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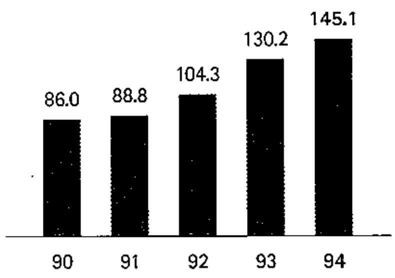
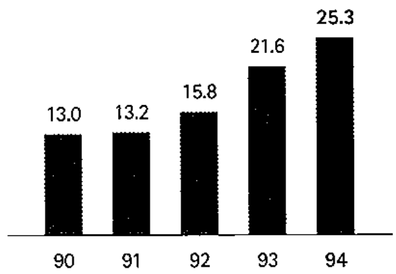
Fairey Group comprises a number of specialist manufacturing companies operating in four sectors: electronics, electrical power, aerospace and defence, and filtration and specialised ceramics.

Each of the companies within those sectors addresses its own highly focused industrial markets where technically innovative products are needed to satisfy a diverse range of demanding customer requirements.

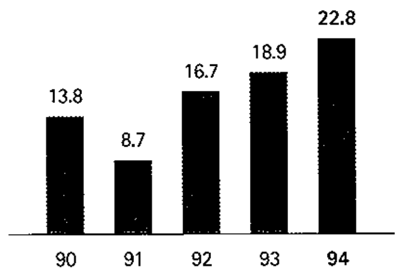
The group has over 2,000 employees and manufacturing operations in the UK, USA and Europe.



Sales – £m



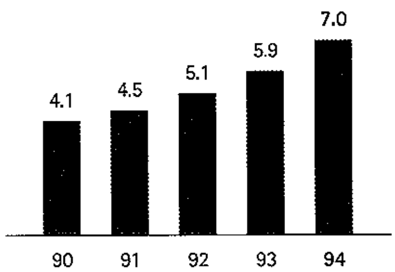
Operating profit – £m



Earnings per share – pence

Financial highlights

Sales	£145.1m	+ 11%
Operating profit	£25.3m	+ 17%
Pre-tax profit	£25.8m	+ 18%
Earnings per share	22.8p	+ 21%
Dividends per share	7.0p	+ 19%



Dividends per share – pence

The Group's Businesses

Electronics	Products
Arcom Control Systems UK and USA	Industrial computer boards, control systems and remote terminal units for process control
Imaging Technology USA	Modular high speed vision and image processors
Microscan Systems USA and UK	High-performance barcode scanning and decoding devices
Red Lion Controls USA and UK	Digital indication and control devices, electronic counters, rate indicators, timers, panel meters and sensors
Infrared Engineering UK, USA and Germany	Infrared sensors for in-process measurement of moisture and composition
Ircon USA, France, Germany and UK	Infrared non-contact temperature measuring instruments
LaserMike USA, UK and Germany	Laser non-contact dimensional measuring equipment
Luxtron USA	Semiconductor process endpoint controllers and fibreoptic thermometers

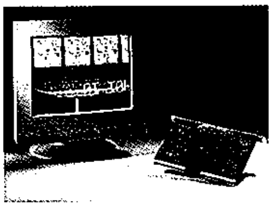
Electrical power	
Allied/Doulton Insulators UK	Insulators for power transmission and electrical equipment
Fairey Nuclear UK	Magnox fuel element canisters

Aerospace and Defence	
Fairey Hydraulics UK and USA	Actuation systems for aircraft, guided weapons and fighting vehicles

Filtration and Specialised Ceramics	
Fairey Arlon Netherlands, USA, UK and Germany	Hydraulic power filtration
Fairey Microfiltrex UK and USA	Filtration systems for demanding environments

Performance by sector

Industrial Markets



Control and instrumentation, telecommunications, oil and gas production and water processing

Industrial machine vision, advanced scientific and medical image analysis, and aerospace and defence systems

Production material handling, shipping and receiving, health care, banking, clinical chemistry and photofinishing

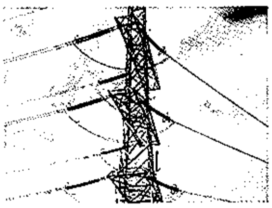
Paper and packaging, textiles, plastics, steel, food, beverages and process control

Food, tobacco, chemical, pharmaceuticals, paper and plastics

Metals, glass, ceramics, semiconductors, rubber, plastics, textiles, food, paper and automotive

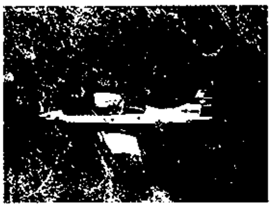
Fibreoptics, wire, cable, metal products and polymer and rubber tubing

Semiconductors and flat panel displays, electric power distribution, medical, food and textiles



Electrical power transmission and distribution, and railways

Nuclear power fuel manufacturing



Aerospace and defence

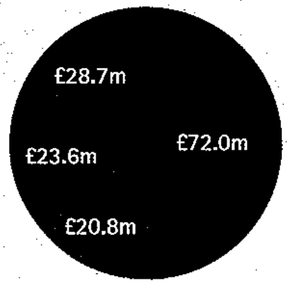
Construction vehicles, packaging, waste disposal and mining

Aerospace, defence, chemical, polymer, pharmaceutical and nuclear engineering

Water effluent treatment, chemical processing and aero engines

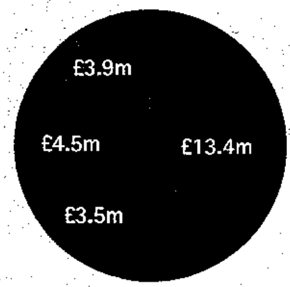
Sales

1994 total £145.1 million



Operating profit

1994 total £25.3 million



Net assets

1994 total £40.6 million

- Electronics
- Electrical Power
- Aerospace and Defence
- Filtration and Specialised Ceramics

Board of Directors

D J Kingsbury CBE FEng (a,b,c,d)
Chairman

Derek Kingsbury, aged 68, joined Fairey in 1982 as group chief executive, and in 1986 led the management buy out of Fairey from Pearson plc. He also became chairman in 1987, continuing in that position in a non-executive capacity after retirement in 1992. He was appointed chairman of David Brown Group plc and of Goode Durrant plc in 1992. He is a vice president and past chairman of the Defence Manufacturers Association and was a member of the Review Board for Government Contracts from 1986 to 1994. A director of Vickers PLC from 1981 to 1991, he was made a CBE in 1988.

J W Poulter (c,d)
Chief Executive

John Poulter, aged 52, joined Fairey as group managing director in 1988 and was appointed chief executive at the beginning of 1992. Previously he was responsible for a group of UK and US manufacturing businesses within BTR plc. He is a director of Crest Packaging plc and Lloyds Smaller Companies Investment Trust PLC.

E Swainson CBE (a,b,d)
Vice Chairman

Eric Swainson, aged 68, joined the board in 1987. He was managing director of IMI plc from 1974 to 1986. He is vice chairman of Lloyds Bank plc and is a director of AMEC plc. He was made a CBE in 1981.

M A Fay FCA
Group Financial Director

Michael Fay, aged 63, joined the group in 1979 and was appointed group financial director in 1988. Previously he was a senior consultant with PA Management Consultants Limited.

J C Webster
Operations Director

Jim Webster, aged 44, joined Fairey in October 1993. His primary responsibility is for the management of a number of the group's trading units, including the electronics measurement companies. He was previously with Raychem where he was most recently general manager of the European Wire and Cable Division.

P V Boughton FCA
Commercial Director and Company Secretary

Paul Boughton, aged 39, joined Fairey in his present position in 1991 and is principally responsible for business development activities. Previously financial director of a private company, he was before that with Thermal Scientific plc.

Sir Keith Bright (a,b,d)

Sir Keith Bright, aged 63, was appointed to the board in August 1993. His extensive experience has included being chief executive of Sime Darby (Holdings) Ltd., chairman and chief executive of London Regional Transport, chairman of Electrocomponents plc and chairman of Brent Walker Group plc.

K A V Mackrell (a,b,d)

Keith Mackrell, aged 62, was appointed to the board in August 1993. He has had a wide career with Shell from which he retired as a director of Shell International Petroleum Ltd in 1991. He is currently a governor of the London School of Economics, chairman of Enterprise LSE, and a non-executive director of Standard Chartered Bank plc, British Gas PLC, Bowater plc and Regalian Properties plc.

(a) Non-executive
(b) Audit committee
(c) Nomination committee
(d) Remuneration committee

Chairman's Statement

For the seventh year in succession I am able to report an increase in operating profit, this time a rise of 17% to £25.3m (£21.6m).

Sales increased by 11% to £145.1m (£130.2m), producing profit before tax up 18% at £25.8m (£21.8m) and earnings per share 21% ahead at 22.8p (18.9p). Underlying cash generation remained strong at £10.0m.

These figures reflect a very successful 1994 and shareholders, I am sure, will wish to join me in congratulating and thanking our management teams and all employees throughout the group on the continuing achievement of such fine results.

Given this sustained progress, the board is recommending a final dividend of 4.75p making a total of 7.0p (5.9p) for the full year, an increase of 19%. The dividend is 3.3 times covered.

The earnings per share and dividend figures reflect the effect of the one for one capitalisation issue in June 1994, with the prior year restated.

The £9.1m acquisition of Imaging Technology Inc, referred to at the half year, was completed in September and its initial contribution enhanced earnings.

In December the company placed 5 million ordinary shares to help fund the £37.9m acquisition of Microscan Systems Inc of Seattle USA, a manufacturer of high performance fixed mount industrial bar code scanning and decoding devices. Shareholders will have received full details in the circular that was issued at the time. Microscan is performing in line with expectations.

Our companies continued to trade well throughout the year, responding sensibly and positively to market opportunities and changes. As foreshadowed at the half year, Insulators has adjusted its cost base to reflect reduced demand levels from the UK although there are encouraging signs of improvement from export markets. This changed situation, and the predicted longer term decline in volume at Fairey Nuclear, has caused us to separate the Electrical Power activities into an additional sector for greater clarity.

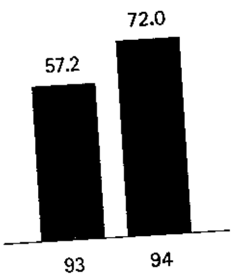
Overall, we start 1995 with confidence and expect to see further attractive progress in our affairs. We are also pleased to announce the acquisition of Loma Group Limited, which manufactures quality control and inspection products, for a net consideration of £18.2m (after deducting £2.8m of cash balances taken over on completion). The board expects this acquisition to be earnings enhancing in 1995. This transaction will produce a net initial indebtedness of £15m which debt is expected to be substantially eliminated by the end of the year.

Having served Fairey in a variety of roles for a remarkable 55 years, Lord Gregson retired at last year's AGM. By any standard this is an exceptional period of service. Especially known for his interest in manufacturing technology, and the nuclear and defence industries, Lord Gregson participated in all aspects of the business and did much to ensure progress and continuity at Fairey at critical times. His espousal of the principles of sound marketing will long be remembered by all who met him. He will be missed, by none more than me, and we wish him continued good health and happiness.

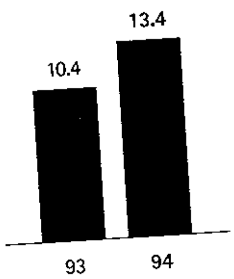
Derek Kingsbury

Derek Kingsbury CBE F Eng
Chairman

Chief Executive's Review



Turnover – Electronics £m



Operating profit – Electronics £m

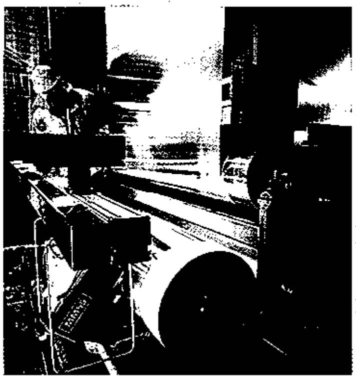
Two acquisitions in electronic controls

Expansion at Red Lion

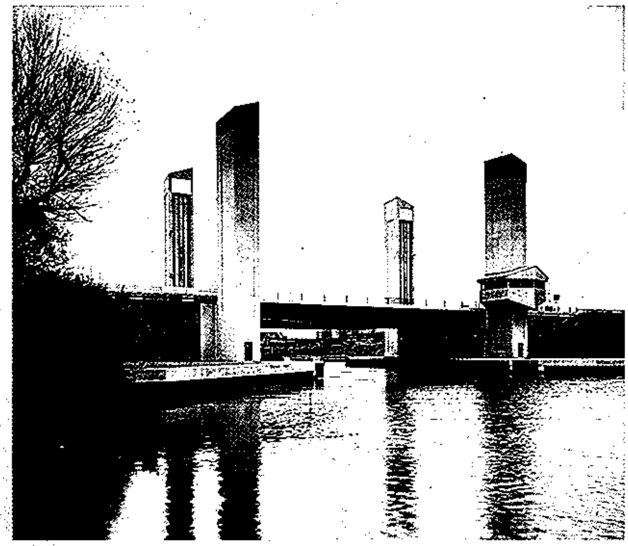
Strong results from businesses in product measurement

1994 was another successful year for Fairey. The development strategy which has been pursued over the past several years has delivered good results. Our goal is to encourage each of our businesses which operate in specialised industrial markets, to provide consistent sales and profit growth and to exploit the advantages inherent in being in a focused technology-based group. Fairey's acquisition policy is directed towards companies where leadership positions in technology and market give good prospects for further development. The acquisitions made during 1994, Imaging Technology Inc and Microscan Systems Inc, fulfil those criteria, as does Loma Group Limited, purchased in early 1995.

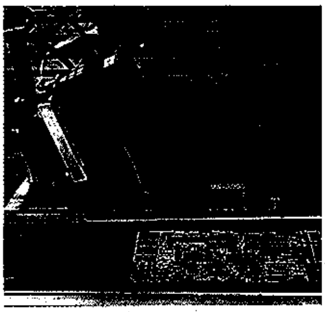
Within the **Electronics** sector, the controls manufactured by Arcom, Imaging Technology, Microscan and Red Lion Controls are highly specialised products purchased predominantly by customers which are themselves electronics companies. These modular products supplied by Fairey are usually incorporated into control systems to enhance production efficiency. Red Lion Controls had another very successful year and completed a significant extension of its facilities to accommodate this growth. Arcom similarly saw a substantial lift in sales, although profits were less attractive as the growth induced strains on component supply and the sub-contract chain. These problems have been addressed.



An Infrared Engineering lacquer control system on an aluminium coating line

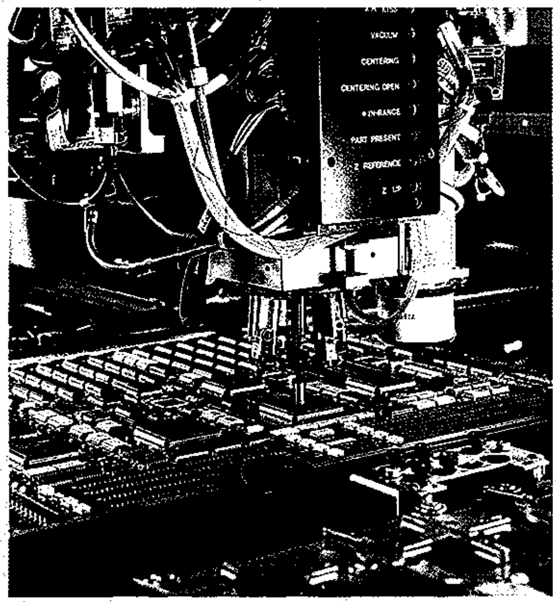


The operation of the new vertical lift bridge over the Manchester Ship Canal is controlled by Red Lion Controls position indicators



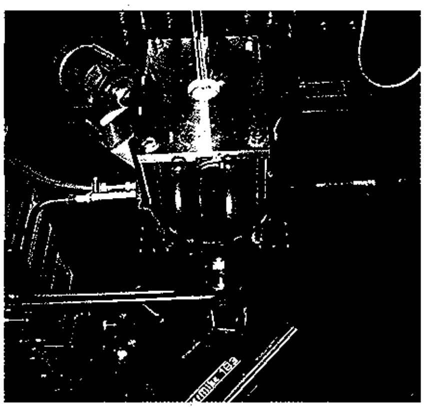
Work-in-progress tracking on a circuit board production line through a Microscan decoder and scanner

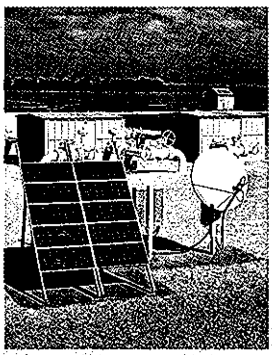
Electronics



A robot system with Imaging Technology's machine vision finding and placing parts on a printed circuit board assembly line

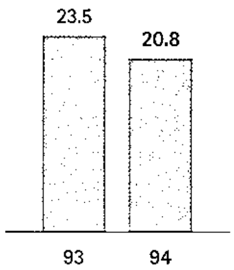
A LaserMike diameter gauge and Ircon infrared thermometer installed on an optical fibre production line



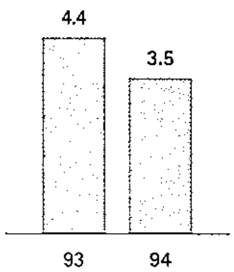


Remotely-sited computers from Arcom Control Systems monitor a 4,500 mile pipeline for Williams Natural Gas of Oklahoma using solar powered satellite devices to communicate with the central host station

Chief Executive's Review



Turnover - Electrical Power £m



Operating profit - Electrical Power £m

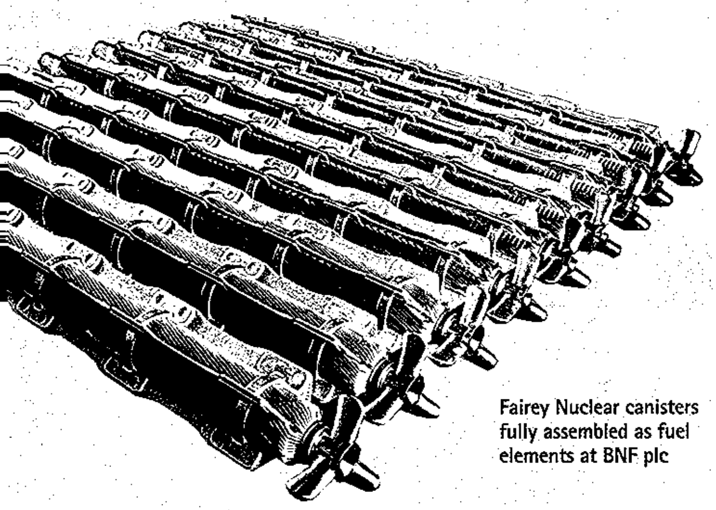
UK insulator sales decline

Capital investment at Insulators

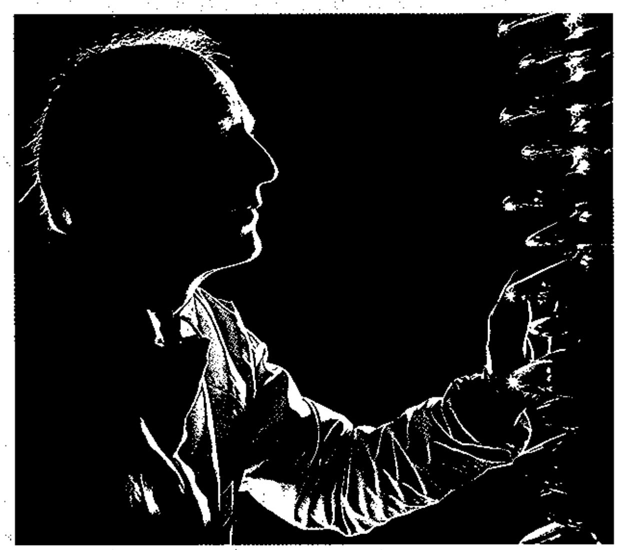
Good performance from Fairey Nuclear

The process measurement products, manufactured by Infrared Engineering, Ircon, LaserMike, Luxtron, and now Loma, are sold to end user customers for product measurement and control, and performance and quality enhancement. All four of the established businesses delivered very encouraging results on the back of generally favourable market conditions.

In **Electrical Power** fortunes were mixed. As noted in the chairman's statement and indicated previously, demand for insulators for overhead power lines in the UK fell as a consequence of some earlier acceleration of customers' refurbishment programmes. This necessitated a reappraisal of the activities at our insulator company, particularly at the factory making overhead transmission insulators at Stoke on Trent and the supporting foundry in the West Midlands supplying associated fittings. As a consequence, there were capital investments at both locations and a necessary reduction in the total employment in these factories. The insulator business is in a stronger competitive position as a result and prospects for sales overseas are much improved. Despite all this, demand for switchgear insulators was strong and the business still produced a good profit. The nuclear fuel

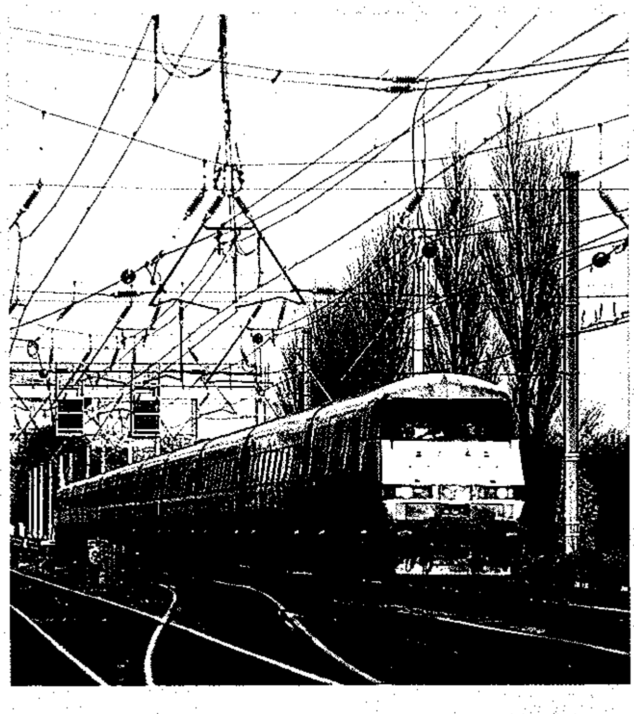


Fairey Nuclear canisters fully assembled as fuel elements at BNF plc

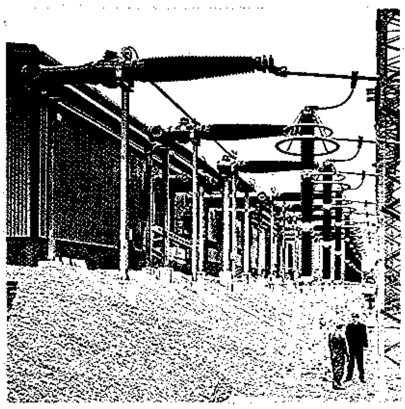


Allied/Doulton porcelain post insulators on a Reyrolle 300kV open terminal circuit breaker (photograph courtesy of Rolls-Royce plc)

Electrical Power

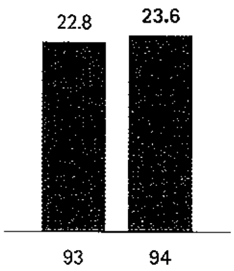


Fairey insulators on the catenary (overhead power line) system on British Rail's London-Edinburgh line

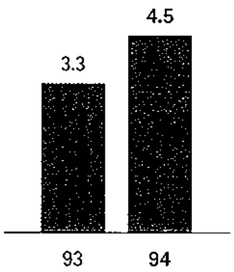


Allied/Doulton insulators on the Norweb 400kV gas insulated electricity substation at Macclesfield (photograph courtesy of Balfour Beatty Ltd)

Chief Executive's Review



Turnover – Aerospace and Defence £m



Operating profit – Aerospace and Defence £m

An outstanding year for aerospace and defence

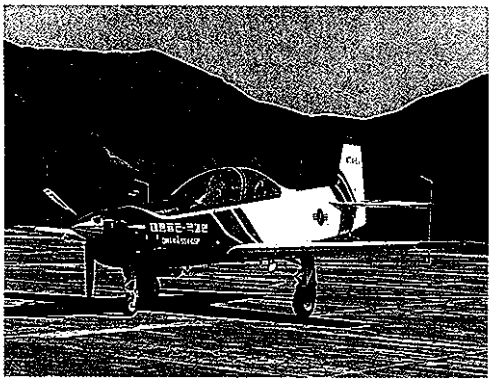
Efficiency gains continue

Spearfish torpedo contract awarded

canister business also did very well, but these benefits were insufficient to prevent a fall in the profitability of the electrical power sector. The further expectation that the nuclear fuel canister business will enter a period of gentle decline has caused the electrical power results to be reported as an additional sector.

The **Aerospace and Defence** business had an outstanding year. The steady progression in margins from efficiency gains seen since the move to a single site in 1991 has continued and there was a modest additional gain from the successful completion of an overseas development contract. Towards the end of the year a contract was received for hydraulic actuators for the Spearfish torpedo programme. Although this project is not due for delivery until later in the decade, it enhances the longer term prospects of the defence business. Order books overall are healthy as a consequence.

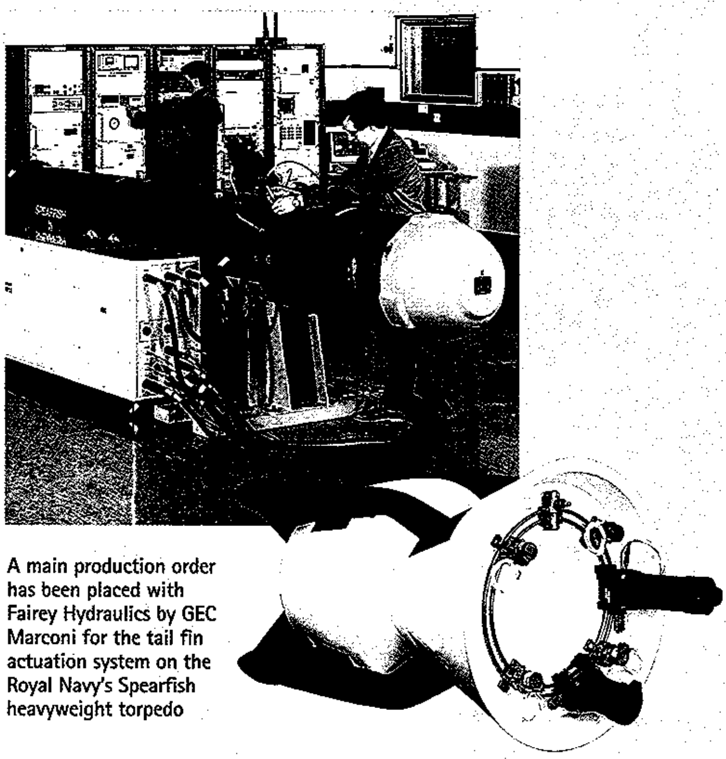
In the **Filtration** companies, the Arlon fluid power activities in the Netherlands and the US both increased their sales as the respective industrial markets demonstrated the benefits of economic recovery. In the US the company moved into a new facility and in Holland, an investment was made to bring all



Fairey Hydraulics is contracted to supply the complete hydraulic system and landing gear for the Republic of Korea's KTX-1 training aircraft

The Fairey Hydraulics Decklock helicopter deck landing system for the EH-101 Merlin helicopter for the Royal Navy

Aerospace and Defence



A main production order has been placed with Fairey Hydraulics by GEC Marconi for the tail fin actuation system on the Royal Navy's Spearfish heavyweight torpedo

Fairey hydraulic system components have been supplied to Pilatus Aircraft of Switzerland for the PC-7 Mk.II training aircraft sold to South Africa

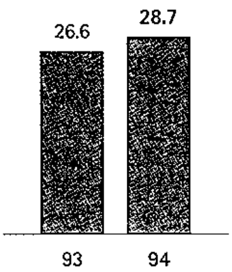
Chief Executive's Review

activities into a single, better organised, site. Fairey Microfiltrex had a duller year, but achieved a great deal in substituting declines in certain traditional business areas with new business obtained from the pharmaceutical and chemical processing markets. At Fairey Industrial Ceramics water filters continued to increase sales, although ceramic cores for the casting of aero engine turbine blades continued to experience rather unexciting demand.

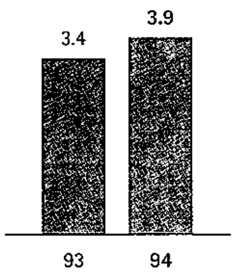
In general, our companies have done well in overcoming difficulties where they occurred and in creating and grasping opportunities.

The group as a whole continues to invest to sustain positive developments into the future - research and development expenditure across the group increased substantially compared with 1993 - and although acquisitions will have caused some of this increase, the trend is strongly upwards. In addition, we continue to seek appropriate acquisitions which fit our business criteria.

John Poulter
Chief Executive



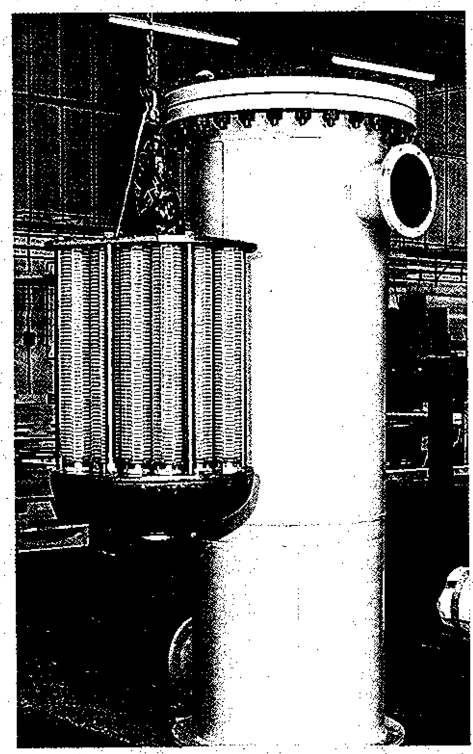
Turnover - Filtration and Specialised Ceramics £m



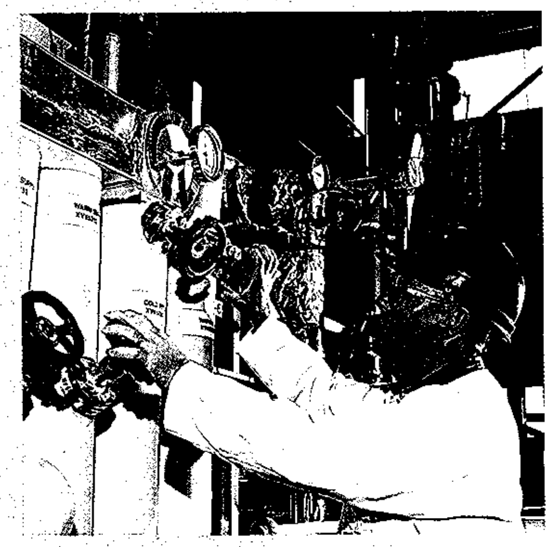
Operating profit - Filtration and Specialised Ceramics £m

Fluid power sales growth and expansion in US and Netherlands

New pharmaceutical and chemical processing business at Microfiltrex



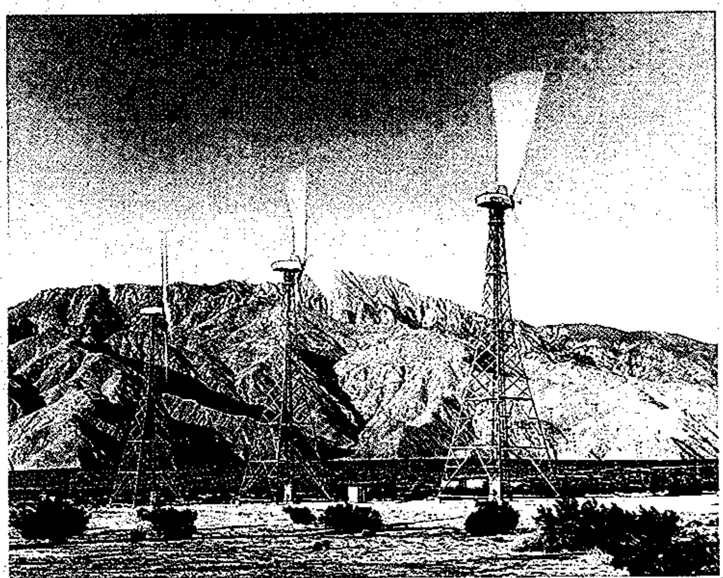
Part of a package of filtration equipment supplied by Fairey Microfiltrex to Scottish Nuclear for the Torness power station



Fairey Industrial Ceramics high pressure filters are installed in the short path distillation unit at the Ciba Grimsby pharmaceutical and chemical plant

Filtration and Specialised Ceramics

Atlas Weyhausen of Delmenhorst, Germany, protects the hydraulic systems on its range of excavators with Fairey Arlon filters



Fairey Arlon filters are used on wind turbines developed by Kenetech Windpower of San Francisco

Financial Review

Several aspects of the group's activities in 1994 require comment: the effect of the year's acquisitions on the group's balance sheet, the lower tax rate compared to 1993 and the group's policy on foreign exchange exposure.

Two acquisitions have been made during the year. Imaging Technology was acquired for £9.1 million in cash and Microscan Systems was acquired for £37.9 million of which £18.7 million was from the issue of shares, with the balance in cash. These acquisitions had a significant impact on the group's balance sheet through a reduction in net worth and outflow of cash. Net worth reduced from £43.6 million to £31.3 million during the year, after writing off £43.5 million of goodwill on acquisitions, offset by £19.1 million premium on the issue of shares, almost entirely for the purchase of Microscan.

Since flotation in 1988 £77.5 million has been written off as goodwill on acquisitions reflecting in their prices the profit records and excellent prospects of the businesses acquired.

A feature of Fairey Group has been its capacity to generate cash. In 1994 there was a net cash outflow of £11.6 million, but taking into account the cash outlay on acquisitions and the proceeds of a property sale, there was an underlying cash inflow of some £10 million.

Group year end debt amounted to a net £1.3 million, but there were £2.5 million of cash balances which had still to be reimbursed to the Microscan vendors.

The group's tax rate reduced from 35.6% in 1993 to 33.3% in 1994. In 1993 the group elected to adopt a new basis for the tax write off of US intangibles. This resulted in additional tax charges for the two previous years which increased the 1993 tax rate, but with benefits for the group in 1994 and subsequent years. There has also been a gain in 1994 from refunds of US state tax.

With nearly 70% of its business outside the UK, Fairey has a clear policy for limiting its foreign exchange exposure on a threefold basis.

The group limits its exposure to larger contracts priced in foreign currency by selling the proceeds forward, although regular trading cash flows are not generally covered. The effect of currency movements on the valuation of the group's assets outside the UK is hedged by borrowing equivalent amounts in those currencies. The exposure in translating the group's US profits into sterling is covered annually by an option to sell dollars.

The dollar is the foreign currency with the greatest significance to the group's results. During 1994 the weaker dollar compared to 1993, reduced group operating profits by £0.3 million.

Report of the Directors

The directors present their report and the accounts for the year ended 31 December 1994.

Principal activities

Fairey Group's businesses are engaged in the design, manufacturing and marketing of electronics and specialist engineering products. The businesses are grouped in four sectors, Electronics, Electrical Power, Aerospace and Defence, and Filtration and Specialised Ceramics. Further details of the companies and products are on pages 2 and 3.

Research and development is carried out in all of the main product areas.

Acquisitions

On 13 September 1994 the group acquired Imaging Technology Inc for £9.1 million and on 13 December 1994 acquired Randomat Inc and its operating subsidiary Microscan Systems Inc for £37.9 million.

Further details are given in note 27.

On 10 March 1995 the group acquired Loma Group Limited for £21.0 million, satisfied by £5.3 million in shares and the balance in cash.

Share capital

Following a resolution at the 1994 annual general meeting, on 6 June 1994 a one for one scrip issue of shares was made by capitalising reserves.

£18.7 million of the consideration for Randomat Inc was in the form of a vendor placing of 5 million ordinary shares at £3.74 each.

At the 1995 annual general meeting there will be proposals for renewal of the authority for the company to allot shares, to allot shares for cash and to purchase its own shares, within specified limits. There will be a further proposal to increase the maximum rate of contribution to the savings related share option scheme to the maximum allowed by the Inland Revenue.

Beneficial interests amounting to 3% or more of the issued ordinary share capital which had been notified to the company by 10 March 1995 comprised:

British Rail Pension Trustee Company Ltd	2,825,000 shares (3.5%)
General Accident Group	2,450,700 shares (3.1%)
Prudential Corporation plc	2,410,800 shares (3.0%)

Report of the Directors

Dividends

Results of the group are set out in the profit and loss account on page 22 and in supporting notes. A final dividend for the year to 31 December 1994 is proposed of 4.75p per ordinary share. With the interim dividend, this makes a total for the year of 7.0p. The final dividend will be paid on 15 June 1995 to shareholders on the register on 19 May 1995.

Fixed assets

Movements in fixed assets are detailed in note 12 to the accounts. Whilst the market values of some properties differ from book values, the directors believe that the net difference is not material.

Donations

No political donations have been made by the group. Charitable donations amounted to £17,000.

Directors

The directors at 31 December 1994 are named on pages 4 and 5. Lord Gregson retired from the board on 10 May 1994.

P V Boughton and M A Fay retire from the board by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election. They have service contracts that can be terminated by the company with maximum notice of twelve and eighteen months respectively.

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 their company's performance, its prospects in the markets it serves and the future outlook of its business.

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

Financial participation in the group is encouraged through the Savings Related Share Option Scheme.

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.

Close company

At 31 December 1994 the company was not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Auditors

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

Corporate governance

The board has accepted the recommendations of the Cadbury Committee and has adopted the Code of Best Practice to the extent that it is currently in force.

Fairey has four non-executive directors including the chairman and the vice chairman. There are audit, remuneration and nomination committees, the constitution of which is noted on pages 4 and 5. There is a procedure for directors to take independent professional advice in the execution of their duties, and a schedule of matters for which board approval is required.

The board normally meets monthly to review trading results and key operational and business issues. The committees of the board meet in accordance with the guidelines of the Cadbury Code.

The board acknowledges its responsibility for financial control and will be conducting a formal review during 1995 to enable it to report that it has considered the effectiveness of the group's financial control procedures.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The auditors have confirmed that in their opinion: with respect to the directors' statement on going concern, the directors have provided the disclosure required by paragraph 4.6 of the Code and such statement is not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' other statements appropriately reflect the company's compliance with the other paragraphs of the Code specified for their review by the London Stock Exchange. They were not requested to perform the additional work necessary, and were not invited to express any opinion on the effectiveness of the company's corporate governance procedures nor on the ability of the company to continue in operational existence.

P V Boughton
Secretary

13 March 1995

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Advisers

Auditors
Coopers & Lybrand

Bankers
National Westminster Bank Plc

Brokers
Cazenove & Co

Financial Advisers
Lazard Brothers & Co, Limited

Solicitors
Ashurst Morris Crisp

Registrars
The Royal Bank of Scotland plc
Registrar's Department
PO Box 82
Caxton House, Redcliffe Way, Bristol BS99 7NH

Financial Calendar

Annual general meeting	9 May 1995
1994 Final dividend payable	15 June 1995
1995 Interim results	11 September 1995
1995 Interim dividend payable	November 1995
1995 Preliminary results	March 1996

Report of the Auditors

To the members of Fairey Group plc

We have audited the financial statements on pages 22 to 43.

Respective responsibilities of directors and auditors

As described on page 20 the directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and report our opinion to you.

Basis of opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 1994 and of the profit, total recognised gains and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London

13 March 1995

Consolidated Profit and Loss Account

for the year ended 31 December

	Notes	1994 £'000	1993 £'000
Sales turnover			
Continuing operations		**141,718**	127,782
Acquisitions		**3,361**	2,412
	2	**145,079**	130,194
Cost of sales		**73,722**	68,937
Gross profit		**71,357**	61,257
Operating expenses	3	**46,080**	39,687
Operating profit			
Continuing operations		**24,971**	21,278
Acquisitions		**306**	292
	2	**25,277**	21,570
Net interest receivable	8	**509**	272
Profit on ordinary activities before taxation		**25,786**	21,842
Taxation	9	**8,587**	7,772
Profit for the financial year		**17,199**	14,070
Dividends	10	**5,501**	4,436
Retained profit for the financial year	25	**11,698**	9,634
Earnings per ordinary share	11	**22.8p**	18.9p
Dividends per ordinary share		**7.0p**	5.9p

Statement of Total Recognised Gains and Losses

for the year ended 31 December

	1994 £'000	1993 £'000
Profit for the financial year	**17,199**	14,070
Unrealised surplus on revaluation of properties	**–**	1,565
Foreign exchange adjustments	**167**	32
Total gains and losses recognised since last annual report	**17,366**	15,667

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the financial year stated above, and their historical cost equivalents.

Balance Sheets

as at 31 December

	Notes	Group 1994 £'000	Group 1993 £'000	Company 1994 £'000	Company 1993 £'000
Fixed assets					
Tangible assets	12	**25,239**	26,705	**2,009**	4,618
Investments: Subsidiaries	13	**–**	–	**65,343**	34,331
Others		**110**	261	**–**	–
		25,349	26,966	**67,352**	38,949
Current assets					
Stocks	14	**22,145**	18,771	**–**	–
Debtors	15	**28,984**	22,540	**32,285**	30,271
Cash at bank		**29,457**	29,114	**16,376**	18,846
		80,586	70,425	**48,661**	49,117
Creditors: due within one year					
Short term borrowing	16/18	**5,222**	4,097	**–**	4,054
Other creditors	16	**40,964**	30,756	**14,573**	11,698
		46,186	34,853	**14,573**	15,752
Net current assets		**34,400**	35,572	**34,088**	33,365
Total assets less current liabilities		**59,749**	62,538	**101,440**	72,314
Creditors: due after more than one year					
Medium and long term borrowing	17/18	**25,614**	14,776	**23,333**	14,459
Other creditors	17	**–**	141	**1,909**	2,448
		25,614	14,917	**25,242**	16,907
Provisions					
Deferred taxation	19	**–**	1,100	**–**	654
Other provisions	20	**2,818**	2,914	**30**	30
Net assets		**31,317**	43,607	**76,168**	54,723
Share capital	23	**4,014**	1,863	**4,014**	1,863
Share premium account	25	**19,135**	72	**19,135**	72
Revaluation reserve	25	**2,971**	4,845	**1,081**	2,871
Special reserve	25	**–**	–	**34,083**	34,083
Profit and loss account	25	**5,197**	36,827	**17,855**	15,834
Equity shareholders funds		**31,317**	43,607	**76,168**	54,723

The accounts were approved by the board of directors on 13 March 1995 and signed on its behalf by:

M A Fay
Director

Consolidated Cash Flow Statement

for the year ended 31 December

	Notes	1994 £'000	1993 £'000
Net cash inflow from operating activities	29	**28,559**	30,117
Returns on investments and servicing of finance			
Interest received		**1,512**	982
Interest paid		**(981)**	(733)
Dividends paid		**(4,703)**	(3,984)
Net cash outflow from returns on investments and servicing of finance		**(4,172)**	(3,735)
Taxation			
Corporation tax paid (including advance corporation tax)			
United Kingdom		**(3,870)**	(3,259)
Overseas		**(4,924)**	(3,551)
		(8,794)	(6,810)
Investing activities			
Purchase of tangible fixed assets		**(4,050)**	(3,527)
Purchase of subsidiary undertakings (net of cash and cash equivalents acquired)	30	**(26,121)**	(8,378)
Sale of tangible fixed assets		**2,864**	393
Sale of fixed asset investments		**138**	38
Net cash (outflow) from investing activities		**(27,169)**	(11,474)
Net cash (outflow)/inflow before financing		**(11,576)**	8,098
Financing	31		
Issue of ordinary share capital		**640**	216
New loans		**16,697**	10,000
Repayment of amounts borrowed		**(3,886)**	(5,805)
		13,451	4,411
Increase in cash and cash equivalents	32	**1,875**	12,509

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.

Sales turnover

Sales turnover comprises sales 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	– 2½%-5%
Short leasehold property	– over the remaining period of the lease
Plant, machinery and other equipment	– 5-20%
Motor vehicles	– 25%
Tooling and computer hardware and 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 and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. 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. Exchange differences arising on opening net assets, less any loans hedging those investments, are taken direct to reserves, as are the differences arising between the translation of revenue items at average and closing rates. Realised exchange differences arising on trading transactions are taken to the profit and loss account.

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.

Research and development

Research and development expenditure is written off as it is incurred, except to the extent that it is funded by customers.

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.

Contributions to pension funds

Pension fund contributions are based on percentages of employees' wages and salaries in accordance with the recommendations of the 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 and assets

	Sales		Profit before tax		Net assets	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Business sectors						
Electronics	**72,026**	57,218	**13,364**	10,392	**23,697**	18,466
Electrical power	**20,751**	23,529	**3,503**	4,405	**3,786**	4,325
Aerospace and defence	**23,598**	22,833	**4,541**	3,347	**2,867**	5,778
Filtration and specialised ceramics	**28,704**	26,614	**3,869**	3,426	**10,216**	11,620
	145,079	130,194	**25,277**	21,570	**40,566**	40,189
Amounts not allocated			**–**	–	**(9,249)**	3,418
Net interest receivable			**509**	272	**–**	–
			25,786	21,842	**31,317**	43,607
Geographical source						
UK	**74,543**	72,821	**11,886**	11,056	**20,333**	22,585
Continental Europe	**12,190**	10,137	**1,332**	1,030	**3,494**	3,523
North America	**58,346**	47,236	**12,059**	9,484	**16,739**	14,081
	145,079	130,194	**25,277**	21,570	**40,566**	40,189
Geographical destination						
UK	**44,139**	45,005				
Continental Europe	**33,551**	29,665				
North America	**51,500**	44,057				
Other	**15,889**	11,467				
	145,079	130,194				

The impact on the electronics sector results of the acquisitions in 1994 is set out in note 27.

3 Operating expenses

	1994 £'000	1993 £'000
Distribution costs	**5,617**	5,442
Administration, research and other expenses	**40,463**	34,245
	46,080	39,687

The total figures for cost of sales and operating expenses include the following amounts relating to acquisitions in each year:		
Cost of sales	**1,235**	919
Administration, research and other expenses	**1,820**	1,201

4 **Profit before taxation is after charging**

	1994 £'000	1993 £'000
Depreciation	**3,697**	3,400
Operating lease rentals		
Plant and machinery	**300**	267
Property	**675**	452
Auditors' remuneration	**415**	422
Research and development		
Gross expenditure	**8,636**	6,068
Net expenditure after funding from customers	**6,574**	4,444

In addition £413,000 (1993 £285,000) was paid to the auditors for non-audit services. The auditors remuneration in respect of the company was £37,000 (1993 £45,000).

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

5 **Emoluments of directors of Fairey Group plc**

	All		Chairman		Highest paid director	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Fees	**74**	71	**30**	30	**–**	–
Performance related emoluments	**178**	142	**–**	–	**75**	69
Other emoluments	**347**	256	**–**	–	**120**	110
Pension contributions	**36**	25	**–**	–	**14**	13
	635	494	**30**	30	**209**	192

	Number	Number
Analysis of directors' emoluments including bonus payments based on performance, but excluding contributions to pension fund:		
£0 – £5,000	**–**	1
£5,001 – £10,000	**1**	2
£10,001 – £15,000	**3**	2
£20,001 – £25,000	**–**	1
£25,001 – £30,000	**1**	1
£95,001 – £100,000	**–**	1
£100,001 – £105,000	**–**	1
£105,001 – £110,000	**1**	–
£110,001 – £115,000	**2**	–
£175,001 – £180,000	**–**	1
£190,001 – £195,000	**1**	–

Targets for performance are based on the group's earnings per share and are set by the remuneration committee.

Notes to the Accounts

6 Employees (including directors) of the group

	1994 £'000	1993 £'000
Staff costs during year		
Wages and salaries	**39,410**	35,988
Social security costs	**4,192**	3,675
Pension and life assurance costs	**1,748**	1,511
	45,350	41,174

	Number	Number
The average weekly number of persons employed during the year was:		
Production and distribution	**1,383**	1,471
Other	**760**	645
	2,143	2,116

7 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 1994 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 £23.0 million and there was a surplus of £1.5 million. Based on the actuaries' recommendation the group's average funding rate is 11.6% of pensionable pay. Varying rates are contributed by employees depending on their benefit categories.

An overseas subsidiary participates in a defined benefit plan administered by a trade association. This is not material relative to the Fairey Group plan.

Two UK and six overseas subsidiaries have their own defined contribution plans invested in independent funds.

8 Net interest receivable

	1994 £'000	1993 £'000
Interest payable		
on borrowing repayable wholly within five years not by instalments:		
bank overdrafts and loans	**(953)**	(621)
others	**(30)**	(43)
on borrowing repayable after five years	**(14)**	(26)
Finance lease charges	**(11)**	(20)
	(1,008)	(710)
Interest receivable on deposits	**1,517**	982
	509	272

9 Taxation

	1994 £'000	1993 £'000
Taxation on profit for the year		
United Kingdom		
Corporation tax at 33%	**5,508**	4,010
Double tax relief	**(241)**	(293)
Deferred tax	**(769)**	345
	4,498	4,062
Overseas		
Current tax	**4,272**	3,323
Deferred tax	**(183)**	387
	4,089	3,710
	8,587	7,772

10 Dividends

	1994 £'000	1993 £'000
Interim dividend paid 2.25p per share (1993 1.90p)	**1,687**	1,420
Final dividend proposed 4.75p per share (1993 4.0p)	**3,814**	3,016
	5,501	4,436

11 Earnings per share

	1994	1993
Profit for the financial year £'000	**17,199**	14,070
Weighted average number of ordinary shares issued '000	**75,489**	74,426
Earnings per share	**22.8p**	18.9p

Earnings dilution is not material.

Notes to the Accounts

12 Tangible fixed assets

	Freehold property £'000	Short leasehold property £'000	Plant and equipment £'000	Total £'000
Group				
Cost or valuation:				
1 January 1994	16,959	1,500	30,404	48,863
Exchange differences	(52)	(31)	(107)	(190)
Additions	510	210	3,371	4,091
Subsidiaries acquired	–	–	2,839	2,839
Disposals	(2,627)	(13)	(1,415)	(4,055)
31 December 1994	14,790	1,666	35,092	51,548
At:				
Valuation	3,958	–	–	3,958
Cost	10,832	1,666	35,092	47,590
	14,790	1,666	35,092	51,548
Depreciation:				
1 January 1994	970	776	20,412	22,158
Exchange differences	24	(25)	(48)	(49)
Subsidiaries acquired	–	–	1,791	1,791
Charge for the year	360	174	3,163	3,697
Disposals	(3)	(12)	(1,273)	(1,288)
31 December 1994	1,351	913	24,045	26,309
Net book values:				
31 December 1994	13,439	753	11,047	25,239
31 December 1993	15,989	724	9,992	26,705
Company				
Cost or valuation:				
1 January 1994	4,491	78	189	4,758
Additions	–	–	26	26
Disposals	(2,541)	–	(35)	(2,576)
31 December 1994	1,950	78	180	2,208
Depreciation:				
1 January 1994	11	32	97	140
Charge for the year	41	15	38	94
Disposals	–	–	(35)	(35)
31 December 1994	52	47	100	199
Net book values:				
31 December 1994	1,898	31	80	2,009
31 December 1993	4,480	46	92	4,618

12 Tangible fixed assets continued

The UK freehold properties, including the company's property, were revalued by Erdman Lewis, surveyors, on 23 September 1993 at open market value for existing use. These values have been incorporated in the financial statements.

	Group £'000	Company £'000
If freehold properties had not been revalued they would have been included at the following:		
Cost	12,653	1,047
Aggregate depreciation	2,185	230
	10,468	817

At 31 December 1994 the net book value of assets held under finance leases was nil. During the year depreciation on finance lease assets amounted to £20,000.

	Group £'000	Company £'000
Commitments for purchase of fixed assets:		
Outstanding contracts for the purchase of assets	879	–
Expenditure authorised but not contracted for	95	–

13 Fixed asset investments

a) Subsidiary undertakings

	Investments £'000	Company loans £'000	Total £'000
Net book value at 1 January 1994	21,402	12,929	34,331
Additions/(deductions)	37,105	(6,093)	31,012
Net book value at 31 December 1994	58,507	6,836	65,343
Cost	58,936	8,150	67,086
Provision	(429)	(1,314)	(1,743)
Net book value	58,507	6,836	65,343

Details of subsidiary undertakings are shown in note 28.

Notes to the Accounts

13 Fixed asset investments continued

b) Others

	Group £'000
Net book value at 1 January 1994	261
Exchange differences	(13)
	248
Write back of provision	94
Disposals	(232)
Net book value at 31 December 1994	110
Cost	219
Provision	(109)
Net book value	110

These investments are in the USA and are unlisted.

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

14 Stocks

	Group	
	1994 £'000	1993 £'000
Raw materials	**12,299**	8,790
Work in progress	**8,536**	7,437
Payments on account	**(2,316)**	(1,944)
Finished stock	**3,626**	4,488
	22,145	18,771

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

15 Debtors

	Group		Company	
	1994 £'000	1993 £'000	1994 £'000	1993 £'000
Debtors: due within one year				
Trade debtors	**25,797**	20,578	**–**	–
Group undertakings	**–**	–	**28,969**	26,002
Group relief	**–**	–	**115**	827
Other debtors	**1,763**	1,010	**42**	30
Deferred taxation – note 19	**149**	–	**–**	–
Prepayments and accrued income	**1,275**	952	**98**	101
Dividends receivable	**–**	–	**3,061**	3,311
	28,984	22,540	**32,285**	30,271

16 Creditors: due within one year

	Group 1994 £'000	Group 1993 £'000	Company 1994 £'000	Company 1993 £'000
Short term borrowing:				
Bank loan and overdrafts	**5,222**	4,097	**–**	4,054
Finance lease obligations	**13**	77	**–**	–
Payments received on account	**6,296**	5,747	**–**	–
Trade creditors	**11,620**	9,049	**–**	–
Group undertakings	**–**	–	**8,918**	7,445
Taxation	**4,205**	2,968	**–**	–
Other taxation and social security	**1,367**	1,541	**79**	70
Other creditors	**5,443**	3,368	**1,007**	643
Accruals and deferred income	**8,206**	4,990	**755**	524
Dividends	**3,814**	3,016	**3,814**	3,016
	40,964	30,756	**14,573**	11,698
	46,186	34,853	**14,573**	15,752

17 Creditors: due after more than one year

	Group 1994 £'000	Group 1993 £'000	Company 1994 £'000	Company 1993 £'000
Medium and long term borrowing:				
Bank loans	**25,614**	14,776	**23,333**	14,459
Deferred pension credit	**–**	141	**–**	141
Group undertakings	**–**	–	**1,909**	2,307
	–	141	**1,909**	2,448
	25,614	14,917	**25,242**	16,907

18 Borrowing Summary

	Group 1994 £'000	Group 1993 £'000	Company 1994 £'000	Company 1993 £'000
Short term	**5,222**	4,097	**–**	4,054
Medium and long term:				
Loans repayable				
as a lump sum	**23,618**	14,516	**23,333**	14,459
by instalments over more than five years	**1,996**	260	**–**	–
	25,614	14,776	**23,333**	14,459
Repayable:				
1995	**–**	102	**–**	–
1996	**408**	47	**–**	–
1997	**161**	49	**–**	–
1998	**9,779**	10,187	**9,615**	10,135
1999	**13,893**	4,377	**13,718**	4,324
2000	**84**	14	**–**	–
2001-2014	**1,289**	–	**–**	–
	25,614	14,776	**23,333**	14,459
	30,836	18,873	**23,333**	18,513
Comprising:				
Secured bank loan	**2,053**	360	**–**	–
Unsecured loan notes	**5,450**	–	**–**	–
Unsecured bank loan	**23,333**	18,513	**23,333**	18,513
	30,836	18,873	**23,333**	18,513

The group's borrowing included $48,054,000 (1993 $21,785,000) and the company's included $36,400,000 (1993 $21,400,000). Apart from these, borrowing in currencies other than sterling were not significant.

Charges on assets of overseas subsidiaries secure bank loans of £2,021,000. Interest is at variable rates.

19 Deferred taxation

	Group £'000	Company £'000
1 January 1994	1,100	654
Exchange adjustments	34	–
Subsidiaries acquired	(331)	–
Profit and loss account	(952)	(654)
31 December 1994 – Note 15 Debtors	(149)	–

	Group			
	Amount provided		Total potential	
	1994 £'000	1993 £'000	**1994 £'000**	1993 £'000
Deferred taxation liability/(asset) derives from:				
Capital allowances	**1,393**	1,510	**1,699**	1,572
Short term timing differences	**(1,542)**	(1,004)	**(1,552)**	(1,084)
Other	**–**	594	**415**	183
	(149)	1,100	**562**	671
	Company			
Capital allowances	**74**	67	**74**	67
Short term timing differences	**(74)**	(83)	**(119)**	(83)
Other	**–**	670	**357**	651
	–	654	**312**	635

Apart from the above the group has deferred tax assets in the USA amounting to £3,633,000 (1993 £4,268,000) which will benefit the group as future profits are generated.

20 Other provisions

	Reorganisation £'000	Warranty £'000	Building maintenance £'000	Other £'000	Total £'000
Group					
1 January 1994	469	1,254	514	677	2,914
Exchange adjustments	(21)	(8)	–	(14)	(43)
Subsidiaries acquired	476	79	–	–	555
Utilised during year	(365)	(313)	(128)	(652)	(1,458)
Provided during year	511	347	92	181	1,131
Released during year	–	(32)	(57)	(192)	(281)
31 December 1994	1,070	1,327	421	–	2,818
Company					
1 January 1994 and 31 December 1994	–	–	30	–	30

Notes to the Accounts

21 Commitments

	Land and buildings £'000	Other £'000
Annual commitments for operating leases expiring:		
In 1995	244	83
In 1996-1999	501	203
Thereafter	549	7
	1,294	293

22 Contingent liabilities

Group companies have given indemnities to National Westminster Bank PLC in respect of guarantees, negotiations and foreign exchange facilities of which £1,335,000 (1993 £1,041,000) was outstanding at 31 December 1994.

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

23 Share capital

	Number of shares 000's	£'000
Ordinary shares of 5p each		
Authorised		10,500
Issued and fully paid		
1 January 1994	37,258	1,863
Issued under share option schemes	392	20
Capitalisation issue	37,626	1,881
Issued for acquisition of subsidiary undertaking	5,000	250
31 December 1994	80,276	4,014

Share options	Granted	Number of shares 000's	Subscription price £	Exercise period
Savings related share option scheme	1993	347	3.0875	1998
Executive share option scheme	1989	112	0.995	1992-1999
	1992	160	1.8925	1995-2002
	1992	245	1.9675	1995-2002
	1993	325	2.9475	1996-2003
	1994	198	3.7925	1997-2004
	1994	93	3.99	1997-2004

24 Directors' interests

The following directors or their families had beneficial interests in the ordinary shares of the company:

	Shareholdings 1994 31 Dec	Shareholdings 1994 1 Jan	Options 1994 31 Dec	Options 1994 1 Jan
D J Kingsbury	1,613,210	831,605	–	–
E Swainson	40,264	20,132	–	–
J W Poulter	403,000	201,500	153,522	31,761
P V Boughton	–	–	103,522	41,761
Sir Keith Bright	2,868	1,434	–	–
M A Fay	339,000	169,500	80,000	20,000
K A V Mackrell	2,000	1,000	–	–
J C Webster	3,000	1,500	60,000	–

Shares and share options held at 31 December 1994 reflect the capitalisation of one ordinary share for each share held on 6 June 1994.

Details of the directors' interests in options to purchase ordinary shares are as follows:

	1994 1 Jan	Capital-isation	Granted	1994 31 Dec	Exercise price p	Exercise-able	Expiry
J W Poulter	31,761	31,761	90,000	60,000	196.75	1995	2002
				60,000	379.25	1997	2004
				30,000	399.00	1997	2004
				SAYE 3,522	308.75	1998	1998
				153,522			
P V Boughton	41,761	41,761	20,000	40,000	189.25	1995	2002
				40,000	196.75	1995	2002
				20,000	399.00	1997	2004
				SAYE 3,522	308.75	1998	1998
				103,522			
M A Fay	20,000	20,000	40,000	40,000	196.75	1995	1997
				40,000	379.25	1997	1997
				80,000			
J C Webster	–	–	60,000	40,000	379.25	1997	2004
				20,000	399.00	1997	2004
				60,000			

Except where shown as SAYE, the above relate to the Executive Share Option Scheme.

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

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

Notes to the Accounts

25 Share premium account and reserves

	Share premium account £'000	Revaluation reserve £'000	Special reserve £'000	Profit and loss account £'000	Total £'000
Group					
1 January 1994	72	4,845	–	36,827	41,744
Exchange differences	–	–	–	167	167
Premium on issues of shares	19,070	–	–	–	19,070
Capitalisation issue	(7)	–	–	(1,874)	(1,881)
Realised on disposal	–	(1,819)	–	1,819	–
Goodwill on acquisition of subsidiaries	–	–	–	(43,495)	(43,495)
Transferred	–	(55)	–	55	–
Retained profit	–	–	–	11,698	11,698
31 December 1994	19,135	2,971	–	5,197	27,303
Company					
1 January 1994	72	2,871	34,083	15,834	52,860
Premium on issue of shares	19,070	–	–	–	19,070
Capitalisation issue	(7)	–	–	(1,874)	(1,881)
Realised on disposal	–	(1,790)	–	1,790	–
Retained profit	–	–	–	2,105	2,105
31 December 1994	19,135	1,081	34,083	17,855	72,154

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
1 January 1994	41,683
Written off to reserves in year	43,495
31 December 1994	85,178

26 Reconciliation of movements in shareholders funds

	1994 £'000	1993 £'000
Profit for the financial year	**17,199**	14,070
Dividends	**(5,501)**	(4,436)
	11,698	9,634
Other recognised gains and losses relating to the year (net)	**167**	1,597
New share capital subscribed	**19,340**	216
Goodwill written off	**(43,495)**	(6,983)
Net (deduction)/addition to shareholders funds	**(12,290)**	4,464
Opening shareholders funds	**43,607**	39,143
Closing shareholders funds	**31,317**	43,607

27 Acquisitions

a) On 13 September 1994 the group acquired the entire share capital of Imaging Technology Inc for £9,116,000 net cash.

	Book value £'000	Other provisions £'000	Fair value to the group £'000
Tangible fixed assets	675	–	675
Current assets:			
Stocks	781	–	781
Debtors	1,662	–	1,662
	3,118	–	3,118
Liabilities:			
Creditors	(1,878)	–	(1,878)
Deferred taxation	115	68	183
Other provisions	(52)	(199)	(251)
Net borrowings	(19)	–	(19)
	1,284	(131)	1,153
Goodwill			7,963
Consideration			9,116

The acquisition increased group sales by £2,924,000 and operating profit by £217,000. Imaging Technology made an operating profit from 1 April 1994, the beginning of its financial year, to the date of acquisition of £42,000 and made an operating profit of £100,000 in the previous year ended 31 March 1994.

Since for the greater part of the periods prior to acquisition Imaging Technology was one division of a larger corporation, the pre-acquisition figures quoted above have required some allocations of costs and have been limited to operating profit.

Notes to the Accounts

27 Acquisitions continued

b) On 13 December 1994 the group acquired the entire share capital of Randomat Inc and its subsidiary Microscan Systems Inc for £37,871,000. Consideration was satisfied by the issue of 5,000,000 shares at £3.74, £13,721,000 in cash, and £5,450,000 in unsecured loan notes.

	Book value £'000	Accounting policy £'000	Other provisions £'000	Fair value to the group £'000
Intangible assets	1,572	(1,572)	–	–
Tangible fixed assets	373	–	–	373
Current assets:				
Stocks	1,173	–	–	1,173
Debtors	3,765	–	–	3,765
Cash	1,515	–	–	1,515
	8,398	(1,572)	–	6,826
Liabilities:				
Creditors	(4,336)	–	–	(4,336)
Deferred taxation	53	–	95	148
Other provisions	(27)	–	(277)	(304)
	4,088	(1,572)	(182)	2,334
Goodwill				35,537
Consideration				37,871

The intangibles written off comprise goodwill and covenants not to compete.
The acquisition increased group sales in 1994 by £437,000 and profit on ordinary activities by £95,000.

The results of Randomat prior to acquisition were:	1 Jan to 13 Dec 1994 £'000	Year to 31 Dec 1993 £'000
Sales turnover	12,246	9,955
Operating profit	3,742	3,080
Profit before taxation	3,834	3,095
Profit after taxation	2,487	2,040

28 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.

Fairey Group plc holds 100% of the share capital of the subsidiaries incorporated in Great Britain. Subsidiaries incorporated overseas are 100% owned through intermediate holding companies.

	Country of incorporation
Fairey Hydraulics Limited	–
Fairey Nuclear Limited	–
Fairey Arlon Limited	–
Fairey Microfiltrex Limited	–
Fairey Industrial Ceramics Limited	–
Doulton Insulators Limited	–
Allied Insulators Limited	–
Hopyard Foundries Limited	–
Red Lion Controls Europe Limited	–
Arcom Control Systems Limited	–
LaserMike Limited	–
Ircon Limited	–
Infrared Engineering Limited	–
Fairey Overseas Developments Limited	–
Fairey Arlon BV	The Netherlands
Ircon GmbH	Germany
Ircon EURL	France
Infrared Engineering GmbH	Germany
Fairey Inc	USA
Fairey Arlon Inc	USA
Fairey Hydraulics Inc	USA
Red Lion Controls Inc	USA
Arcom Control Systems Inc	USA
LaserMike Inc	USA
Ircon Inc	USA
Infrared Engineering Inc	USA
Luxtron Corporation	USA
Imaging Technology Inc	USA
Randomat Inc	USA
Microscan Systems Inc	USA

29 **Reconciliation of operating profit to net cash inflow from operating activities**

	1994 £'000	1993 £'000
Operating profit	**25,277**	21,570
Depreciation charges	**3,697**	3,400
Profit on sale of tangible fixed assets	**(158)**	(1)
(Increase)/decrease in stocks	**(1,690)**	480
Decrease in debtors	**4,324**	1,823
(Decrease)/increase in creditors and provisions	**(2,891)**	2,845
Net cash inflow from operating activities	**28,559**	30,117

30 **Purchase of subsidiary undertakings**

	1994 £'000	1993 £'000
Net assets acquired:		
Tangible fixed assets	**1,048**	348
Stocks	**1,954**	822
Debtors	**5,427**	1,327
Deferred taxation	**331**	78
Taxation	**(501)**	66
Creditors and provisions	**(6,268)**	(1,246)
Net cash	**1,496**	2,458
	3,487	3,853
Goodwill	**43,500**	6,983
Total consideration	**46,987**	10,836
Less satisfied by issue of shares	**(18,700)**	–
Accrued expenses	**(670)**	–
	27,617	10,836
Net cash acquired	**(1,496)**	(2,458)
	26,121	8,378
Cash generated since date of acquisition by subsidiary undertakings acquired		
From operating activities	**2,254**	405
Interest (paid)/received	**(4)**	22
Taxation	**(637)**	–
Investing activities	**(46)**	(17)
	1,567	410

31 **Analysis of changes in financing during the year**

	Share capital (including share premium) £'000	Loans £'000
Balance at 1 January 1994	1,935	18,830
Shares issued for non cash consideration	18,700	–
Cash inflow from financing	640	12,811
Transfer to other reserves	1,874	–
Foreign exchange adjustments	–	(846)
Balance at 31 December 1994	23,149	30,795

32 **Analysis of changes in cash and cash equivalents during the year**

	1994 £'000	1993 £'000
Balance at 1 January	**29,071**	16,437
Net cash inflow	**1,875**	12,509
Foreign exchange adjustments	**(1,530)**	125
Balance at 31 December	**29,416**	29,071
Analysis of the balances of cash and cash equivalents as shown in the balance sheet		
Cash at bank and in hand	**29,457**	29,114
Bank overdrafts	**(41)**	(43)
	29,416	29,071

Five Year Summary

£'million	1990	1991	1992	1993	1994
Sales					
Electronics	12.1	18.2	31.9	57.2	**72.0**
Electrical Power	19.0	21.3	24.2	23.6	**20.8**
Aerospace and Defence	29.1	24.2	22.4	22.8	**23.6**
Filtration and Specialised Ceramics	25.8	25.1	25.8	26.6	**28.7**
	86.0	88.8	104.3	130.2	**145.1**
Operating profit	13.0	13.2	15.8	21.6	**25.3**
Exceptional item	-	(4.3)	-	-	**-**
Profit before taxation	14.6	10.2	17.2	21.8	**25.8**
Shareholders funds	42.7	40.2	39.1	43.6	**31.3**
Net cash/(debt)	12.1	12.7	2.1	10.2	**(1.4)**
Operating profit % sales	15.1%	14.8%	15.2%	16.6%	**17.5%**
Operating profit % net assets	35.3%	41.1%	37.6%	53.7%	**62.3%**
Earnings per ordinary share	13.8p	8.7p	16.7p	18.9p	**22.8p**
Dividends per ordinary share	4.125p	4.5p	5.1p	5.9p	**7.0p**
Share price high	127p	164p	250p	359p	**410p**
low	98p	86p	151p	250p	**334p**

The exceptional item in 1991 is the net cost of relocation from and the sale of the Heston site.

Earnings per ordinary share, dividends per ordinary share and the share prices pre 1994 have been restated to reflect the capitalisation issue on 6 June 1994.

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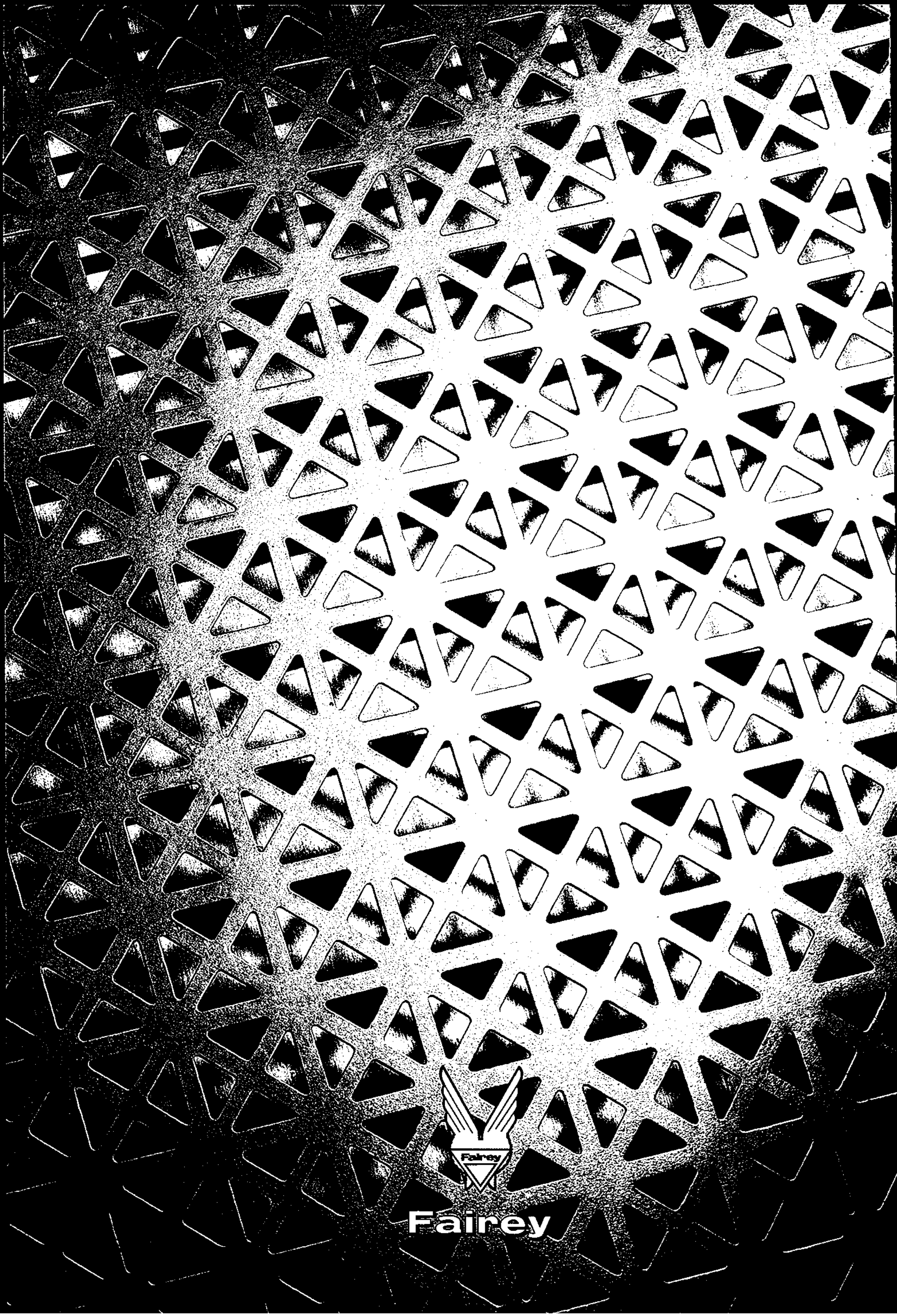
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