FAIREY GROUP LIMITED

BALANCE SHEET

AT 2 JULY 1988

Notes		£'000 1988 (2 July)	£'000 1987 (31 December)
	Fixed assets		
1	Tangible assets	10,453	6,802
2	Investments : Subsidiaries	35,468	33,799
	Associate	42	42
		45,963	40,643
	Current assets		
3	Stocks	298	219
4	Debtors	6,769	9,085
	Cash at bank	3,606	3,044
		10,673	12,348
	Creditors: due within one year		
5/7	Short term borrowing	4,725	3,648
5	Other creditors	10,713	11,689
		15,438	15,337
	Net current assets	(4,765)	(2,989)
	Total assets less current liabilities	41,198	37,654
	Creditors: due after more than one year		
6/7	Medium and long term borrowing	20,412	21,140
6	Other creditors	2,938	2,646
		23,350	23,786
8	Provisions	369	495
		17,479	13,373
	Capital and reserves		
11	Share capital	10,429	10,429
12	Reserves	7,050	2,944
		17,479	13,373

The balance sheet and notes were approved by the board of directors on 7 November 1988 and signed on its behalf by

Directors

COMPANIES REGISTRATION OFFICE

ACCOUNTING POLICIES

Basis of accounting

This balance sheet is not prepared under section 227 of the Companies Act 1985. The balance sheet has been prepared on the historical cost convention, as modified by the revaluation of certain fixed assets, solely for the purposes of management.

Turnover

Turnover comprises sales invoiced (excluding value added tax) at fixed prices and the estimated sales value of goods delievered and accepted under contracts which have not been the subject of price settlement. For long-term contracts, the amount included in turnover represents claims under the contract agreed by the customer.

Depreciation

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight line basis at the following rates per annum:

Freehold and long leasehold buildings	- over the estimated residual life of the buildings
Short leasehold property	- over the remaining period of the lease
Plant, machinery and other equipment	- 5-20%
Motor vehicles	- 25%
Tooling and computer software	- 33 1/3%

Fixed asset investments

Investments in subsidiaries and other investments are stated at cost, less amounts written off where there has been a permanent diminution of value.

Stock, work-in-progress and long term contracts

Stocks and work-in-progress are valued at the lower of cost and estimated net realisable value, and in the case of long term contracts include a proportion of estimated accrued profit. Cost represents direct cost incurred and, where applicable, a proportion of attributable overheads; in some cases standard costs are used which approximate to actual.

Foreign currencies

Assets and liabilities in overseas currencies are translated into sterling at the rates ruling at 2 July (1987 - 31 December). Profit and loss accounts in foreign currencies are translated into sterling at the average rates applicable during the period. Realised exchange differences arising on trading transactions are taken to the profit and loss account. Exchange differences arising on opening net assets are taken direct to reserves.

ACCOUNTING POLICIES

Deferred taxation

Provision is made by the liability method, at the expected applicable rates, for taxation deferred in respect of all timing differences between accounting and taxation treatment, except when it is thought reasonably probable that the tax effects of such deferrals will continue for the foreseeable future.

Leases

Finance lease rentals are capitalised at the total amount of rentals payable under the leasing agreement (excluding finance charges) and depreciated in accordance with group policy above. Finance charges are written off over the period of the lease in reducing amounts in relation to the written down carrying cost. Operating lease rentals are written off as incurred.

Research and development

Research and development expenditure is written off as it is incurred.

Contributions to pension funds

Pension fund contributions are based on percentages of employees' wages and salaries in accordance with the recommendations of the fund's actuaries and are charged to the profit and loss account.

Government grants

Government grants are credited against the purchase cost of the related fixed assets.

NOTES TO THE BALANCE SHEET

1. Tangible fixed assets

	Freehold property	Plant & Equipment	Total
	£'000	£'000	£'000
Cost or valuation			
1 January 1988	6,350	687	7,037
Revaluation	3,600	-	3,600
Additions	-	39	39
Disposals	-	(1)	(1)
2 July 1988	9,950	725	10,675
Analysed as follows:			
Valuation 1988	9,950	-	9,950
Cost	-	725	725
	9,950	725	10,675
Depreciation			
1 January 1988	82	153	235
Revaluation	(162)	-	(162)
Provided in period	80	70	150
Disposals	-	(1)	(1)
	-	222	222
Net book values			
2 July 1988	9,950	503	10,453
31 December 1987	6,268	534	6,802

The companies freehold property was revalued by Pyle Owen & Partners, surveyors, at open market value on 30th June 1988. This value has been incorporated in the balance sheet.

If the freehold property had not been revalued the following values would have been included:

	£'000
Cost	4,763
Aggregate Depreciation	183

The company holds no assets under finance leases.

2. Fixed asset investments

(a) Subsidiaries

	Subsidiaries £'000	Loans £'000	Total £'000
1 January 1988	9,094	24,705	33,799
Additions	52	1,866	1,918
Disposals	(249)	-	(249)
2 July 1988	8,897	26,571	35,468
Cost	8,997	27,926	36,923
Provision	(100)	(1,355)	(1,455)
	8,897	26,571	35,468

(b) Associated company

	1988 (2 July) £'000	1987 (31 December) £'000
Cost and net book value	42	42

3. Stocks

	1988 (2 July) £'000	1987 (31 December) £'000
Raw materials	204	115
Work in progress	94	104
	298	219

The replacement cost of stocks and work in progress is not materially different from the balance sheet value.

4. Debtors

	1988 (2 July) £'000	1987 (31 December) £'000
Amount falling due within one year		
Trade debtors	409	421
Group companies	4,463	6,674
Taxation	1,417	405
Other debtors	48	177
Prepayment and accrued income	132	15
Dividends receivable	-	1,393
	6,469	9,085
Amount falling due after one year		
Taxation	300	-
	6,769	9,085

NOTES TO THE BALANCE SHEET

	1988 (2 July) £'000	1987 (31 December) £'000
5. Creditors: due within one year		
Bank loans and overdraft	4,725	3,648
Trade creditors	72	106
Group companies	9,131	10,405
Social security, payroll and other tax other than corporation tax	259	325
Other creditors	553	383
Accruals and deferred income	584	355
Dividends	114	115
	10,713	11,689
	15,438	15,337
6. Creditors: due after more than one year		
Bank loans	10,412	11,140
Other loans	10,000	10,000
Medium and long term borrowing	20,412	21,140
Group companies	2,938	2,646
	23,350	23,786
7. Borrowing summary		
Short term	4,725	3,648
Medium and long term		
Repayable as a lump sum Other loans	10,000	10,000
Repayable by instalments after 5 years Bank loans	10,412	11,140
	20,412	21,140
Repayable		
From 1 - 2 years	11,735	1,714
From 2 - 5 years	5,206	15,142
After 5 years	3,471	4,284
	20,412	21,140
	25,137	24,788
Comprising:		
Secured borrowing Bank loans and overdraft	15,137	14,788
Unsecured Loan stock 1993/1997	10,000	10,000
	25,137	24,788

NOTES TO THE BALANCE SHEET

Security for £15,137,000 of bank borrowing is provided through a fixed and floating charge on the assets of the company and certain UK subsidiaries.

Loan stock interest is at 9% rising to 10% in 1989. The loan is repayable after 31 December 1989.

The majority of the bank loans are in sterling or dollars, repayable by instalments up to June 1994. The interest on these loans has been 1 7/8% and 1 3/4% above LIBOR, but reduces to 7/8% above LIBOR with effect from 1 July 1988.

8. Provisions

	Deferred taxation £'000	Other £'000
1 January 1988	-	495
Utilised during year	-	(156)
Provided during the year	-	30
2 July 1988	-	369

	1988 (2 July) £'000	1987 (31 December) £'000
Other provisions comprise:		
Building and plant maintenance	60	60
Others including warranty	309	435
	369	495

Total potential deferred tax liability, resulting from the revaluation of the property is £1,750,000.

9. Commitments

There are no outstanding contracts nor has any expenditure been authorised and not contracted for. Annual commitments for operating leases are as follows:-

	Other £'000
Lease expiring	
within one year	-
Between one and five years	1
Thereafter	1
	2

NOTES TO THE BALANCE SHEET

10. Contingent liabilities

The company and certain of its subsidiaries have given guarantees to Security Pacific Eurofinance (UK) Limited for amounts owing to National Westminster Bank PLC in respect of guarantees and negotiations outstanding of £1,243,000. This arises from the indemnity by Security Pacific Eurofinance (UK) Limited to National Westminster Bank PLC, as consideration for the provision of the above facilities. They have been secured by fixed and floating charges over the assets of the company and certain of its subsidiaries.

11. Share capital

	Authorised £'000	Number issued '000	Allocated, called-up and fully paid £'000
Ordinary shares of £1 each	262	250	250
Preferred ordinary shares of £1 each	1238	1179	1179
Preference shares of £1 each	9000	9000	9000
	10500		10429

Convertible cumulative participating preferred ordinary (preferred ordinary) shares can be converted into ordinary shares at a rate which depends on the pre-tax profit performance of the group during the three years ended 31 December 1989 but would be within the range of 1.37 to 1.79 of preferred ordinary shares for 1 ordinary share.

The company may, with the consent of the preference shareholders, redeem all or any of the preference shares at par on giving three months notice. Failing earlier redemption the preference shares will be redeemed in five annual amounts commencing on 31 December 1993 and ending 31 December 1997.

Under the Executive Share Option Scheme the company has granted options in respect of its shares, in units each comprising 3 ordinary shares and 14 preferred ordinary shares. Options in respect of 3760 such units have been granted and are outstanding. These represent the following shares:

When granted	Number of Shares '000	Class of shares	Subscription Price	Exercisable
1988	11	Ordinary	200p	1991 - 1998
1988	53	Preferred Ordinary	275p	1991 - 1998

12. Reserves

	Share Premium account £'000	Revaluation reserve £'000	Other reserve £'000	Profit & Loss account £'000	Total £'000
1 January 1988	1858	1627	(1321)	780	2944
Exchange differences	-	-	-	(56)	(56)
Revaluations	-	3762	-	-	3762
Transfers - Issue expenses	(1321)	-	1321	-	-
- Other	-	(19)	-	19	-
Retained profit	-	-	-	400	400
2 July 1988	537	5370	-	1143	7050

13. Subsidiary and associated companies

The following are the principal subsidiary companies which are incorporated in Great Britain and registered in England except where stated.

	Country of incorporation	Proportion of Share capital held by: the company %	a subsidiary %
Fairey Hydraulics Limited	-	100	-
Fairey Nuclear Limited	-	100	-
Fairey Arlon Limited	-	100	-
Fairey Microfiltrex Limited	-	100	-
Fairey Industrial Ceramics Limited	-	100	-
Fairey Tecramics Limited	-	100	-
Allied Insulators Limited	-	100	-
Doulton Insulators Limited	-	100	-
Hopyard Foundries Limited	-	100	-
Fairey Overseas Developments Limited	-	100	-
Fairey Arlon BV	The Netherlands	-	100
Fairey Inc	USA	-	100
Fairey Arlon Inc	USA	-	100
Fairey Hydraulics Inc	USA	-	100
Red Lion Controls Inc	USA	-	100

Arcom Control Systems Limited in an associated company incorporated in Great Britain and is registered in England. The company holds 11,537 ordinary shares of £1 which is 39% of the share capital.