cost over the payment of contributions to the US fund.

| 24 Contingent liabilities | Group 1996 | Group 1995 | Company 1996 | Company 1995 |
|--|---------------|---------------|-----------------|-----------------|
| Performance guarantees and indemnities | 2,429 | 2,106 | - | - |
| Guarantees for bank overdrafts of UK subsidiary undertakings | - | - | 230 | 1,007 |

The UK banking arrangements are subject to cross-guarantees between the company and its UK subsidiary undertakings.

DIRECTORY

| | Company | Address and principal place of business |
|------------------------|---|---|
| Parent company | Rotork p.l.c. | Rotork House Bath BA1 3JQ, England |
| Rotork actuation | Rotork Controls Ltd | Rotork House Bath BA1 3JQ, England |
| | Exeeco Ltd | Regina House, Ring Road Bramley, Leeds LS13 4ET, England |
| | Rotork Controls Inc | 19 Jet View Drive Rochester, NY 14624, USA |
| | Rotork Controls (Canada) Ltd | 9,820 - 28th Street NE Calgary, Alberta T2A 6K1, Canada |
| | Rotork Motorisation SA | Urbaparc 3, 75 rue Rateau, 93127 La Courneuve Cedex, France |
| | Rotork Controls (Italia) Srl | Centro Commerciale Milanofiori, Strada 7 Palazzo T3, 20089 - Rozzano (Milan) Italy |
| | Rotork Controls (Deutschland) GmbH | Postfach 648 40706 Hilden (Nr Düsseldorf), Germany |
| | Rotork Controls (España) SL | Ctra. Barrika-Sopelana 9, 48620 Barrika-Vizcaya, Spain |
| | Rotork Controls (Singapore) Pte Ltd | 426 Tagore Avenue Singapore 787808 |
| | Rotork Australia Pty Ltd | PO Box 189W, Ballarat West Victoria 3350, Australia |
| | Rotork BV | Postbus 3597 3003 AN Rotterdam, Netherlands |
| | Rotork Arabia Ltd | PO Box 2756 Dammam 31461, Saudi Arabia |
| | Rotork Controls (India) Ltd | 28B Ambattur Industrial Estate (N) Madras 600 098, India |
| | Rotork-Controls de Venezuela SA | Apartado 75515 Caracas 1070-A, Venezuela |
| | Rotork Ltd | Unit 2403 Dominion Centre, 43-59 Queen's Road East Wanchai, Hong Kong |
| | Rotork Controls (Korea) Co., Ltd | 2nd Floor, Daekyong Building 839-15 Yoksam-Dong, Kangnam-Ku, Seoul, South Korea |
| | Shenzhen Sinopec-Rotork Actuation Co. Ltd | 24 South Building, Science and Industry Park, Nantou, Nanshan Dist Shenzhen, Guangdong Province, China |
| | Rotork Africa (Pty) Ltd | 136 Kuschke Street, Meadowdale Ext 3 Germiston 1401, South Africa |
| | Rotork (Thailand) Ltd | No. 46/14-16 Sukhumvit 36, Sukhumvit Road Prakanong, Bangkok 10110, Thailand |
| | Shanghai Automation Instrumentation Co. | No. 11 Factory, 57 Xin Feng Road, Zhu Jia Jiao Town Qinpu County, Shanghai 201713, China |
| Rotork instruments | Shimadzu Corporation | 25 Saiin-Oiwakecho Ukyo-ku, Kyoto 615, Japan |
| | Rotork Instruments Ltd | 30 Chaul End Lane Luton, Beds LU4 8EZ, England |
| Rotork analysis | Rotork Analysis Ltd | |
| Other companies | Rotork Inc | The Granite Building, 101 E. Main Street Rochester, NY 14604, USA |
| | Rotork Overseas Ltd | Rotork House Bath BA1 3JQ, England |
| Associated undertaking | Graphics Interface Ltd | Roseberry Road Bath BA2 3DX, England |

All the shares in subsidiary undertakings are of the equity class. Countries of incorporation are as stated in the addresses. All principal subsidiary undertakings are shown above.

| Status | Contact | Telephone | Telefax |
|-----------------------------------|---|------------------|------------------|
| Holding company | Jeremy Lancaster <i>Chairman (non-executive)</i> | (01225) 733200 | (01225) 733381 |
| 100% owned by Rotork p.l.c. | William Whiteley <i>Group chief executive</i> | (01225) 733200 | (01225) 333467 |
| 100% owned by Rotork Controls Ltd | Martin Perkins <i>Managing director</i> | (0113) 256 7922 | (0113) 256 3556 |
| 100% owned by Rotork Inc | Robert Arnold <i>President</i> | +1 716 328 1550 | +1 716 328 5848 |
| 100% owned by Rotork Overseas Ltd | Chris Bone <i>Vice president</i> | +1 403 569 9455 | +1 403 569 9414 |
| 100% owned by Rotork Overseas Ltd | Bruno Deverly <i>Directeur général</i> | +331 43 11 15 50 | +331 48 35 42 54 |
| 100% owned by Rotork Overseas Ltd | Cesare Cereghini <i>General manager</i> | +392 8241001 | +392 89200301 |
| 100% owned by Rotork Overseas Ltd | Jürgen Vogel <i>Geschäftsführer</i> | +49 2103 54098 | +49 2103 54090 |
| 100% owned by Rotork Overseas Ltd | Joaquin Pastor-Velasquez <i>General manager</i> | +34 4 676 4244 | +34 4 676 4864 |
| 100% owned by Rotork Overseas Ltd | Peter Rowles <i>General manager</i> | +65 4571233 | +65 4576011 |
| 100% owned by Rotork Overseas Ltd | Jeff Quarrell <i>General manager</i> | +61 353 381566 | +61 353 381570 |
| 100% owned by Rotork Overseas Ltd | Frank Koopmans <i>General manager</i> | +31 10 4146911 | +31 10 4144750 |
| 60% owned by Rotork Overseas Ltd | Kieran Aust <i>General manager</i> | +966 3 833 0702 | +966 3 833 9369 |
| 100% owned by Rotork Controls Ltd | Ashok Jayaram <i>President</i> | +91 44 6258494 | +91 44 6257108 |
| 100% owned by Rotork Overseas Ltd | Luis Benedetti <i>General manager</i> | +58 2 2653536 | +58 14 250822 |
| 100% owned by Rotork Overseas Ltd | Eric Li <i>Manager</i> | +852 2 5202390 | +852 2 5289746 |
| 100% owned by Rotork Overseas Ltd | Y K Kim <i>General manager</i> | +82 2 565 4803 | +82 2 565 4802 |
| 35% owned by Rotork Controls Ltd | Wang Lei <i>General manager</i> | +755 6639476 | +755 6639710 |
| 100% owned by Rotork Overseas Ltd | Lee Howard <i>Managing director</i> | +27 11 4539741 | +27 11 4539894 |
| 100% owned by Rotork Inc | Chaitawat Chotikawanish <i>Manager</i> | +66 2 259 3918 | +66 2 259 3920 |
| Licensee | Cai Miao Rong <i>Managing director</i> | +86 21 59242911 | +86 21 59242706 |
| Licensee | Mikio Joh <i>General manager Sanki division</i> | +81 75 314 0083 | +81 75 311 3931 |
| 100% owned by Rotork p.l.c. | Colin Allison <i>Managing director</i> | (01582) 399499 | (01582) 399444 |
| Ceased to trade | | | |
| 100% owned by Rotork Overseas Ltd | Mark Foerster <i>Secretary</i> | +1 716 232 4440 | +1 716 232 1054 |
| 100% owned by Rotork p.l.c. | David Smith <i>Director</i> | (01225) 733200 | (01225) 733381 |
| 25% owned by Rotork p.l.c. | Richard Knowles <i>Director</i> | (01225) 331304 | (01225) 312621 |

Notice is hereby given that the fortieth annual general meeting of Rotork p.l.c. will be held at Rotork House, Brassmill Lane, Bath BA1 3JQ on 21 May 1997 at 12 noon for the following purposes:

Ordinary business

To consider and, if thought fit, to pass the following ordinary resolutions:

Resolution 1 That the directors' report and accounts and the auditors' report thereon for the year ended 31 December 1996 be received and adopted.

Resolution 2 That a final dividend at the rate of 5.00p per share on the ordinary share capital of the company be declared for the year ended 31 December 1996 payable on 23 May 1997 to shareholders on the register at close of business on 7 April 1997.

Resolution 3 That Dr R Hawley be re-elected a director of the company.

Resolution 4 That Mr GE Malcolm be re-elected a director of the company.

Resolution 5 That Mr TW Eassie be re-elected a director of the company.

Resolution 6 That KPMG Audit Plc be re-appointed as the company's auditors until the conclusion of the next annual general meeting of the company and that the directors be authorised to fix the auditors' remuneration.

Special business

To consider and, if thought fit, to pass the following resolution, which will be proposed as an ordinary resolution:

Resolution 7

7.1 That the directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 ('the Act') during the period expiring on the date of the next annual general meeting after the passing of this resolution to exercise all powers of the company to allot relevant securities (as defined in section 80(2) of the Act) and to make an offer or agreement which would or might require such relevant securities to be allotted after that date and the directors may allot relevant securities after the expiry of such authority pursuant to such offer or agreement. Securities allotted under this authority

shall not exceed the nominal value of the present unissued share capital of the company.

7.2 To revoke any previous authorities to the directors to allot shares in the company provided that such revocation shall not have retrospective effect.

Subject to and conditional upon resolution 7 being passed, to consider and, if thought fit, to pass the following resolution, which will be proposed as a special resolution:

Resolution 8

8.1 That the directors be and they are hereby empowered for the period from the passing of this resolution until the conclusion of the next annual general meeting of the company to allot equity securities (as defined in section 94 of the Companies Act 1985 ('the Act')) of the company under the authority conferred by resolution 7 above as if section 89(1) of the Act did not apply to such allotment and the directors shall be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require equity securities to be allotted after the expiry of such power and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired provided that this power shall be limited:

8.1.1 to the allotment of equity securities in connection with any invitation made to the holders of ordinary shares to subscribe by way of rights where the equity securities attributable to the interests of all the holders of ordinary shares are proportionate (as nearly as maybe) to the respective numbers of ordinary shares held by them but subject to any exceptions exclusions or other arrangements which in the opinion of the directors are necessary or expedient for the purpose of dealing with fractional entitlements otherwise arising or legal or practical problems under the laws of any territory or the requirements of any recognised stock exchange or any regulatory body in any territory; and

8.1.2 to the allotment (otherwise than pursuant to 8.1.1 above) of equity securities up to an aggregate number of 4,382,794 ordinary shares of 5p each being 5 per cent of the aggregate number of issued ordinary shares of the company as at 31 March 1997 .

8.2 To revoke all authorities conferred under section 95 of the Act prior to this resolution being passed provided that such revocation shall not have retrospective effect.

To consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution:

Resolution 9

That subject to the consent of the holders of Preference Shares not being withdrawn in accordance with the resolution passed by the holders thereof on 3 August 1995, the company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 5p each of the company provided that:

9.1 the maximum number of ordinary shares hereby authorised to be acquired is 8,500,000 (9.70%);

9.2 the minimum price which may be paid for any such share is 5 pence (exclusive of expenses);

9.3 the maximum price (exclusive of expenses) which may be paid for any such share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and

9.4 the authority hereby conferred shall expire fifteen months from the date of this resolution or, if earlier, at the conclusion of the annual general meeting of the company in 1998, but a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of shares may be made in pursuance of any such contract.

A member entitled to attend and vote is entitled to appoint a proxy to attend and, on a poll, to vote at the meeting. A proxy need not also be a member.

By order of the board
MJ White
Secretary
23 April 1997
Rotork House
Brassmill Lane
Bath BA1 3JQ

Notes

1. To be effective, forms of proxy must be duly completed and returned so as to reach Lloyds Bank plc, Lloyds Bank Registrars, 54 Pershore Road South, Birmingham B30 3EP not less than 48 hours before the time appointed for holding the meeting, or adjourned meeting, as the case may be.

2. Pursuant to regulation 34 of the Uncertificated Securities Regulations 1995 the company specifies that only those shareholders registered in the register of members of the company as at 6 pm on 19 May 1997 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6 pm on 19 May 1997 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

3. Contracts of service (unless expiring or determinable within one year without payment of compensation) between the company or its subsidiaries and any director together with a statement of transactions of directors (and of their family interests) in the share capital of the company and any of its subsidiaries are available for inspection at the registered office of the company on any weekday (except Saturdays and public holidays) during normal business hours.

