SCAN UPON DEMAND

We apologise that due

to the poor quality of the fiche,

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were also of poor quality

Fairey

Electronics & Electrical Power

Aerospace & Defence

Filtration & Specialised Ceramics

REPORT AND ACCOUNTS 1989

TREAT AS PART ACCS 31/12/89

2025003

THIS IS IMPORTANT

FAIREY GROUP plc

Letter from the Chairman to Ordinary Shareholders

Notice of Annual General Meeting to be held on 8 May 1990

FAIREY GROUP plc

Registered Office
Cranford Lane
Heston
Middlesex TW5 9NQ

6 April 1990

To: The Ordinary Shareholders

Dear Shareholder,

In addition to the usual business to be transacted at the annual general meeting of the company to be held on 8 May 1990, which is referred to in resolutions 1, 2, 3 and 4, your board is proposing four items of special business as set out in resolutions 5, 6, 7 and 8, which are described below.

Resolution 5

Alteration of articles of association

The International Stock Exchange has altered the listing rules governing sanctions which may be imposed by listed companies by means of their articles of association for non-compliance with a notice issued under Section 212 of the Companies Act 1985 (which requires a shareholder in receipt of such notice to disclose details of his holding in the company). The articles of association currently provide for disenfranchisement of such shares and the proposed amendment will entitle the directors, in addition, to restrict transferability of the shares concerned and the right to receive dividends.

The proposed restrictions, which are in accordance with provisions recently permitted by The International Stock Exchange, cannot be imposed until the expiry of a prescribed period (28 days or 14 days for holdings of more than 0.25% of the class of shares concerned) and cease if the relevant shares are sold pursuant to a takeover offer or to an unconnected third party.

Your board considers that these changes are appropriate to protect the interests of the company and its shareholders more effectively.

Resolution 6

Amendment to savings related share option scheme

Shareholders are requested to authorise the change to the rules of the Fairey Group Savings Related Share Option Scheme so that, subject to the approval of the Board of Inland Revenue, your board will have the authority to grant options to employees at exercise prices of up to 20% below the quoted market price of the company's ordinary shares at the date of granting the options in accordance with the provisions of the Finance Act 1989.

Resolution 7

Allotment of shares

The Companies Act 1985 provides that directors may not allot shares unless empowered to do so by the shareholders. Your board was given general authority at the extraordinary general meeting in 1988 immediately before the flotation of the company's ordinary shares on The International Stock Exchange, but the limit on the number of shares which the directors were then empowered to allot has now almost been reached. Resolution 7 grants your board general authority for a period expiring at the 1995 annual general meeting or the fifth anniversary of this meeting, if earlier, in respect of £550,350 of share capital (being just less than one third of the present issued share capital).

Resolution 8

Issue of shares wholly for cash

The directors consider that it is in the interests of the company and its shareholders that they should have at their disposal a number of ordinary shares to be allotted for cash, without first having to offer them to existing shareholders, so that they can take advantage of business opportunities as they arise, or, in the event of a rights issue, so that allotments of ordinary shares can be made on the terms of paragraph (b) of the resolution. They are therefore seeking shareholders' consent to the adoption of Resolution 8 as a special resolution which would permit the allotment for cash of equity securities up to an aggregate nominal amount of £82,550, which is equivalent to 5% of the issued ordinary share capital of the company. The directors propose that this authority should be renewed annually, and in accordance with the recommendations of the Investment Protection Committees, they confirm that it is their intention that no more than 7.5% of the issued ordinary share capital be allotted for cash on a non pre-emptive basis during any three year period.

Recommendation

Your directors consider that the above proposals are in the best interests of the company and unanimously recommend that you vote in favour of all the resolutions set out in the notice of meeting as they intend to do in respect of their own shareholdings.

Yours sincerely,

Derek Kingsbury

Derek Kingsbury CBE
Chairman and Chief Executive

NOTICE OF MEETING

Notice is hereby given that the annual general meeting of Fairey Group plc will be held at Stationers Hall, Ave Maria Lane, London EC4 on Tuesday 8 May 1990 at 12 noon for the following purposes:—

1 To receive and consider the accounts and the reports of the directors and auditors for the year ended 31 December 1989.

2 To declare a final dividend

3 To re-elect as a director Mr E Swainson who retires by rotation under the terms of the articles of association.

4 To re-appoint Coopers & Lybrand Deloitte as auditors and to authorise the directors to fix their remuneration.

SPECIAL BUSINESS

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

5 Special Resolution

That Article 75 of the Company's Articles of Association be deleted and replaced with the following:

AMENDED ARTICLE 75

75(A) No Member shall, unless the Directors otherwise determine, be entitled, in respect of any share in the capital of the Company held by him, to be present or to vote on any question, either in person or by proxy, at any General Meeting, or upon any poll, or to be reckoned in a quorum, or to exercise any other right or privilege conferred by membership in relation to meetings of the Company if any call or other sum presently payable by him to the Company in respect of such share remains unpaid.

(B) If any Member, or any other named person appearing to be interested in shares held by such Member, has been duly served with a notice under Section 212 of the Companies Act 1985 and is in default for the prescribed period as defined in (D) below in supplying to the Company the information thereby required, then the Directors may in their absolute discretion at any time thereafter serve a notice ("direction notice") upon such Member as follows:

(i) a direction notice may direct that, in respect of the shares in relation to which the default occurred ("default shares"), the Member shall not be entitled to vote at a General Meeting or meeting of the holders of any class of shares of the Company either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company or of the holders of any class of shares of the Company; and

(ii) where the default shares represent at least 0.25% of the class of shares concerned, then the direction notice may additionally direct that:

(a) in respect of the default shares, any dividend (or part thereof) or other money which would otherwise be payable on such shares shall be retained by the Company without any liability to pay interest thereon when such money is finally paid to the Member; and/or

(b) no transfer, other than an approved transfer, of any of the shares held by such Member shall be registered unless:

(1) the Member is not himself in default as regards supplying the information requested; and

(2) the transfer is of part only of the Member's holding and when presented for registration is accompanied by a certificate by the Member in a form satisfactory to the Directors to the effect that after due and careful enquiry the Member is satisfied that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer.

The Company shall send to each other person appearing to be interested in the shares which are the subject of any direction notice, a copy of the notice, but the failure or omission by the Company to do so shall not invalidate such notice.

(C) Any direction notice shall cease to have effect after the Member or other named person on whom the notice under the said Section 212 has been served has supplied the information required by such notice to the Company. Notwithstanding the above, a direction notice shall cease to have effect in relation to any shares which are transferred by such Member by means of an approved transfer as defined in (D) below.

(D) For the purpose of this Article:

(i) a person shall be treated as appearing to be interested in any shares if the Member holding such shares has given to the Company a notification under the said Section 212 which either (a) names such person as being interested or (b) fails to establish the identities of those interested in the shares and (after taking into account the said notification and any other relevant Section 212 notification) the Company knows or has reasonable cause to believe that the person in question is or may be interested in the shares;

(ii) the prescribed period in respect of any particular Member is 28 days from the date of service of the said notice under Section 212 except where the default shares represent at least 0.25% of the class of shares concerned in which case such period shall be 14 days;

(iii) a transfer of shares is an approved transfer if but only if:

(1) it is a transfer of shares to an offerer by way or in pursuance of acceptance of a takeover offer for a company (as defined in Section 14 of the Company Securities (Insider Dealing) Act 1985); or

(2) the Directors are satisfied that the transfer is made pursuant to a sale of the whole of the beneficial ownership of the shares to a party unconnected with a Member and with any other persons appearing to be interested in such shares; or

(3) the transfer results from a sale made through a recognised investment exchange (as defined in the Financial Services Act 1986) or any stock exchange outside the United Kingdom on which the Company's shares are normally traded.

(E) Nothing contained in this Article shall limit the power of the Directors under Section 216 of the Companies Act 1985.

6 **Ordinary Resolution**

That subject to the approval of the Board of Inland Revenue the Rules of the Fairey Group Savings Related Share Option Scheme adopted on 7 November 1988 be amended by deleting the words "ninety per cent" in Rule 5(i) and substituting therefor the words "eighty per cent".

7 **Ordinary Resolution**

That the Directors be and they hereby are generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (as defined in subsection (2) of such Section) up to an aggregate nominal amount of £550,350, such authority:—

(a) to expire on the earlier of the fifth anniversary of this resolution becoming effective and the day on which the Annual General Meeting of the Company in 1995 is held;

(b) to include the power to make any offer or agreement which would or might require relevant securities to be allotted after such authority has expired and authority to make allotments pursuant to such offer or agreement after the expiry of the authority given hereby; and

(c) to supersede all and any authorities conferred prior to the date of this resolution upon the Directors under such Section.

8 **Special Resolution**

That subject to the passing of Resolution 7 set out in the Notice of this meeting, the Directors be and they hereby are empowered until the date of the next Annual General Meeting of the Company or after the elapse of fifteen months, whichever occurs first, pursuant to Section 95 of the Companies Act 1985 to allot equity securities (as defined in Section 94(2) of the Companies Act 1985) for cash as if Section 89(1) of the said Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:—

(a) otherwise than pursuant to sub-paragraph (b) below up to an aggregate nominal amount of £82,550; or

(b) in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as possible) to the respective numbers of ordinary shares held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or desirable to deal with fractional entitlements, record dates or legal or practical problems under the laws of, or the requirements of, any regulatory authority in any territory or otherwise howsoever;

save that the Company may before the expiry of the power hereby conferred make any offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the power hereby conferred had not expired.

BY ORDER OF THE BOARD
A C Hayward
Secretary

Registered Office:
Cranford Lane
Heston
Middlesex TW5 9NQ

6 April 1990

NOTES

1 Approval of an ordinary resolution requires that a simple majority of votes be cast in favour of the resolution. Approval of a special resolution requires that a majority of three-quarters of votes cast be in favour of the resolution.

2 Ordinary shareholders are entitled to attend and vote at this meeting. Any such shareholder may appoint one or more persons (whether members of the company or not) to act as his proxies to attend and vote instead of him. Forms appointing proxies must be deposited at the office of the registrars 48 hours before the time of the meeting.

3 Copies of directors' service contracts of more than one year's duration will be available for inspection at the registered office of the company on any weekday (except Saturdays and public holidays) during normal business hours until the date of the meeting and at the place of the meeting from 15 minutes before it starts until its conclusion.

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Contents

The Fairey Group of Companies

Fairey Group plc Heston Middlesex TW5 9NQ
Telephone 081 759 4811 Facsimile 081 759 9461

Electronics and Electrical Power

Digital indication and control devices, electronic counters, rate indicators, timers, panel meters and sensors.	**Red Lion Controls Inc** York Pennsylvania USA **Red Lion Controls Europe Ltd** Heston Middlesex
High voltage insulators and hardware for transmission lines, distribution substations, switchgear, transformers and surge diverters.	**Allied Insulators Ltd** Stoke-on-Trent Staffordshire **Doulton Insulators Ltd** Stoke-on-Trent Staffordshire
High duty malleable castings for power transmission.	**Hopyard Foundries Ltd** Bilston West Midlands
Magnox fuel element canisters.	**Fairey Nuclear Ltd** Heston Middlesex
Standard industrial computer boards and microprocessor based control systems.	**Arcom Control Systems Ltd** Cambridge Associated Company

Aerospace and Defence

Aircraft and guided weapons control systems, landing gear, filtration and hydraulic system components for aerospace and defence applications. Computer-operated servo mechanisms, autoloaders and test sets.	**Fairey Hydraulics Ltd** Heston Middlesex and Claverham Avon **Fairey Hydraulics Inc** Cleveland Ohio USA

Filtration and Specialised Ceramics

High and low pressure filters for the fluid power and process industries. Sintered metal filter capsules	**Fairey Arlon Ltd** Heston Middlesex **Fairey Arlon BV** Arnhem The Netherlands **Fairey Arlon Inc** Sturtevant Wisconsin USA
Superfine filtration for the defence, aerospace, chemical, nuclear and process industries.	**Fairey Microfiltrex Ltd** Fareham Hampshire **Fairey Microfiltrex USA** Sturtevant Wisconsin USA
Stacked disc capsules and pleated candles using sintered metal powder and metal fibre media in bronze or stainless steel.	**Fairey Polymer Filtration** Fareham Hampshire
Precision ceramic cores for investment casting; metallurgical ceramic components; water, air and metal pouring filters.	**Fairey Industrial Ceramics Ltd** Stone Staffordshire
Development of high performance ceramics.	**Fairey Tecramics Ltd** Stone Staffordshire

Board of Directors

D J Kingsbury CBE
Chairman and Group Chief Executive

Derek Kingsbury, aged 63, joined Fairey as group chief executive in 1982. He was previously deputy chief executive of Dowty Group plc. He led the management buy-out of Fairey from Pearson plc in 1986 and additionally became chairman in 1987. He has been a non-executive director of Vickers P.L.C. since 1981 and chairman of the council of the Defence Manufacturers Association since 1987. He is also a member of the Review Board for Government Contracts and Chairman of the Engineering Council Continuing Education and Training Pilot Scheme Steering Committee. He was made a CBE in 1988.

E Swainson CBE*
Vice Chairman

Eric Swainson, aged 63, joined the board in 1987. He had been managing director of IMI plc from 1974 to 1986 and is currently a non-executive director of Lloyds Bank plc, chairman of West Midlands Industrial Development Board and has a number of other appointments. He was made a CBE in 1981

M A Fay FCA
Group Financial Director

Michael Fay, aged 58, joined the group in 1979. Previously he was a senior consultant with PA Management Consultants Limited and prior to that chief accountant of Securicor Limited.

The Lord Gregson*

Lord Gregson, aged 66, joined The Fairey Aviation Company Limited in 1939, eventually becoming managing director of Fairey Engineering Limited. In 1978 he became a director of Fairey Holdings Limited. He retired in February 1989 and has become a non-executive director. Among other appointments, he is a director of British Steel plc. He was created a life peer in 1975.

A C Hayward
Commercial Director and Company Secretary

Anthony Hayward, aged 57, joined Fairey in 1954 and has held senior positions in a number of the group's businesses including the North American office from 1980 to 1987.

The Rt Hon Sir Geoffrey Pattie MP*

Sir Geoffrey Pattie, aged 54, joined the board in 1987. He was elected to Parliament in 1974 and has held a number of government appointments in the Ministry of Defence and Department of Trade and Industry. He is deputy chairman of The Cambridge Instrument Company plc, chairman of CDP Nexus Limited and has a number of other appointments.

J W Poulter
Group Managing Director

John Poulter, aged 47, joined the group in April 1988. Previously he was responsible for a group of UK and US manufacturing businesses within BTR plc and before that was with Thomas Tilling plc and Cambridge Instruments Group.

*non-executive

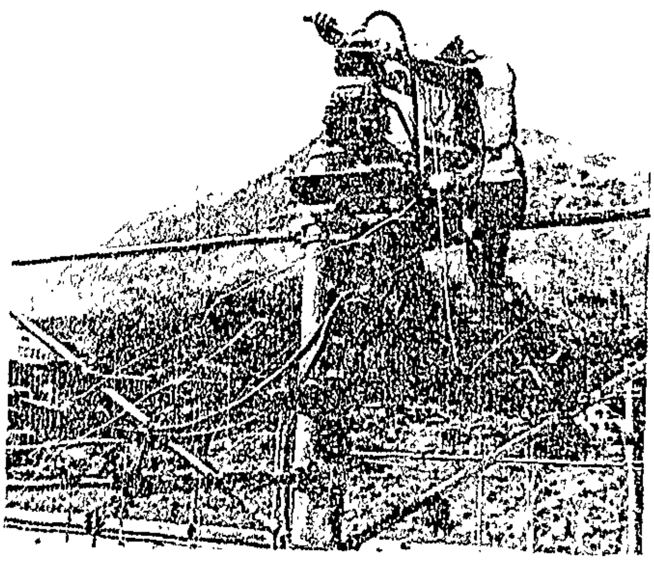
Chairman's Statement

Derek Kingsbury, Chairman and Group Chief Executive.

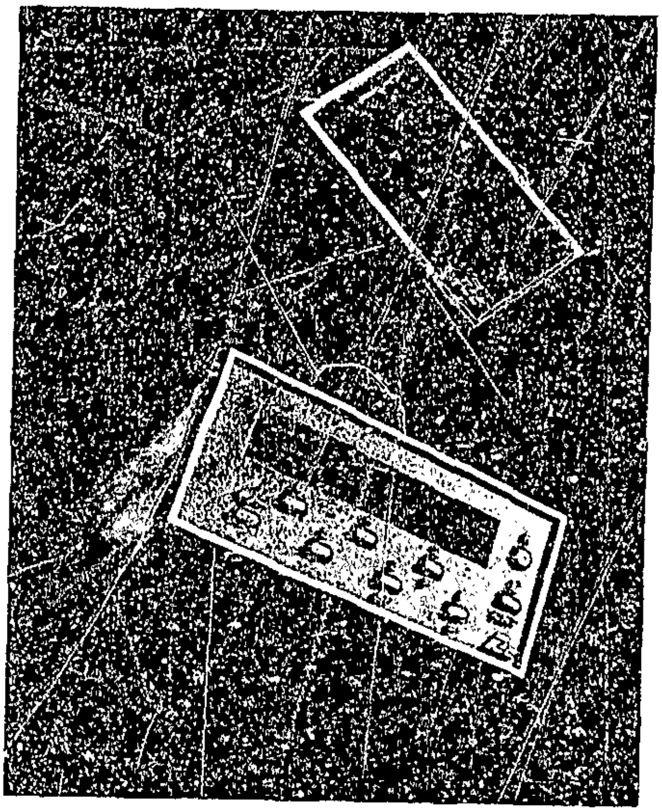
I am delighted to report another year of excellent progress both in terms of financial performance and business development. This has resulted from the strategy outlined in the Offer-for-Sale Prospectus issued in November 1988 "... to build on the strong market positions of the principal subsidiaries and to use the group's expertise to expand product ranges and market coverage of these subsidiaries ..."

Operating profit rose 24% to £12.0m (£9.7m) on sales of £83m (£82m). This improvement reflects the broad strength of Fairey in its selected range of markets both at home and overseas, and strong growth in our Electronics and Electrical Power, and Filtration and Specialised Ceramics sectors.

Our pre-tax profit increased by 43% to £12.5m (£8.8m) helped by interest income arising from a positive cash flow of £7.8m.



Fairey's Insulator Division (Allied, Doulton) has provided insulators to Balfour Beatty Power Construction Ltd, main contractors for the Hong Kong Mass Transit System.



A Red Lion Gemini 2000 programmable counter and a programmable panel indicator; top

Earnings per share at 24.7p showed a 41% increase over the 1988 out-turn calculated on a comparable basis.

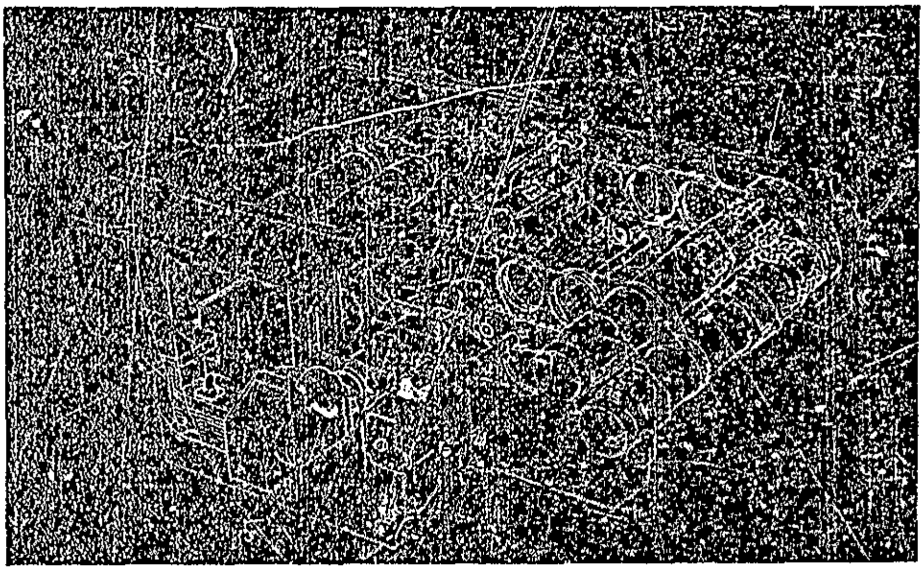
The board is recommending a final dividend of 5.0p per share making a total of 7.4p per share for the full year. In November 1988, in the Offer-for-Sale Prospectus, the directors indicated that the dividend split between interim and final would probably be one third and two-thirds. In the event the excellent result for the year has enabled the directors to recommend a higher final dividend than anticipated.

This successful performance has not come without effort and our employees at all levels deserve much credit for their positive reaction to the tasks and opportunities facing us.

Order books remain strong, the only significant change being in the Aerospace and Defence sector where the programme for the Tornado aircraft is reducing as anticipated and action has already been taken to keep facilities and work load in balance as reported at the half year.

Our Electronics and Electrical Power

Chairman's Statement



Bustle Autoloader automatic ammunition loading and replenishing system designed and developed by Fairey Hydraulics for the Royal Armament Research and Development Establishment

sector improved sales, profits and margins during the year with all companies contributing well. Red Lion Controls continued to expand its industrial electronic control and sensing product range and markets worldwide, and is commissioning a modest expansion to its facilities in York, Pennsylvania.

The Allied-Doulton high voltage insulator business has benefited from a full year of more efficient production following earlier rationalisation activity. Quality and service are the keys to this market and in common with our other activities, continual re-investment takes place in product development and production plant.

Fairey Nuclear which manufactures magnox fuel canisters had a good year but the market size has continued to reduce and resources have been adapted accordingly; recently it has won a long term contract as a sole supplier.

Our associated company Arcom Control Systems made progress and started 1990 with a good order book.

In the Filtration and Specialised Ceramics sector all companies again produced encouraging results with an especially good performance coming from Fairey Industrial Ceramics. Again there was an improvement in margins overall.

Our filtration activities which span the fluid power, polymer, nuclear, aerospace and industrial markets continued to exploit their opportunities well with the production units in the UK, Holland and the USA each playing a full part.

Additionally the water filter business at Fairey Industrial Ceramics grew well as did the demand for their preformed ceramic cores for the aerospace industry.

In Aerospace and Defence a re-organisation has been implemented as Fairey Hydraulics broadens its technology base and concentrates its resources, reflecting a changing balance between development engineering and production. Notably the management are focussing on new

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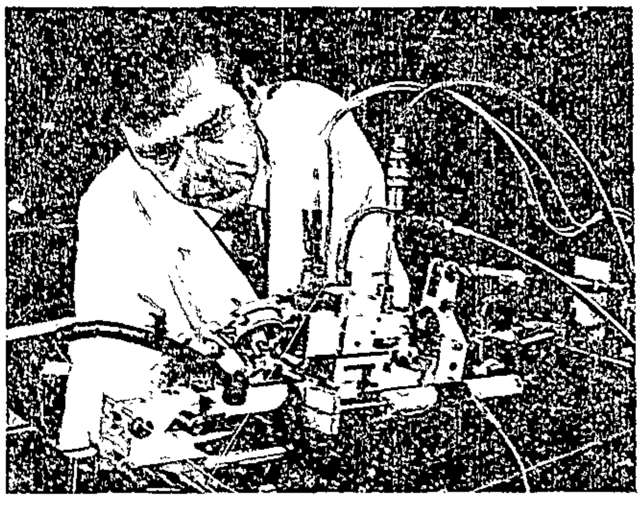


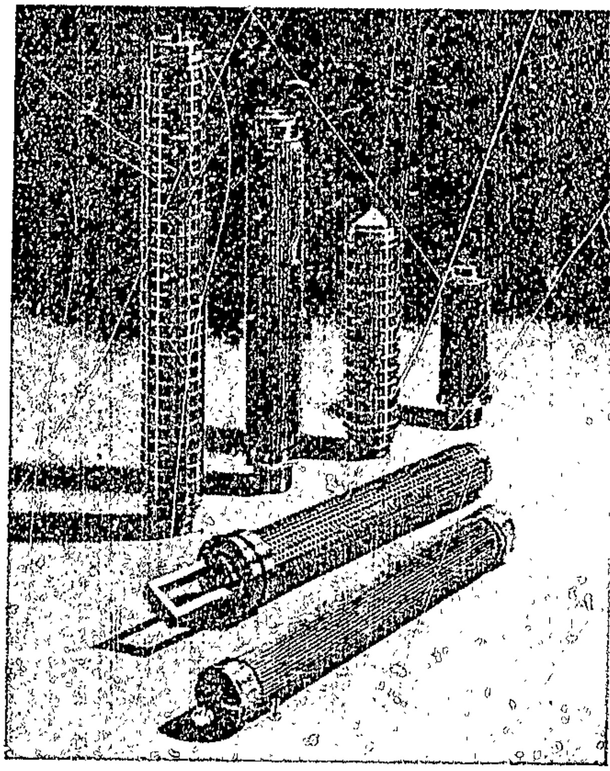
Chairman's Statement

opportunities whilst not neglecting in any way the important and ongoing involvement we have in supplying traditional products to the aerospace industry and in giving after sales support in particular via our important epair and overhaul activity.

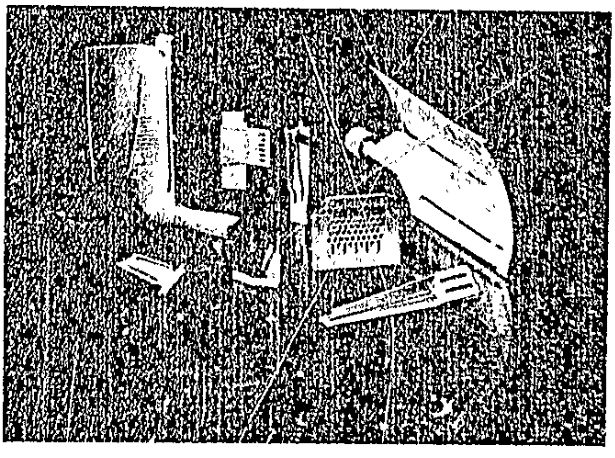
High interest rates and the level of inflation in the UK have not helped the general economic outlook and, in particular, businesses close to the high street. However, we are largely sheltered from the impact of these events, as over 50% of our profit is derived from overseas and significant portions of our UK business are reassuringly linked to civil aerospace engine manufacture and the electricity supply industry. Additionally all our major subsidiaries have strengthened their market positions and we have net liquid funds. As a result, we face 1990 with confidence and we intend to continue our policy of introducing a steady flow of new products to the market. Given reasonable trading circumstances the board is confident that our growth will continue.

Our active search for acquisitions is being maintained and we have screened a large number of possibilities. However many superficially attractive opportunities seem to us to be over priced. We shall continue to search diligently seeking sensible value for money and we are encouraged that the number of target companies being drawn to our attention is on the increase. At the same time we shall continue to reinforce our faster growing product sectors with additional investment where this produces better value for money than a high priced acquisition.

The number of directors has reduced during the year to a level that is more appropriate to a group of our size. Two non-executive directors, Douglas Fairservice and Tom Neville who were nominees of Electra Candover Partners at the time of our management buy-out in 1987 resigned, after remaining with us for an additional year following our flotation in 1988. Also, an executive director, John Edwards, left to pursue another career opportunity; he made a great contribution to our affairs during the management buy-out and the flotation. We thank all three for the stimulus and counsel they gave us and we wish them well.



REMPAK candles designed and manufactured by Fairey Polymer Filtration represent a new concept in filtering molten polymer.



Ceramic cores made by Fairey Industrial Ceramics are used in the casting of components for aviation and land-based gas turbines.

D J Kingsbury CBE
Chairman and Group Chief Executive

Report of the Auditors

To the members of Fairey Group plc

We have audited the accounts on pages 10 to 20 in accordance with auditing standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group at 31 December 1989 and of the profit and source and application of funds of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand Deloitte
Chartered Accountants
London
7 March 1990

Advisers

Auditors	Coopers & Lybrand Deloitte
Bankers	National Westminster Bank PLC
Brokers	Cazenove & Co.
Financial Advisers	Lazard Brothers & Co., Limited
Solicitors	Ashurst Morris Crisp
Registrars	National Westminster Bank PLC Registrar's Department P.O. Box No. 82 Caxton House, Redcliffe Way Bristol BS99 7NH

Financial Calendar

Annual general meeting	8 May 1990
1989 Final dividend payable	15 June 1990
1990 Interim results	10 September 1990
1990 Interim dividend payable	November 1990
1990 Preliminary results	March 1991

Report of the Directors

The directors present their report and the accounts for the year ended 31 December 1989.

Principal activities

The principal business sectors of Fairey Group are:

Electronics and Electrical Power, where it designs and manufactures digital indication and control products for industrial applications, porcelain insulators for high voltage electricity distribution and magnox fuel element canisters.

Aerospace and Defence, where it designs and manufactures powered flying controls and other hydraulic and electronic equipment, including autoloaders and test sets.

Filtration and Specialised Ceramics, where it designs and manufactures filters and ceramic products for a range of specialised applications.

The group carries out research and development in all of its main product areas.

Share capital

Details of the ordinary shares and options issued by the company are given on page 19.

At 6 March 1990 beneficial interests amounting to 5% or more of the issued ordinary share capital which had been notified to the company comprised:

The Standard Life Assurance Company	3,050,000 shares (9.2%)
Electra Investment Trust p.l.c.	2,029,426 shares (6.1%)

Results and dividends

The profit for the year after taxation amounted to £8,172,000 and after extraordinary items to £8,458,000. Turnover and profit before taxation are detailed in note 2 to the accounts.

A final dividend for the year to 31 December 1989 is proposed of 5.0p per share. With the interim dividend already paid, this makes a total for the year of 7.4p.

The final dividend will be paid on 15 June 1990 to shareholders on the register on 15 May 1990.

Fixed assets

Movements in fixed assets are detailed in note 10 to the accounts.

The group's UK properties were revalued in June 1988. The directors estimate that in total the open market value of the UK and overseas properties exceed book value.

Directors

The directors at 31 December 1989 are listed on page 3.

Lord Gregson retired as an executive director on 6 February 1989 but remains with the group as a non-executive director.

Mr T Neville resigned from the board on 30 September 1989, Mr J R Edwards resigned on 31 October 1989 and Mr G D Fairservice resigned on 4 December 1989.

Mr E Swainson retires from the board by rotation and, being eligible, offers himself for re-election.

Report of the Directors

Directors interests

The following directors or their families had beneficial interests in the share capital of the company:

	Ordinary shares		Options in ordinary shares	
	31.12.89	1.1.89	31.12.89	1.1.89
D J Kingsbury	1,260,000	1,260,000	39,645	4,645
E Swainson	20,132	20,132	–	–
M A Fay	212,000	212,000	17,500	–
The Lord Gregson	400,000	810,000	–	–
A C Hayward	500,000	500,000	22,145	4,645
Sir Geoffrey Pattie	10,000	20,000	–	–
J W Poulter	195,000	195,000	52,500	32,271

At 6 March 1990 the interests of the directors were unchanged.

Employees

Fairey Group plc has a policy of encouraging its operating companies to provide information to their employees on a regular basis. This information will include matters relating to their company's performance, its prospects in the markets it serves and the economic outlook of its business in the period ahead.

Where appropriate it expects consultation to take place so that a proper balance of views is considered in reaching conclusions.

The group publishes a house magazine 'Fairey in Focus' which is made available to all employees.

Financial participation in the group is encouraged through the Savings Related Share Option Scheme. 29% of eligible employees joined the scheme at its inception and at the year end it had 350 members.

It is the policy of Fairey to recruit, train and promote disabled persons on the basis of their aptitudes and abilities. If employees become disabled, every effort is made to retain them and when necessary retrain them for appropriate posts.

Donations

No political donations have been made by the group. Charitable donations amounted to £12,000.

Close company

At 31 December 1989 the company was not a close company within the meaning of the Income and Corporation Taxes Act 1970.

Auditors

Our auditors Deloitte Haskins and Sells are in the process of merging their practice with Coopers & Lybrand. In the meantime they have adopted Coopers & Lybrand Deloitte as their business name and have signed their audit report in that name. A resolution to re-appoint Coopers & Lybrand Deloitte as the company's auditors will be proposed at the annual general meeting.

A C Hayward
Secretary

7 March 1990

Consolidated Profit and Loss Account

Notes	Year ended 31 December	1989 £'000	*1988 £'000*
2	Turnover	83,156	*82,104*
	Cost of sales	54,415	*56,885*
	Gross profit	28,741	*25,219*
	Distribution costs	(3,373)	*(3,484)*
	Administration, research and other expenses	(13,378)	*(12,101)*
	Share of associated company profit	23	*36*
	Operating profit before exceptional item	12,013	*9,670*
	Exceptional item	–	*852*
	Operating profit	12,013	*10,522*
6	Net interest receivable/(payable)	520	*(1752)*
2	Profit before taxation	12,533	*8,770*
7	Taxation	4,361	*3,132*
	Profit after taxation	8,172	*5,638*
8	Extraordinary items	286	–
	Profit after extraordinary items	8,458	*5,638*
	Dividends		
	Preference shares	–	*493*
	Preferred ordinary shares	–	*379*
	Ordinary shares Interim paid 2.4p Final proposed 5.0p	 793 1,651	 – –
21	Retained profit	6,014	*4,766*
9	Earnings per ordinary share	24.7p	*17.5p*
	Dividends per ordinary share	7.4p	–

Balance Sheets

Notes	31 December	Group 1989 £'000	Group 1988 £'000	Company 1989 £'000	Company 1988 £'000
	Fixed assets				
10	Tangible assets	23,698	24,754	10,033	10,342
11	Investments: Subsidiaries	–	–	35,524	35,163
	Associated company	247	87	192	42
	Others	311	414	–	–
		24,256	25,255	45,749	45,547
	Current assets				
12	Stocks	12,652	11,126	29	154
13	Debtors	17,270	16,704	6,000	7,217
	Cash at bank	10,688	3,540	5,948	1,706
		40,610	31,370	11,977	9,077
	Creditors: due within one year				
14/16	Short term borrowing	26	1,143	–	2,583
14	Other creditors	19,731	16,468	18,533	14,867
		19,757	17,611	18,533	17,450
	Net current assets	20,853	13,759	(6,556)	(8,373)
	Total assets less current liabilities	45,109	39,014	39,193	37,174
	Creditors: due after more than one year				
15/16	Medium and long term borrowing	4,107	3,675	3,727	3,315
15	Other creditors	577	37	2,849	2,336
		4,684	3,712	6,576	5,651
17	**Provisions**	3,322	3,917	573	687
		37,103	31,385	32,044	30,836
	Capital and reserves				
20	Share capital	1,651	1,651	1,651	1,651
21	Reserves	35,452	29,734	30,393	29,185
		37,103	31,385	32,044	30,836

The accounts were approved by the board of directors on 7 March 1990 and signed on its behalf by

D J Kingsbury

M A Fay

Directors

Source and Application of Funds

Year ended 31 December	1989 £'000	1988 £'000
Source of funds		
Profit before taxation	12,533	8,770
Depreciation	2,419	2,470
Extraordinary items	413	–
Profit retained by associated company	(23)	(36)
Profit from sale of assets	(1,253)	(57)
Provision against investment	155	–
Exchange adjustments	(593)	(16)
	13,651	11,131
Funds from other sources:		
Issue of shares (net of expenses)	–	21,483
Proceeds from sales of tangible assets	1,730	153
	15,381	32,767
Application of funds		
Capital additions	2,063	1,899
Tax paid	4,006	3,225
Dividends paid	793	987
Increase/(decrease) in working capital (see below)	536	(1,192)
Purchase of subsidiaries and other assets	–	52
Redemption of preference shares	–	9,009
Repayment of loan stock	–	10,000
Loan to associated company	150	–
	7,548	23,971
Net increase in funds	7,833	8,796
Arising from:		
(Increase)/decrease in medium and long term borrowing	(432)	983
(Increase)/decrease in short term borrowing	1,117	7,830
Increase/(decrease) in cash	7,148	(17)
	7,833	8,796
Increase/(decrease) in working capital		
Stocks and work in progress	1,179	(1,928)
Debtors	262	403
Creditors and provisions	(905)	333
	536	(1,192)

Notes to the Accounts

1 Accounting policies

Basis of accounting

The accounts are prepared on the historical cost convention as modified by the revaluation of certain fixed assets.

The accounts of the subsidiaries are made up to 31 December. Where subsidiaries have been acquired or disposed of during the year, the results arising subsequent to acquisition, or prior to disposal, are included in the results of the group.

Associated companies

Where associated companies have been acquired or disposed of during the year the results arising subsequent to acquisition, or prior to disposal, are included. The group balance sheet includes the original investment at cost and the group's share of retained profits since the date of acquisition. The company balance sheet includes the investment at cost.

Turnover

Turnover comprises sales invoiced (excluding value added tax) at fixed prices and the estimated sales value of goods delivered and accepted under contracts which have not been the subject of price settlement.

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	– 33⅓%

Fixed assets investments

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

Goodwill

Goodwill, arising as the net excess of the cost of shares in subsidiaries over the value attributable to the acquiring company of their net assets at dates of acquisition, is deducted from reserves in the year of acquisition

Stocks, work in progress and long term contracts

Stocks and work in progress are calculated 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 less foreseeable losses. Cost represents direct cost incurred and where applicable, a proportion of attributable overheads.

Retained profits of overseas subsidiaries

No provision is made for any additional taxation, less double taxation relief, which would arise on the remittance of profits retained.

Foreign currencies

Assets and liabilities in overseas currencies are translated into sterling at the rates ruling at 31 December. Profit and loss accounts in foreign currencies are translated into sterling at the average rates applicable during the year. 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.

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. Contributions are charged to profit and loss account after amortising the fund's valuation surplus over the average future service lives of the membership.

Government grants

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

Notes to the Accounts

2 Turnover and profit before taxation

	Turnover 1989 £'000	Turnover 1988 £'000	Profit 1989 £'000	Profit 1988 £'000
Business sectors:				
Electronics and Electrical Power	30,572	27,044	6,249	4,413
Aerospace and Defence	25,316	32,918	1,459	2,615
Filtration and Specialised Ceramics	27,268	22,142	4,305	2,642
	83,156	82,104	12,013	9,670
Exceptional item:				
Suspension of pension contributions (see below)			–	852
			12,013	10,522
Net interest receivable/(payable)			520	(1,752)
Profit before taxation			12,533	8,770
Markets supplied:				
UK	36,644	31,567		
Continental Europe	22,628	30,056		
North America	16,286	13,206		
Other	7,598	7,275		
	83,156	82,104		
Profit before taxation is after charging:				
Depreciation			2,419	2,470
Operating lease rentals: plant and machinery			33	35
property			102	73
Auditors' remuneration			147	150
Research and development:				
Gross expenditure			4,500	3,448
Net expenditure after funding from customers			2,191	2,057

When revalued at 1 January 1988 the pension fund showed a surplus. Having made improvements in benefits, the group suspended its contributions for 1988. £852,000 above is the amount which the directors considered to be exceptional.

As permitted by Section 228(7) of the Companies Act 1985, only the group's profit and loss account has been presented.

3 Emoluments of directors of Fairey Group plc

	1989 £'000	1988 £'000
Emoluments	514	508
Fees	43	39
Compensation for loss of office	20	–
	577	547

Analysis of directors' emoluments including bonus payments based on performance, but excluding contributions to pension fund:

	1989	1988
Chairman and highest paid director	143	128
Other directors	Number	Number
£5,001 - £10,000	4	4
£15,001 - £20,000	1	–
£30,001 - £35,000	1	–
£50,001 - £55,000	–	1
£55,001 - £60,000	–	1
£60,001 - £65,000	–	2
£65,001 - £70,000	2	–
£70,001 - £75,000	–	1
£100,001-£105,000	1	–

No director had, during the year or at the end of the year, any material interest in any contract of significance to the group's business.

4 Employees (including directors) of the group

	1989 £'000	1988 £'000
Staff costs during year:		
Wages and salaries	22,913	21,408
Social security costs	2,102	1,934
Pension and life assurance costs	1,257	1,080
	26,272	24,422
Suspension of pension contributions	–	852
	26,272	23,570

Notes to the Accounts

The average weekly number of persons employed during the year was:

	1989	*1988*
Production and distribution	1,585	*1,603*
Other	373	*386*
	1,958	*1,989*

Higher paid employees of Fairey Group plc other than directors, received the following emoluments (excluding contributions to pension fund):

	Number	*Number*
£30,001 - £35,000	–	*1*
£35,001 - £40,000	1	*1*
£40,001 - £45,000	1	–

5 Pension plan

Fairey Group plc operates a defined benefit pension plan for the group's qualifying employees in the United Kingdom. Contributions to the plan are invested through an independent trust fund. The plan is reviewed regularly by actuaries and is funded in accordance with their advice.

The last valuation was at 1 January 1988. It was based on estimates of expenditure on benefits in future years and of the funding rate necessary to meet that expenditure.

The principal valuation assumptions were:

The group's businesses will continue, with new entrants replacing those withdrawing, dying or retiring.

Yield on new money invested	8.5% p.a.
Growth in dividends	4.0% p.a.
Increase in earnings	6.5% p.a., plus allowance for increases on promotion etc
Increase in retail prices	5.5% p.a.

Assets were valued at £12.6m. After making benefit improvements costing £1.5m, the actuaries concluded that the surplus of £2.3m would allow a suspension of group pension contributions for up to 2 years and that a funding rate of 9.9% of pensionable pay from the employer companies would then be appropriate with varying rates from employees depending on their benefit categories. In order that part of the surplus should be preserved within the fund, companies contributions recommenced on 1 October 1989.

6 Net interest receivable/(payable)

	1989 £000	*1988 £000*
Interest payable		
on borrowing repayable wholly within five years:		
by instalments	–	*(1,234)*
not by instalments:		
bank overdraft and loans	(370)	*(153)*
others	(1)	*(856)*
on borrowing repayable after five years	(35)	*(38)*
Finance lease charges	(7)	*(7)*
Interest receivable on deposits	933	*536*
	520	*(1,752)*

7 Taxation

	1989 £000	*1988 £000*
Taxation on profit of the year		
United Kingdom		
Corporation tax at 35%	3,484	*2,385*
Double tax relief	(220)	*(94)*
Deferred tax	(654)	*(345)*
Associated company	13	*12*
	2,623	*1,958*
Overseas		
Overseas tax	1,791	*1,218*
Deferred tax	(53)	*(44)*
	1,738	*1,174*
	4,361	*3,132*

8 Extraordinary items

	1989 £000	*1988 £000*
Surplus from sale of property less factory rationalisation costs	413	–
Taxation – current	(148)	–
– deferred	21	–
	286	–

Notes to the Accounts

9 Earnings per share

Earnings per ordinary share is based on the profit after taxation and before extraordinary items, divided by the weighted average number of ordinary shares in issue during the year.

Pro-forma earnings per share for 1988 have been shown as a comparative figure in the profit and loss account since this reflects the group's financial structure after flotation in November 1988 and gives a relevant comparison.

The pro-forma earnings:

(i) exclude the exceptional pension benefit
(ii) have the interest charge reduced as though the net proceeds from the shares issued in November had been available at the beginning of the year and as though indebtedness had been repaid at that time
(iii) assume taxation at the average rate for 1988 of 36%
(iv) exclude the cost of dividends on the preference shares since they were redeemed through the proceeds of the offer.

Earnings per share on the pro-forma basis is calculated on the number of ordinary shares in issue after flotation and amounted to 17.5p per share.

Actual earnings per share in 1988 including an exceptional benefit from suspended pension contributions, amounted to 26.4p per share.

10 Tangible fixed assets

	Freehold property £'000	Leasehold property £'000	Plant & equipment £'000	Total £'000
a) Group				
Cost or valuation:				
1 January 1989	17,858	691	21,418	39,975
Exchange differences	97	65	323	485
Additions	172	–	1,891	2,063
Disposals	(849)	–	(1,527)	(2,376)
31 December 1989	17,278	764	22,105	40,147
Analysed as follows:				
Valuation 1988	16,404	–	–	16,404
Cost	874	764	22,105	23,743
	17,278	764	22,105	40,147
Depreciation:				
1 January 1989	378	272	14,571	15,221
Exchange differences	39	19	241	299
Provided in year	324	56	2,039	2,419
Disposals	(14)	–	(1,476)	(1,490)
31 December 1989	727	347	15,375	16,449
Net book values:				
31 December 1989	16,551	417	6,730	23,698
31 December 1988	17,480	427	6,847	24,754
b) Company				
Cost or valuation:				
1 January 1989	9,950	–	787	10,737
Additions	–	–	40	40
Intra group additions	–	–	8	8
Disposals	–	–	(60)	(60)
31 December 1989	9,950	–	775	10,725
Analysed as follows:				
Valuation 1988	9,950	–	–	9,950
Cost	–	–	775	775
	9,950	–	775	10,725
Depreciation:				
1 January 1989	102	–	293	395
Provided in year	205	–	137	342
Intra group additions	–	–	4	4
Disposals	–	–	(49)	(49)
	307	–	355	692
Net book values:				
31 December 1989	9,643	–	390	10,033
31 December 1988	9,848	–	434	10,5[illegible]

Notes to the Accounts

Group leasehold properties are all short leaseholds.

Group freehold properties with a net book value of £1,160,000 are in the course of disposal.

The UK freehold properties were revalued by Pyle Owen & Partners, surveyors, on 30 June 1988 at open market value for existing use except when the properties were in the course of disposal. These values have been incorporated in the financial statements.

	Group £'000	Company £'000
If freehold properties had not been revalued, total freehold and leasehold properties would have been included at the following:		
Cost	10,284	4,763
Aggregate depreciation	2,201	366

The net book value of group tangible fixed assets includes £38,000 in respect of assets held under finance leases. Depreciation on these assets was £17,000. The company has no assets under finance leases.

11 Fixed asset investments

a) Subsidiaries

	Company		
	Investments £'000	Loans £'000	Total £'000
Net book value at 1 January 1989	8,997	26,166	35,163
Additions	-	361	361
Net book value at 31 December 1989	8,997	26,527	35,524
Cost	8,997	27,905	36,902
Provision	-	(1,378)	(1,378)
Net book value	8,997	26,527	35,524

b) Associated Company

	Group £'000	Company £'000
Net book value at 1 January 1989	87	42
Share of profit after taxation in the year	10	-
	97	42
Loan	150	150
Net book value at 31 December 1989	247	192
Cost	42	42
Loan	150	150
Share of profit after taxation	55	-
Net book value	247	192

c) Others

	Group £'000
Net book value at 1 January 1989	414
Exchange differences	52
Provision for diminution in value	(155)
Net book value at 31 December 1989	311
Cost	466
Provision	(155)
Net book value	311

Details of subsidiary and associated companies are shown in note 22.

In the opinion of the directors the fixed asset investments are worth no less than book value.

12 Stocks

	Group		Company	
	1989 £'000	*1988 £'000*	1989 £'000	*1988 £'000*
Raw materials	5,235	*4,558*	29	*92*
Work in progress	8,676	*10,032*	-	*62*
Payments on account	(3,922)	*(5,853)*	-	*-*
Finished stock	2,663	*2,389*	-	*-*
	12,652	*11,126*	29	*154*

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

Notes to the Accounts

13 Debtors

	Group 1989 £'000	Group 1988 £'000	Company 1989 £'000	Company 1988 £'000
Amounts falling due within one year:				
Trade debtors	14,925	15,820	295	457
Group companies	–	–	2,533	4,194
Taxation	–	–	771	861
Other debtors	1,758	460	36	38
Prepayments and accrued income	587	424	101	125
Dividends receivable	–	–	2,264	1,542
	17,270	16,704	6,000	7,217

14 Creditors: due within one year

	Group 1989 £'000	Group 1988 £'000	Company 1989 £'000	Company 1988 £'000
Short term borrowing:				
Bank loan and overdrafts	26	1,143	–	2,583
Finance lease obligations	17	15	–	–
Payments received on account	24	78	–	–
Trade creditors	9,258	8,920	73	81
Group companies	–	–	15,474	13,160
Taxation	3,473	2,141	–	–
Social security, payroll and other taxes other than corporation tax	1,209	1,146	224	200
Other creditors	1,341	1,844	516	969
Accruals and deferred income	2,758	2,324	595	457
Dividends	1,651	–	1,651	–
	19,731	16,468	18,533	14,867
	19,757	17,611	18,533	17,450

15 Creditors: due after more than one year

	Group 1989 £'000	Group 1988 £'000	Company 1989 £'000	Company 1988 £'000
Medium and long term borrowing:				
Bank loans	4,107	3,675	3,727	3,315
Finance lease obligations – two to five years	20	37	–	–
Deferred pension credit	557	–	557	–
Group companies	–	–	2,292	2,336
	577	37	2,849	2,336
	4,684	3,712	6,576	5,651

16 Borrowing summary

	Group 1989 £'000	Group 1988 £'000	Company 1989 £'000	Company 1988 £'000
Short term	26	1,143	–	2,583
Medium and long term:				
Bank loans repayable as a lump sum	3,727	3,315	3,727	3,315
Repayable by instalments after 5 years	380	360	–	–
	4,107	3,675	3,727	3,315
Repayable:				
From 1–2 years	28	24	–	–
From 2–5 years	3,828	84	3,727	–
After 5 years	251	3,567	–	3,315
	4,107	3,675	3,727	3,315
	4,133	4,818	3,727	5,898
Comprising:				
Secured bank loan	406	382	–	–
Unsecured bank loan and overdraft	3,727	4,436	3,727	5,898
	4,133	4,818	3,727	5,898

A charge on the assets of an overseas subsidiary secures an overseas bank loan of £406,000.

Short term borrowing is mainly repayable on demand. Of the medium term borrowing £3,764,000 is repayable in 1994 and £251,000 is repayable 1995-1999. Interest is at variable rates.

Notes to the Accounts

17 Provisions

	Group Deferred taxation £'000	Group Other £'000	Company Deferred taxation £'000	Company Other £'000
1 January 1989	1,384	2,533		687
Exchange adjustments	6	18	-	-
Utilised during year	-	(572)	-	(135)
Provided during year	(728)	1,086	-	248
Released during year	(74)	(331)	-	(227)
31 December 1989	588	2,734	-	573

	Group 1989	Group *1988*	Company 1989	Company *1988*
Other provisions comprise:				
Reorganisation of business segments	379	*182*	-	-
Building and plant maintenance	500	*403*	60	*82*
Warranty	1,103	*1,207*	323	*265*
Other	752	*741*	190	*340*
	2,734	*2,533*	573	*687*
Deferred taxation derives from:				
Capital allowances	1,422	*1,640*		
Capital gains	31	*51*		
Tax losses carried forward	-	*(64)*		
Short term timing differences	(1,029)	*(487)*		
Revaluation of property	144	*244*		
	588	*1,384*		

Deferred tax is fully provided except for that arising on the revaluation of those properties which the group will continue to use. Total potential deferred tax liability including the provision above, amounts to £2,674,000 (1988 £3,863,000).

18 Commitments

	Group £'000	Company £'000
Commitments for purchase of fixed assets:		
Outstanding contracts for the purchase of fixed assets	507	19
Expenditure authorised but not contracted for	218	-

	Land and Buildings £'000	Other £'000
Annual commitments for operating leases expiring:		
In 1990	-	30
In 1991 to 1994	65	144
Thereafter	-	2
	65	176

19 Contingent liabilities

Group companies have given indemnities to National Westminster Bank PLC in respect of guarantees, negotiations and foreign exchange facilities of which £516,000 was outstanding at 31 December 1989.

20 Share capital

	Number of shares (000's)	£'000
Ordinary shares of 5p each		
Authorised		10,500
Issued and fully paid		
31 December 1989	33,021	1,651
31 December 1988	33,021	1,651

Options outstanding at 31 December 1989	Granted	Number of shares (000's)	Subscription price	Exercise period
Savings related share option scheme	1988	576	£1.55	1994
Executive share option schemes	1988	766	20.55p	1991-1998
	1988	32	£1.55	1991-1998
	1989	545	£1.99	1992-1999

Notes to the Accounts

21 Reserves

Group	Share premium account £'000	Revaluation reserve £'000	Other reserve £'000	Profit and loss account £'000	Total £'000
1 January 1989	21,798	9,178	(7,646)	6,404	29,734
Exchange differences	-	-	-	27	27
Issue expenses written back	12	-	-	-	12
Disposals	-	(409)	-	-	(409)
Deferred tax on disposals	-	74	-	-	74
Transfers	-	(83)	-	83	-
Retained profit	-	-	-	[illegible]	6,014
31 December 1989	21,810	8,760	(7,646)	12,528	35,452
Associated company	-	-	-	55	55
Group excluding associated company	21,810	8,760	(7,646)	12,473	35,397
Company					
1 January 1989	21,798	5,329	-	2,058	29,185
Issue expenses written back	12	-	-	-	12
Transfers	-	(83)	-	83	-
Retained profit	-	-	-	1,196	1,196
31 December 1989	21,810	5,246	-	3,337	30,393

Other reserve brought forward at 1 January 1989 arises from goodwill on consolidation and acquisition costs.

22 Subsidiary and associated companies

The following are the group's principal subsidiary companies which are incorporated in Great Britain and registered in England except where stated. All subsidiaries, other than intermediate holding companies, are involved in the manufacture and sale of specialised engineering products.

	Country of incorporation	Proportion of share capital held by the company %	Proportion of share capital held by 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	-
Doulton Insulators Limited	-	100	-
Allied Insulators Limited	-	100	-
Hopyard Foundries Limited	-	100	-
Red Lion Controls Europe 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 is 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.

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