2025003

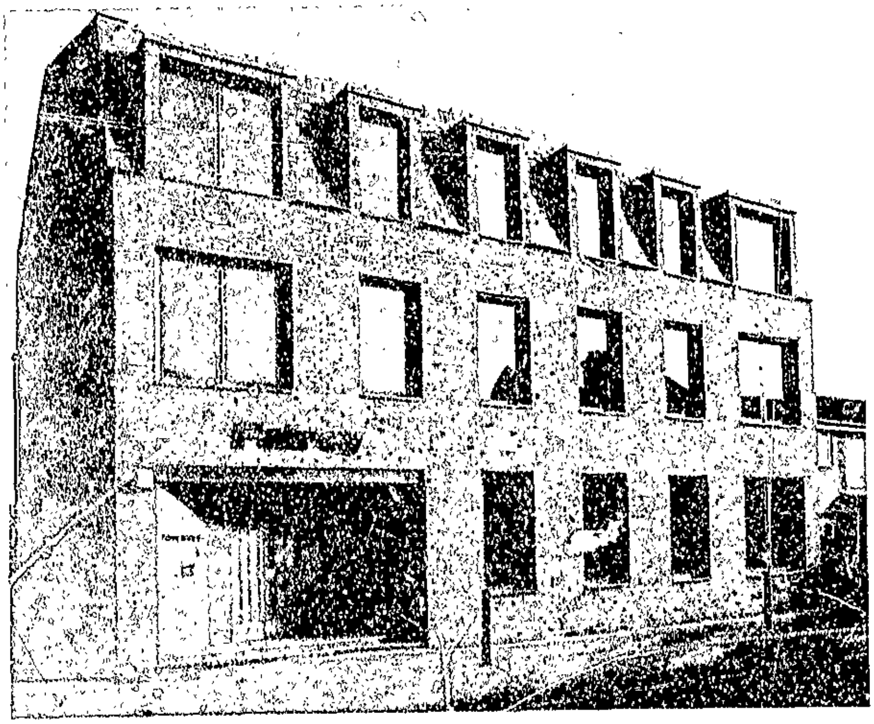
Fairey

Electronics & Electrical Power

Aerospace & Defence

Filtration & Specialised Ceramics

REPORT AND ACCOUNTS 1991



FAIREY GROUP plc new head office at Station Road, Egham, Surrey

CONTENTS

FAIREY GROUP plc

Fairey Group plc Station Road Egham Surrey TW20 9NP
Telephone: 0784 470470 Facsimile: 0784 470848
Registered in England No 2025003

ELECTRONICS AND ELECTRICAL POWER

Red Lion Controls Inc York Pennsylvania USA	Digital indication and control devices, electronic counters, rate indicators, timers, panel meters and sensors
Red Lion Controls Europe Ltd Slough Berkshire	Sales and support for Red Lion Controls products in Europe
LaserMike Inc Dayton Ohio USA	Laser non-contact dimensional measurement equipment
LaserMike Ltd Penn Buckinghamshire	Sales and support for LaserMike products in Europe
Arcom Control Systems Ltd Cambridge	Industrial computer boards and microprocessor based control systems
Arcom Control Systems Inc Kansas City Missouri USA	Remote terminal units for control and monitoring, together with sales and support for Arcom's products in USA
Allied Insulators Limited Stoke-on-Trent Staffordshire **Doulton Insulators Limited** Stoke-on-Trent Staffordshire	High voltage insulators and hardware for transmission lines, distribution substations, switchgear, transformers and surge arresters
Hopyard Foundries Limited Bilston West Midlands	High duty malleable castings for power transmission
Fairey Nuclear Limited Tamworth Staffordshire	Magnox fuel element cans

AEROSPACE AND DEFENCE

Fairey Hydraulics Limited Claverham Avon	Electro-hydraulic, electro-mechanical and electro-pneumatic actuation systems and equipment including aircraft and guided weapons control systems, landing gear, filtration and hydraulic system components for aerospace and defence applications
Fairey Hydraulics Inc Cleveland Ohio USA	Product support and marketing of Fairey Hydraulics products and FAA-approved repair and overhaul operation

FILTRATION AND SPECIALISED CERAMICS

Fairey Arlon BV Arnhem The Netherlands **Fairey Arlon Limited** Fareham Hampshire **Fairey Arlon Inc** Sturtevant Wisconsin USA	High and low pressure filters for the fluid power and process industries
Fairey Microfiltrex Limited Fareham Hampshire	Superfine filtration for the aerospace, polymer, chemical and nuclear industries
Fairey Industrial Ceramics Limited Stone Staffordshire	Precision ceramic cores for investment casting, metallurgical and porous ceramic components, domestic water and industrial filtration
Fairey Tecramics Limited Stone Staffordshire	Development of high-performance ceramics

BOARD OF DIRECTORS

D J Kingsbury CBE F Eng
Chairman

Derek Kingsbury, aged 65, joined Fairey in 1982 and was group chief executive until the end of 1991. In 1986 he led the management buy out of Fairey from Pearson plc and additionally became chairman in 1987. He is a non-executive director of ACAL plc, a member of the Review Board for Government Contracts and of the Engineering Council. Chairman of the Council of the Defence Manufacturers Association from 1987 to 1990, he is currently chairman of its Finance and General Purposes Committee. He was made a CBE in 1988.

E Swainson CBE*
Vice Chairman

Eric Swainson, aged 65, 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 AMEC plc and vice chairman designate of Lloyds Bank plc. He was made a CBE in 1981.

J W Poulter
Group Chief Executive

John Poulter, aged 49, joined the group as group managing director in 1988. He was appointed group chief executive on 1 January 1992. 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. He is a director of Lloyds Smaller Companies Investment Trust PLC.

The Lord Gregson*

Lord Gregson, aged 68, 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 became a non-executive director. Among other appointments, he is a director of British Steel plc. He was created a life peer in 1975.

M A Fay FCA
Group Financial Director

Michael Fay, aged 60, 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 Rt Hon Sir Geoffrey Pattie MP*

Sir Geoffrey Pattie, aged 56, 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 chairman of GEC-Marconi Ltd, chairman of Nexus Marketing Consultancy and has a number of other appointments.

P V Boughton ACA
Commercial Director
and Company Secretary

Paul Boughton, aged 36, joined Fairey in June 1991 and was appointed to the Board in August. Previously financial director of a private company, he was before that with Thermal Scientific plc and Coopers and Lybrand Deloitte.

* non-executive

CHAIRMAN'S STATEMENT

I am particularly pleased to be able to report an extremely successful year, given the more difficult national and international trading circumstances in 1991. Much has been accomplished.

Sales increased to £88.8m (£86.0m) and operating profit to £13.2m (£13.0m) helped by nearly five months' contribution from our latest acquisition in the USA, LaserMike, which manufactures non-contact dimensional measuring equipment. Pre-tax profit was £14.5m (£14.6m) reflecting lower interest income but earnings per share rose to 28.1p (27.6p) benefitting from a lower tax charge.

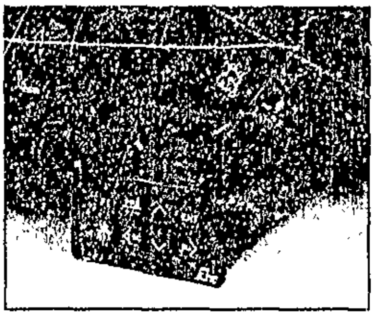
In addition to producing an excellent trading performance we have, during the year, moved four trading activities and our head office away from Heston, and sold that site.

At the year end our cash resources totalled £12.7m (£12.1m) an encouraging situation given the purchase of LaserMike in August for $11.5m cash.

We face 1992 with confidence, despite the absence of any significant signs of a general upturn in world markets. We shall continue to seek acquisitions at sensible prices, and management throughout the group remains ready to react positively to market needs and opportunities from any source.

Given our continued good progress the board is recommending a final dividend of 6.0p per share making a total of 9.0p per share for the full year (8.25p), an increase of 9%, whilst maintaining dividend cover of 3.1.

The physical move of our activities that I have reported, inevitably has meant a loss of immediate employment for some of our employees, many of long standing. This is a source of particular regret to us. The fact that the move was essential, is not a great comfort to those no longer with us who have served us well especially through and since the buy-out and flotation. I would particularly like



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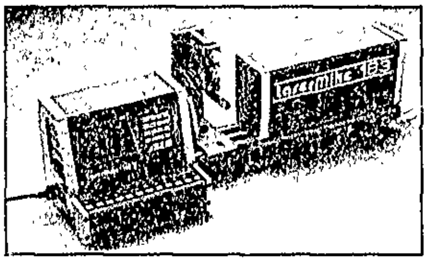

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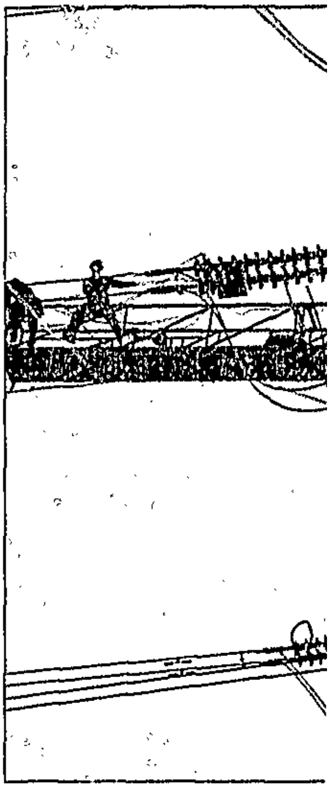


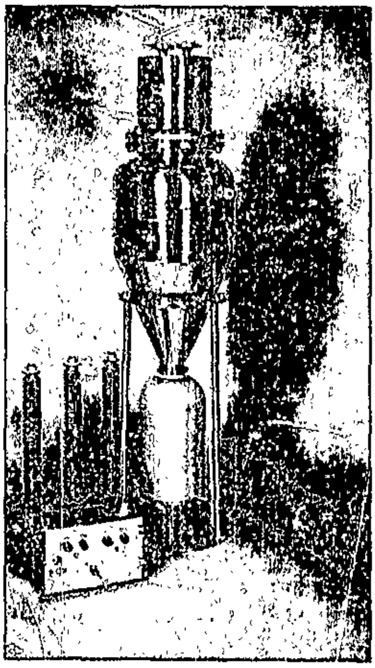
3

1 Red Lion Controls has introduced a new series of multi-function count and rate indicators known as the Legend Series.

2 The LaserMike 183 is one of a range of laser non-contact dimensional measurement instruments manufactured by LaserMike of Dayton, Ohio, USA, acquired by Fairey in August 1991.

3 Allied porcelain insulators were used extensively in the Hinkley Point to Melksham refurbishment project undertaken by Balfour Beatty Power Construction Ltd for The National Grid Company plc.

4 A pulsed-jet blow-back filter assembly designed and developed by Fairey Microfiltrex for use with powder filling machines in the pharmaceutical industry.



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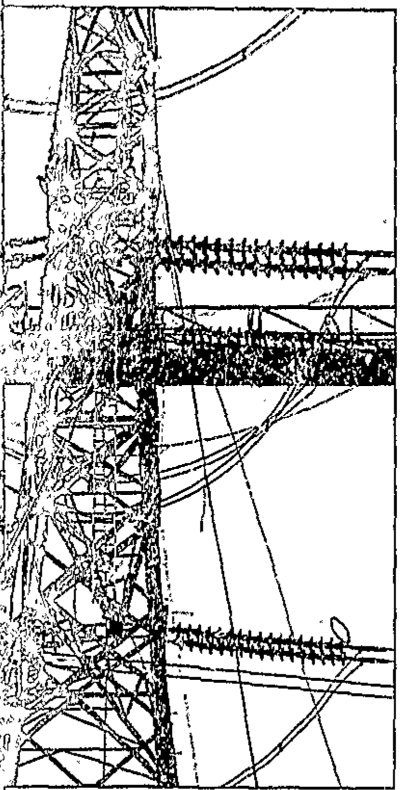
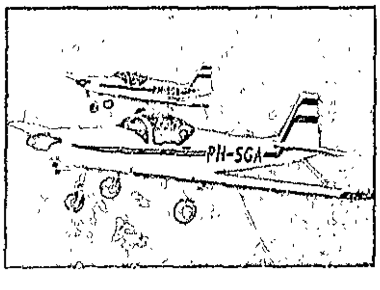
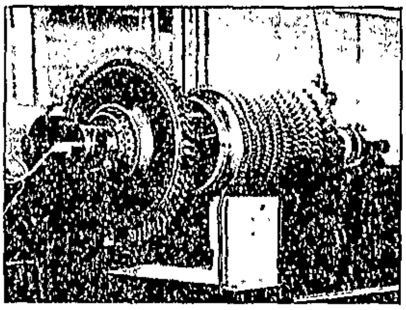
CHAIRMAN'S STATEMENT







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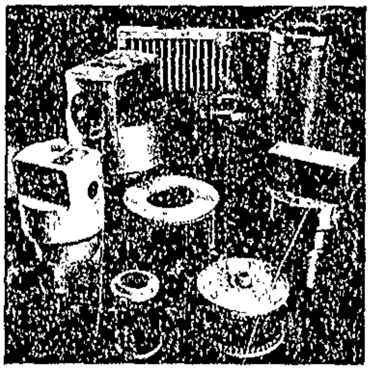


8

5 *These new boards from Arcom* Control Systems now make it *possible to run PC software in* an industrial environment.

6 A contract to build the landing-gear for the Slingsby T67 Firefly training aircraft has been awarded to Fairey Hydraulics. *These two aircraft are from the* KLM Flight Academy.

7 A LaserMike laser optical gauge used to measure compressor rotors on a gas turbine during grinding.

8 Filter housings and media from *the Filtration Division of* Normalair Garrett Ltd bought by Fairey Microfiltrex.

therefore to thank all employees past and present who have helped us so loyally during 1991.

The result of the departure from Heston is that Fairey Hydraulics is now brought together in one modern and extended facility at Claverham in Avon; the Fairey Arlon fluid power filtration business transferred to our filtration plant in Arnhem whilst retaining a sales and distribution company in the UK; the Fairey Arlon polymer filtration activity integrated with the existing polymer division in Fairey Microfiltrex at Fareham; and Fairey Nuclear relocated into an existing but separate Fairey factory on one of our sites in Staffordshire. Additionally, Red Lion Controls Europe has moved to Slough and our Head Office to Egham.

All of our sectors produced good results given the various circumstances facing them.

Our Electronics and Electrical Power division achieved particularly satisfactory levels of orders, sales and profits. Red Lion Controls continues to introduce new products, and will quickly benefit from any market upturn. Meanwhile they maintain the highest standards of product quality and market development effort, and perform well.

The Allied/Doulton high voltage insulator business has also made good progress and made investments to improve production flexibility, and customer service.

Arcom Control Systems continues to develop exciting new industrial computer boards and allied products and market response is very encouraging. Through a very modest acquisition, we have established Arcom Control Systems Inc in Kansas City so that over a period of time market opportunities in the USA can be better examined.

LaserMike Inc which has a subsidiary in the UK, did well in its first five months with Fairey and we look forward to this company playing an important part in our performance.

The unified and extended site of our Aerospace and Defence company, Fairey Hydraulics, south-west of Bristol, brings together marketing, design and production and makes for a more compact and effective operation. Products include those produced for the land, sea and air defence markets as well as civil aerospace. Fairey Hydraulics has had major success during the year in securing

CHAIRMAN'S STATEMENT

processing and nuclear power, aerospace, and pharmaceutical sectors, although fluid power was weak, a trend which is continuing. Orders for ceramic cores remain flat reflecting the somewhat depressed worldwide aircraft engine market, but post the Gulf War there has been some very modest recovery in water filter sales internationally.

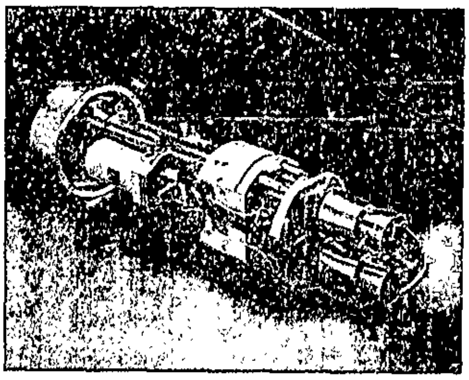
For the first time we are able to show a five year record. It is one of which we are proud and it provides a sound base for the future.

On 1 May 1992 I shall relinquish fulltime executive duties and become non-executive chairman, in which capacity I shall retain an active and close interest in the progress of the company. The last five years have been particularly memorable and I would especially like to thank all those who have assisted Fairey Group over that period.

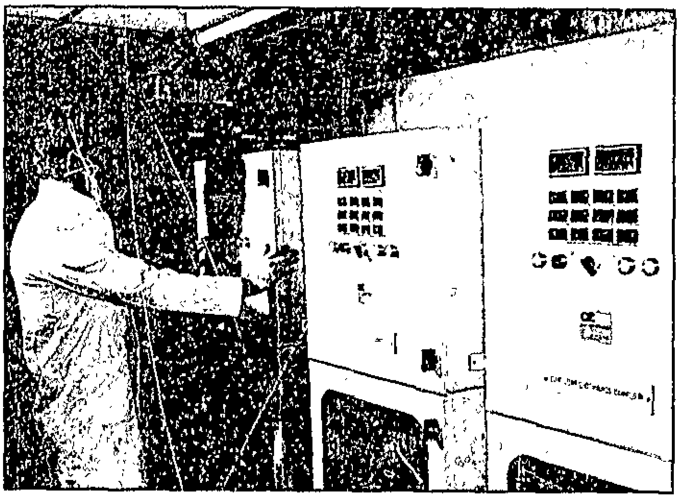
During the year Tony Hayward, our commercial director and company secretary, retired after some 37 years service with Fairey, during which time he was directly involved with many of our subsidiaries. Notably he worked in Washington for an extended period. We wish him a happy retirement and we thank him for such dedicated service. Paul Boughton has been appointed as his successor and we welcome him to the group.

Since April 1988, John Poulter has been group managing director and on 1 January 1992 he was appointed group chief executive. He and I have worked together most closely and he has demonstrated an excellent perception of our businesses and of the strategies we need to follow. His energy level is high and his involvement in the events of 1991 complete. The transition between us has been handled with great care and on behalf of all shareholders I wish him every success.

D J Kingsbury CBE F Eng
Chairman



9 Part of a rocket motor thrust vector control actuation system designed and developed by Fairey Hydraulics for Royal Ordnance plc for a major Japanese customer.



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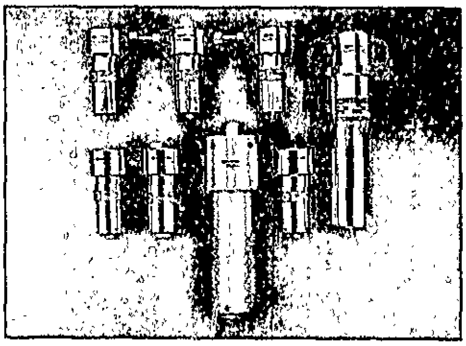

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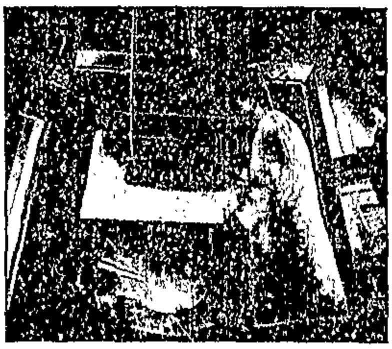

12

10 Red Lion Controls intelligent digital panel meters can be seen at the top of these two effluent samplers designed and built by Quality Environment Ltd for environmental protection.

11 Range of Fairey Industrial Ceramics high-pressure breathing air filters for use aboard ships.

12 Quality control in the production of ceramic cores for gas turbine blades using computer aided technology.

FIVE YEAR SUMMARY

	1987 £ million	1988 £ million	1989 £ million	1990 £ million	1991 £ million
Sales excluding associates					
Electronics and Electrical Power	24.9	27.1	30.6	31.1	39.5
Aerospace and Defence	34.3	32.9	25.3	29.1	24.2
Filtration and Specialised Ceramics	18.5	22.1	27.3	25.8	25.1
	77.7	82.1	83.2	86.0	88.8
Operating profit before exceptional credit	7.9	9.7	12.0	13.0	13.2
Profit before taxation	4.2	8.8	12.5	14.6	14.5
Shareholders funds	6.9	31.4	37.1	42.7	40.2
Net cash/(debt)	(20.1)	(1.3)	6.6	12.1	12.7
Operating profit % sales	10.1%	11.8%	14.4%	15.1%	14.8%
Operating profit % net assets	25.6%	26.7%	33.1%	35.3%	41.1%
Earnings per ordinary share	12.6p	17.5p	24.7p	27.6p	28.1p
Dividends per ordinary share			7.4p	8.25p	9.0p
Share prices high		157p	253p	254p	327p
low		140p	142p	196p	171p

In 1987 sales and operating profit exclude respectively £7.0m and a loss of £0.8m from discontinued activities.

The group's ordinary shares were listed on the London Stock Exchange in November 1988.

Report of the Auditor

To the members of Fairey Group plc

We have audited the accounts on pages 10 to 24 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 1991 and of the profit and the cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand Deloitte

Coopers & Lybrand Deloitte
Chartered Accountants and Registered Auditor
London
9 March 1992

Financial Calendar

Annual general meeting — 5 May 1992

1991 Final dividend payable — 15 June 1992

1992 Interim results — 7 September 1992

1992 Interim dividend payable — November 1992

1992 Preliminary results — March 1993

Advisers

Auditor
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

REPORT OF THE DIRECTORS

The directors present their report and the accounts for the year ended 31 December 1991.

Principal activities The principal business sectors of Fairey Group are:

Electronics and Electrical Power, where it designs and manufactures digital indication and control products, industrial computer boards, non-contact gauging equipment, insulators for 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.

Acquisitions

LaserMike Inc and LaserMike Limited	Consideration	£6.9 million
Arcom Control Systems Limited and Arcom Control Systems Inc	Consideration	£0.5 million

Further details in note 22.

Share capital Details of the ordinary shares and options issued by the company are in note 20.

A circular to shareholders accompanying the annual report provides the notice of the annual general meeting at which, as special business, there will be proposals to renew the authority for the company to purchase its own shares and to renew the authority to allot shares for cash.

Beneficial interests amounting to 3% or more of the issued ordinary share capital which had been notified to the company by 9 March 1992 comprised:

The Standard Life Assurance Company	2,950,000 shares	(8.7%)
Electra Investment Trust PLC	1,600,000 shares	(4.7%)
TSB Group plc	1,486,968 shares	(4.4%)
British Gas Pensions Funds Management Ltd	1,137,274 shares	(3.4%)
British Rail Pension Trustee Co Ltd	1,027,500 shares	(3.0%)

Dividends A final dividend for the year to 31 December 1991 is proposed of 6.0p per share. With the interim dividend already paid, this makes a total for the year of 9.0p.

The final dividend will be paid on 15 June 1992 to shareholders on the register on 15 May 1992.

Fixed assets On 30 December 1991 sale of the group's Heston site was completed for £9.0 million.

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 the open market value of both the UK and overseas properties are not materially different from book value.

Directors The directors at 31 December 1991 are listed on page 3.

Mr A C Hayward retired as a director on 30 June 1991. Mr P V Boughton was apppointed as a director on 6 August 1991 and in accordance with the Articles of Association offers himself for re-election. He has a service contract which can be terminated with less than twelve months' notice.

Lord Gregson retires from the board by rotation in accordance with the Articles of Association and, being eligible, offers himself for re-election. He does not have a service contract.

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	
	31.12.91	1.1.91	31.12.91	1.1.91
D J Kingsbury	769,500	960,000	39,645	39,645
E Swainson	20,132	20,132	—	—
J W Poulter	195,000	195,000	52,500	52,500
M A Fay	192,000	212,000	17,500	17,500
The Lord Gregson	250,000	400,000	—	—
Sir Geoffrey Pattie	2,500	10,000	—	—

The interests of the directors have not changed since the year end.

Directors liability insurance Fairey Group plc maintains insurance cover for the directors of the group companies against any liability which might otherwise attach to them in respect of any negligence, default, breach of duty or trust in relation to group companies. Directors of Fairey Group plc have reimbursed the company with the premium cost of their insurance.

Employees Fairey Group plc has a policy of encouraging its operating companies to provide information to their employees on a regular basis. This information includes matters relating to each 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 244 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 re-train them for appropriate posts.

Donations No political donations have been made by the group. Charitable donations amounted to £9,000.

Close company At 31 December 1991 the company was not a close company within the meaning of the Income and Corporation Taxes Act 1970.

Auditor A resolution to re-appoint Coopers & Lybrand Deloitte as the company's auditor will be proposed at the annual general meeting.

P V Boughton
Secretary

9 March 1992

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Notes	Year ended 31 December		1991 £'000	1990 £'000
2	**Sales turnover**		88,805	*86,026*
	Cost of sales		55,903	*56,914*
	Gross profit		32,902	*29,112*
	Distribution costs		(3,938)	*(3,743)*
	Administration, research and other expenses		(15,781)	*(12,469)*
	Share of associated undertaking (loss)/profit		(1)	*74*
	Operating profit		13,182	*12,974*
6	Net interest receivable		1,319	*1,586*
2	**Profit before taxation**		14,501	*14,560*
7	Taxation		5,004	*5,443*
	Profit after taxation		9,497	*9,117*
	Minority interests		(58)	*—*
	Profit after taxation and minority interests		9,439	*9,117*
8	Extraordinary items		1,269	*—*
	Profit after extraordinary items		10,708	*9,117*
	Dividends			
	Ordinary shares			
	Interim paid	3.0p	1,055	*908*
	Final proposed	6.0p	2,031	*1,816*
21	**Retained profit**		7,622	*6,393*
9	Earnings per ordinary share		28.1p	*27.6p*
	Dividends per ordinary share		9.0p	*8.25p*

BALANCE SHEETS

Notes	31 December	Group 1991 £'000	Group 1990 £'000	Company 1991 £'000	Company 1990 £'000
	Fixed assets				
10	Tangible assets	19,187	23,558	2,463	9,617
11	Investments: Subsidiary undertakings	—	—	34,413	34,443
	Associated undertaking	—	299	—	192
	Others	267	259	—	—
		19,454	24,116	36,876	44,252
	Current assets				
12	Stocks	14,936	12,951	—	—
13	Debtors	17,798	16,397	9,610	7,612
	Cash at bank	19,937	15,518	14,944	10,058
		52,671	44,866	24,554	17,670
	Creditors: due within one year				
14/16	Short term borrowing	893	24	—	—
14	Other creditors	21,124	19,492	16,806	21,037
		22,017	19,516	16,806	21,037
	Net current assets	30,654	25,350	7,748	(3,367)
	Total assets less current liabilities	50,108	49,466	44,624	40,885
	Creditors: due after more than one year				
15/16	Medium and Long term borrowing	6,299	3,402	3,209	3,109
15	Other creditors	286	418	3,584	2,576
		6,585	3,820	6,793	5,685
17	**Provisions**	3,311	2,965	478	171
		40,212	42,681	37,353	35,029
	Capital and reserves				
20	Share capital	1,692	1,651	1,692	1,651
21	Reserves	38,268	41,030	35,661	33,378
	Shareholders' interests	39,960	42,681	37,353	35,029
	Minority interests	252	—	—	—
		40,212	42,681	37,353	35,029

The accounts were approved by the board of directors on 9 March 1992 and signed on its behalf by

D J Kingsbury

M A Fay

Directors

CASH FLOW STATEMENT

Notes	Year ended 31 December		1991 £'000		1990 £'000
1	**Net cash inflow from operating activites**		16,505		*13,870*
	Returns on investments and servicing of finance				
	Interest received	1,673		*1,927*	
	Interest paid	(291)		*(300)*	
	Dividends paid	(2,871)		*(2,559)*	
	Net cash outflow from returns on investments and servicing of finance		(1,489)		*(932)*
	Taxation				
	Corporation tax paid (including advanced corporation tax)		(5,992)		*(5,170)*
	Investing activities				
	Purchase of tangible fixed assets	(7,000)		*(2,390)*	
2	Purchase of subsidiary undertakings (net of cash and cash equivalents acquired)	(7,440)		*(838)*	
	Sale of fixed assets	9,969		*176*	
	Outflows in respect of re-establishing operations at other group locations	(4,603)		—	
			(9,074)		*(3,052)*
	Net cash *(outflow)/inflow before financing*		(50)		*4,716*
	Financing				
	Issue of ordinary share capital	(264)		*(6)*	
	New unsecured loan repayable 1995	(2,817)		—	
	Repayment of amounts borrowed	29		*24*	
			(3052)		*18*
3	Increase in cash and cash equivalents		3,002		*4,698*
			(50)		*4,716*

CASH FLOW STATEMENT

Notes to cash flow statement

	1991 £'000	1990 £'000
1 Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	13,182	*12,974*
Depreciation charges	2,493	*2,250*
Profit on sale of tangible fixed assets	(42)	*(101)*
Increase in stocks	(695)	*(497)*
Reduction in debtors	201	*312*
Increase in creditors and provisions	1,365	*(994)*
Loss/(profit) retained by associated undertaking	1	*(74)*
	16,505	*13,870*

	1991 £'000	1990 £'000
2 Purchase of subsidiary undertakings		
Net assets acquired		
Tangible fixed assets	641	*50*
Stocks	1,284	*244*
Debtors	1,515	—
Deferred taxation	178	—
Taxation	(157)	—
Creditors and provisions	(1,243)	*(47)*
Bank borrowing	(34)	—
	2,184	*247*
Previous associate		
Minority interests	(194)	—
Share of pre-acquisition net assets	(149)	—
Conversion of loan into shares	(150)	—
	1 691	*247*
Goodwill	5,715	*591*
Cash consideration	7,406	*838*
Bank borrowing acquired	34	—
	7,440	*838*
Cash generated since date of acquisition by subsidiary undertakings acquired		
From operating activities	955	
Interest paid	(11)	
Taxation	(276)	
Investing activities	(258)	
	410	

	1991 £'000	1990 £'000
3 Analysis of changes in cash and cash equivalents during the year		
Balance at 1 January	15,494	*10,662*
Net cash inflow before adjustments for the effect of foreign exchange rate changes	3,002	*4,698*
Effect of foreign exchange rate changes	548	*134*
Balance at 31 December	19,044	*15,494*
Analysis of the balances of cash and cash equivalents as shown in the balance sheet		
Cash at bank and in hand	19,937	*15,518*
Bank overdrafts	(893)	*(24)*
	19,044	*15,494*

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, and in accordance with applicable accounting standards in the United Kingdom.

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 undertakings

Where associated undertakings 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.

Sales turnover

Sales turnover comprises amounts invoiced (excluding value added tax) at fixed prices and the estimated sales value of goods delivered and accepted under contract 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 building
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 asset investments

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

Goodwill

Goodwill, being either the net excess of the cost of shares in subsidiaries over the value attributable to their net tangible assets on acquisition, or the cost of other goodwill by purchase, 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 effect of such deferrals will continue for the foreseeable future.

NOTES TO THE ACCOUNTS

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 funds' contributions are based on percentages of employees' wages and salaries in accordance with the recommendations of the funds' actuaries. Contributions are charged to profit and loss account with variations due to a fund valuation surplus or deficiency apportioned over the average future service lives of the membership.

2 Sales turnover, profit before taxation and net assets

	Sales 1991 £'000	Sales *1990 £'000*	Profit 1991 £'000	Profit *1990 £'000*	Net assets 1991 £'000	Net assets *1990 £'000*
Business sectors:						
Electronics and Electrical Power	39,488	*31,166*	7,561	*7,149*	10,673	*13,245*
Aerospace and Defence	24,229	*29,093*	2,448	*2,261*	10,864	*9,682*
Filtration and Specialised Ceramics	25,088	*25,767*	3,173	*3,564*	10,500	*13,844*
	88,805	*86,026*	13,182	*12,974*	32,037	*36,771*
Amounts not allocated			—	—	8,175	*5,910*
Net interest receivable			1,319	*1,586*	—	—
			14,501	*14,560*	40,212	*42,681*
Markets supplied:						
UK	43,592	*41,443*				
Continental Europe	20,129	*22,037*				
North America	19,637	*17,015*				
Other	5,447	*5,531*				
	88,805	*86,026*				

It is the group's policy to comply with accounting standards and provide full information on group results to shareholders. However, in the opinion of the directors the competitive position of certain subsidiaries would be seriously prejudiced if the geographical analysis of results was extended beyond sales by destination.

Profit before taxation is after charging:	1991	*1990*
Depreciation	2,493	*2,250*
Operating lease rentals:		
Plant and machinery	264	*75*
Property	345	*232*
Auditor's remuneration	241	*207*
Research and development:		
Gross expenditure	6,194	*4,100*
Net expenditure after funding from customers	2,379	*1,269*

As permitted by Section 230 of the Companies Act 1985, only the group's profit and loss account has been presented.

NOTES TO THE ACCOUNTS

3 Emoluments of directors of Fairey Group plc

	1991 £'000	1990 £'000
Emoluments	521	605
Fees	33	33
Compensation for loss of office	25	—
	579	638

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

	1991	1990
Chairman and highest paid director	209	174
Other directors:	Number	Number
£10,001 – £15,000	3	3
£25,001 – £30,000	1	—
£35,001 – £40,000	1	—
£70,001 – £75,000	—	1
£75,001 – £80,000	—	1
£80,001 – £85,000	1	—
£110,001 – £115,000	—	1
£120,001 – £125,000	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

	1991 £'000	1990 £'000
Staff costs during year:		
Wages and salaries	25,791	23,471
Social security costs	2,431	2,195
Pension and life assurance costs	1,166	1,279
	29,388	26,945

	1991	1990
The average weekly number of persons employed during the year was:		
Production and distribution	1,420	1,487
Other	464	336
	1,884	1,823

5 *Pension costs*

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 fund is reviewed by independent actuaries every three years and contributions are made in accordance with their advice.

The last valuation was at 1 January 1991 using the defined accrued benefit method of funding. It was based on estimates of expenditure on benefits in future years and of the funding rate necessary to meet that expenditure. The valuation assumed that the group's businesses will continue with new entrants replacing those withdrawing, dying or retiring and that the return on investment would exceed the rate of increase in earnings by 2% points per annum.

Assets were valued at £18.7 million. With effect from 1 July 1992 there are to be increases in the post retirement increments to pensions payable by the plan which will absorb most of the surplus. The group's funding rate, following the actuaries' recommendation, will be 11.7% of pensionable pay. Varying rates are contributed by employees depending on their benefit categories.

Three subsidiaries have their own defined contribution plans invested in independent funds. A further subsidiary located overseas participates in a trade association plan. These arrangements are not material relative to the plan outlined above.

NOTES TO THE ACCOUNTS

6 Net interest receivable/(payable)

	1991 £'000	*1990 £'000*
Interest payable		
on borrowing repayable wholly within five years		
not by instalments:		
bank overdrafts and loans	(475)	*(313)*
others	(30)	*(11)*
on borrowing repayable after five years	(26)	*(29)*
Finance lease charges	(3)	*(3)*
Interest receivable on deposits	1,715	*1,942*
	1,181	*1,586*
Interest capitalised in freehold property	138	*—*
	1,319	*1,586*

7 Taxation

	1991 £'000	*1990 £'000*
Taxation on profit of the year		
United Kingdom		
Corporation tax	3,645	*4,056*
Double tax relief	(470)	*(823)*
Deferred tax	78	*44*
Associated undertaking	—	*22*
	3,253	*3,299*
Overseas		
Overseas tax	1,715	*2,175*
Deferred tax	36	*(31)*
	1,751	*2,144*
	5,004	*5,443*

8 *Extraordinary items*

	1991 £'000	*1990 £'000*
Surplus from sales of group properties	5,203	—
Costs of moving from those properties and re-establishing operations at other group locations	4,373	—
	830	—
Taxation – current	126	—
– deferred	313	—
	1,269	—

9 Earnings per share

	1991	*1990*
Profit before extraordinary items £'000	9,439	*9,117*
Weighted average number of ordinary shares issued '000	33,619	*33,023*
Earnings per share	28.1p	*27.6p*

Earnings dilution is not shown as it is not material.

NOTES TO THE ACCOUNTS

10 Tangible fixed assets

	Freehold property £'000	Leasehold property £'000	Plant & equipment £'000	Total £'000
a) Group				
Cost or valuation:				
1 January 1991	17,548	730	23,325	41,603
Exchange differences	12	18	(9)	21
Revaluations	(5,280)	—	—	(5,280)
Additions	3,546	424	3,169	7,139
Businesses acquired	—	15	1,359	1,374
Disposals	(4,869)	(46)	(5,157)	(10,072)
31 December 1991	10,957	1,141	22,687	34,785
Analysed as follows:				
Valuation 1988	6,191	—	—	6,191
Cost	4,766	1,141	22,687	28,594
	10,957	1,141	22,687	34,785
Depreciation:				
1 January 1991	1,028	369	16,648	18,045
Exchange differences	7	2	2	11
Revaluations	(106)	—	—	(106)
Businesses acquired	—	3	730	733
Charge for the year	368	64	2,061	2,493
Disposals	(608)	(46)	(4,924)	(5,578)
31 December 1991	689	392	14,517	15,598
Net book values:				
31 December 1991	10,268	749	8,170	19,187
1 January 1991	16,520	361	6,677	23,558
b) Company				
Cost or valuation:				
1 January 1991	9,987	—	413	10,400
Revaluations	(4,033)	—	—	(4,033)
Additions	553	76	10	639
Disposals	(4,763)	—	(235)	(4,998)
Intra group additions/(disposals)	680	—	(9)	671
31 December 1991	2,424	76	179	2,679
Analysed as follows:				
Valuation 1988	1,834	—	—	1,834
Cost	590	76	179	845
	2,424	76	179	2,679
Depreciation:				
1 January 1991	512	—	271	783
Revaluations	(23)	—	—	(23)
Charge for the year	246	—	66	312
Disposals	(694)	—	(189)	(883)
Intra group additions/(disposals)	55	—	(28)	27
31 December 1991	96	—	120	216
Net book values:				
31 December 1991	2,328	76	59	2,463
1 January 1991	9,475	—	142	9,617

Group leasehold properties are all short leaseholds.

Group freehold property at Tamworth with a net book value of £819,000 is 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 those properties in the course of disposal at that date. These values have been incorporated in the financial statements.

NOTES TO THE ACCOUNTS

	Group £'000	Company £'000
If freehold properties had not been revalued they would have been included at the following:		
Cost	7,938	1,270
Aggregate depreciation	1,205	96

The net book value of the group's plant and equipment includes £8,000 in respect of assets held under finance leases. Depreciation on these assets for the year was £18,000.

The company has no assets held under finance leases.

11 *Fixed asset investments*

a) *Subsidiary undertakings*

	Company		
	Investments £'000	*Loans* £'000	Total £'000
Net book value at 1 January 1991	9,047	25,396	34,443
Exchange differences	—	533	533
Additions/(reductions)	466	(1,029)	(563)
Net book value at 31 December 1991	9,513	24,900	34,413
Cost	9,513	26,211	35,724
Provision	—	(1,311)	(1,311)
Net book value	9,513	24,900	34,413

Details of subsidiary undertakings are shown in note 23.

b) *Associated undertaking*

	Group £'000	Company £'000
Net book value at 1 January 1991	299	192
Share of profit after taxation in the year	(1)	—
	298	192
Transfer to subsidiary undertakings	(298)	(192)
Net book value at 31 December 1991	—	—

c) Others

	Group £'000
Net book value at 1 January 1991	259
Exchange differences	8
Net book value at 31 December 1991	267
Cost	401
Provisions	(134)
Net book value	267

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

NOTES TO THE ACCOUNTS

12 Stocks

	Group 1991 £'000	Group *1990 £'000*	Company 1991 £'000	Company *1990 £'000*
Raw materials	6,475	*5,664*	—	—
Work in progress	7,128	*7,623*	—	—
Payments on account	(1,805)	*(2,649)*	—	—
Finished stock	3,138	*2,313*	—	—
	14,936	*12,951*	—	—

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

13 Debtors

	Group 1991 £'000	Group *1990 £'000*	Company 1991 £'000	Company *1990 £'000*
Amounts falling due within 1 year:				
Trade debtors	16,614	*15,527*	—	—
Group undertakings	—	—	2,681	*1,241*
Group relief	—	—	3,841	*3,213*
Other debtors	646	*538*	87	*92*
Prepayments and accrued income	538	*332*	145	*38*
Dividends receivable	—	—	2,856	*3,028*
	17,798	*16,397*	9,610	*7,612*

14 Creditors: due within one year

	Group 1991 £'000	Group *1990 £'000*	Company 1991 £'000	Company *1990 £'000*
Short term borrowing:				
Bank loan and overdrafts	893	*24*	—	—
Finance lease obligations	5	*23*	—	—
Payments received on account	455	*1,141*	—	—
Trade creditors	8,792	*8,037*	—	—
Group undertakings	—	—	11,983	*17,939*
Taxation	2,389	*3,553*	—	—
Social security, payroll and other taxes other than corporation tax	2,927	*1,211*	1,638	*193*
Other creditors	1,524	*1,521*	585	*713*
Accruals and deferred income	3,001	*2,190*	569	*376*
Dividends	2,031	*1,816*	2,031	*1,816*
	21,124	*19,492*	16,806	*21,037*
	22,017	*19,516*	16,806	*21,037*

15 Creditors: due after more than one year

	Group 1991 £'000	Group *1990 £'000*	Company 1991 £'000	Company *1990 £'000*
Medium and long term borrowing:				
Bank loans	6,299	*3,402*	3,209	*3,109*
Finance lease obligations				
– two to five years	7	—	—	—
Deferred pension credit	279	*418*	279	*418*
Group undertakings	—	—	3,305	*2,158*
	286	*418*	3,584	*2,576*
	6,585	*3,820*	6,793	*5,685*

NOTES TO THE ACCOUNTS

16 Borrowing summary

	Group 1991 £'000	Group 1990 £'000	Company 1991 £'000	Company 1990 £'000
Short term	893	24	—	—
Medium and long term:				
Bank loans repayable				
as a lump sum	6,026	3,109	3,209	3,109
by instalments over more than five years	273	293	—	—
	6,299	3,402	3,209	3,109
Repayable:				
From 1-2 years	30	26	—	—
From 2-5 years	6,130	3,201	3,209	3,109
After 5 years	139	175	—	—
	6,299	3,402	3,209	3,109
	7,192	3,426	3,209	3,109
Comprising:				
Secured bank loans	1,166	317	—	—
Unsecured bank loans	6,026	3,109	3,209	3,109
	7,192	3,426	3,209	3,109

A charge on the assets of a UK subsidiary secures an overdraft of £144,000. Charges on assets of two overseas subsidiaries secure bank loans of £1,022,000.

Of the medium term borrowing £3,241,000 is repayable in 1994, £2,852,000 in 1995 and £176,000 repayable 1996-2000. Interest is at variable rates.

17 Provisions

	Deferred taxation £'000	Reorganisation of businesses on relocation £'000	Warranty £'000	Building maintenance £'000	Other £'000	Total £'000
Group						
1 January 1991	813	162	976	513	501	2,965
Exchange adjustments	8	—	2	—	1	11
Subsidiaries acquired	(178)	—	6	—	286	114
Utilised during year	—	(534)	(340)	(118)	(75)	(1,067)
Provided during year	460	1,521	353	109	157	2,600
Released during year	(953)	(85)	(72)	(60)	(142)	(1,312)
31 December 1991	150	1,064	925	444	728	3,311
Company						
1 January 1991	3	—	—	60	75	171
Utilised during year	—	—	—	—	(25)	(25)
Provided during year	—	448	—	30	—	478
Released during year	(36)	—	—	(60)	(50)	(146)
31 December 1991	—	448	—	30	—	478

	Group 1991 £'000	Group 1990 £'000	Company 1991 £'000	Company 1990 £'000
Deferred taxation derives from:				
Capital allowances	1,302	1,310	121	—
Capital gains	—	13	—	—
Short term timing differences	(1,170)	(857)	(121)	(293)
Revaluation of property	18	347	—	329
	150	813	—	36

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 £772,000 (1990 £2,436,000).

NOTES TO THE ACCOUNTS

18 Commitments

	Group £'000	Company £'000
Commitments for purchase of fixed assets:		
Outstanding contracts for the purchase of assets	657	
Expenditure authorised but not contracted for	36	

	Land and Buildings £'000	Other £'000
Annual commitments for operating leases expiring:		
In 1992	36	28
In 1993-1996	67	233
Thereafter	242	3
	345	264

19 Contingent liabilities

Group companies have given indemnities to National Westminster Bank PLC in respect of guarantees, negotiations and foreign exchange facilities of which £435,000 was outstanding at 31 December 1991.

Fairey Group plc in the normal course of business has given guarantees in respect of certain of its subsidiary undertakings' operations.

20 Share capital

	Number of shares '000	£'000
Ordinary shares of 5p each		
Authorised		10,500
Issued and fully paid		
1 January 1991	33,025	1,651
Issued under share option schemes	813	41
31 December 1991	33,838	1,692

	Granted	Number of shares '000	Subscription price £	Exercise period
Savings related share option scheme	1988	373	1.55	1994
Executive share option schemes	1988	32	1.55	1991-1998
	1989	530	1.99	1992-1999
	1990	43	2.20	1993-2000

21 Reserves

Group	Share premium account £'000	*Revaluation* reserve £'000	Profit and loss account £'000	Total £'000
1 January 1991	21,816	8,463	10,751	41,030
Exchange differences	—	—	(47)	(47)
Premium on issue of shares	223	—		223
Disposals	—	(5,174)	—	(5,174)
Deferred tax on disposals	—	329		329
Goodwill on acquisition of businesses	—	—	(5,715)	(5,715)
Transfers	—	(83)	83	
Retained profit	—	—	7,622	7,622
31 December 1991	22,039	3,535	12,694	38,268

NOTES TO THE ACCOUNTS

Company	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
1 January 1991	21,816	4,834	6,728	33,378
Premium on issue of shares	223	—	—	223
Deferred tax on disposals	—	329	—	329
Disposals	—	(5,680)	—	(5,080)
Revaluations	—	1,154	—	1,154
Transfers	—	(83)	83	—
Retained profit	—	—	5,657	5,657
31 December 1991	22,039	1,154	12,468	35,661

Goodwill

The cumulative amount of goodwill resulting from acquisitions which has been written off, after deducting goodwill attributable to subsidiary undertakings disposed of is set out below:

	£'000
Net goodwill written off:	
1 January 1991	8,237
Written off to reserves in year	5,715
31 December 1991	13,952

22 **Acquisitions**

On 2 August 1991 the group acquired the entire issued share capital of LaserMike Inc and of Bunzl Instrumentation Limited (now named LaserMike Limited) for £6,913,000.

The assets and liabilities of the acquired companies were:

	Book value £'000	Fair value £'000	Fair value to the group £'000
Tangible fixed assets	522	—	522
Current assets			
Stock	998	—	998
Debtors	807	—	807
Cash	5	—	5
	1,810	—	1,810
Liabilities			
Creditors	(571)	—	(571)
Provisions	75	(189)	(114)
Net assets	1,836	(189)	1,647
Goodwill			5,266
Cash consideration			6,913

The fair value provision above covers the cost of integrating the companies into the Fairey group. This amounted to £286,000 less deferred tax of £97,000.

The acquisition increased group sales by £2,719,000 and profit on ordinary activities by £572,000. LaserMike Inc and LaserMike Limited made a loss on ordinary activities of £56,000 from 1 January, the beginning of their financial year, to the date of acquisition and made a profit of £1,160,000 in 1990.

On 22 February 1991 the group increased its shareholding in Arcom Control Systems Limited from 39.0% to 52.4% and on 26 April 1991 from 52.4% to 62.2%. On 23 September 1991 the group set up Arcom Control Systems Inc which acquired the controls and monitoring business of NovaTech Inc.

NOTES TO THE ACCOUNTS

The cash consideration for these acquisitions was £493,000 and no single investment was material. The assets and liabilities acquired which have been consolidated at book value, were:

	Book value £'000
Tangible fixed assets	119
Current assets	
Stock	286
Debtors	708
	994
Liabilities.	
Creditors	(537)
Bank overdraft	(39)
	(576)
Net assets	537
Minority interests	(194)
	343
Goodwill	449
	792
Pre-acquisition net assets attributable to Fairey Group plc	149
Conversion of loan into shares	150
Cash consideration	493
	792

Arcom Control Systems Limited increased group sales by £3,038,000 and profit on ordinary activities by £231,000. From 1 January 1991, the beginning of its financial year, until the date of acquisition the company made a loss of £2,000 and it made a profit of £189,000 in 1990.

23 *Subsidiary undertakings*

The following are the group's principal subsidiary undertakings which are incorporated in Great Britain and registered in England except where stated. They operate mainly in the countries of incorporation. All the 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* %	*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	—
Arcom Control Systems Limited	—	62	—
LaserMike 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 Inc	USA	—	100
LaserMike Inc	USA	—	100