elektron

ELEKTRON PLC ANNUAL REPORT 2002

Contents

Elektron products are used in the delivery and conditioning of electrical and electromagnetic power.

Highlights

Elektron is now firmly positioned in the global market for delivery and conditioning of electrical and electromagnetic power

Turnover experienced a 4% decline to £16.9 million (2001: £17.5 million)

Operating losses before exceptional items and goodwill amortisation of £0.7 million (2001: Profits of £1.2 million)

Exceptional expenses totalling £1.5 million

Reduced indebtedness achieved following the year end

Elektron continued to focus on the North American market

Good continued performance at Milmega with increased turnover of £3.5 million (£1.7 million for 7 months of previous year following its acquisition in June 2000)

Powertron, acquired in August 2001 is progressing well, increasing Elektron's exposure to the rail market in the UK and abroad, a growing sector. Powertron turnover of £1.6m, profits in line with expectations

Continued new product development for organic growth

Chairman's Statement

In August 2001 the Company's name was changed to Elektron Plc, reflecting the change from concentrating on manufacturing electromechanical components. Elektron is now firmly positioned in the global market for delivery and conditioning of electrical and electromagnetic power.

Results

In the year to 31 January 2002 the Group experienced a 4% fall in total turnover to £16,911,000 and a 14% fall in turnover on continuing operations. Shareholders will recall that the Board has been attempting to improve productivity and limit the Group's exposure to the electromechanical components sector. The 24% fall in annual turnover at Bulgin Components is a most unwelcome vindication of that policy and is in line with the sector as a whole. However, in a market of staple products such an extreme downturn lasting for 12 months was inevitably going to end in restocking, which began in November 2001.

Recent official statistics show that UK manufacturing has been in a depressed state for much of the last 12 months. Our UK acquisitions performed well but Bulgin Power Source was affected by the downturn.

Gross margins came under pressure and were down from 36.6% to 34.3%. Operating expenses increased from £5,358,000 to £6,828,000, the extra cost largely relating to a whole year of Milmega's ownership, the inclusion of the acquisitions in the year and increased goodwill amortisation.

Few companies can prevent such sharp falls in turnover from causing operating losses. The Group incurred an operating loss of £745,000 (2001: £1,155,000 operating profit) and to these were added a number of substantial exceptional items and the amortisation arising from our aggressive policy of writing off goodwill over only 5 years. The resulting loss on ordinary activities after taxation of £2,127,000 (2001: £610,000 profit) represents a setback for the Group and actions have been taken to correct performance in the current year.

Gross gearing increased substantially from 54% to 137%, mainly as a consequence of the losses and the purchase of Powertron. However, in such uncertain economic conditions it is appropriate to seek to reduce indebtedness, which has been achieved by the sale and leaseback of the freehold properties completed post year-end. Had these completed by 31 January 2002 gearing would have been 85% gross and 36% net.

Exceptional items

These are of sufficient magnitude as to warrant specific comments. During the year negotiations were pursued to an advanced stage for the Group to acquire an electromechanical components business in the UK, merge it with Bulgin Components and implement a very substantial cost saving programme. Unfortunately, the sharp deterioration in the sector made it impossible to agree an appropriate price with the vendor. Aborted acquisition costs of £211,000 have been fully written off in the year.

Bulgin Components, however, did press on with its own restructuring programme giving rise in the year under review to an exceptional charge of £347,000 but generating from this year onwards annual savings of £800,000. Such figures constitute major productivity gains and mean that the break-even level of turnover is now much lower.

A discordant note in the ongoing productivity programme at Bulgin Components has been the planned new IT system. We have been obliged to abandon implementation and have made full provision against the costs incurred of £343,000 of what should have been productive capital investment. We are currently taking legal action against the supplier.

During the year under review we were able to complete the restructuring and consolidation of the Group's many pension schemes, an exercise that has been underway since 1998. I am pleased to say

Chairman's Statement

Elektron no longer has the long shadow of large and ever increasing pension liabilities of the sort that I fear may threaten many UK companies. However, this has meant that an exceptional charge of £600,000 has been taken.

On the positive side, the sale and leaseback of our property at Lincoln resulted in an exceptional gain of £122,000 and a £700,000 repayment of borrowings in February 2002. A similar exercise in respect of our property at Barking has created a further exceptional gain, albeit delayed until the current year, and made possible the complete repayment of the Group's commercial mortgage facility.

Loss per share and dividends

Loss per share before goodwill amortisation was 3.87p (2001: 1.57p earnings per share) and the loss per share after goodwill amortisation was 4.49p (2001: 1.35p earnings per share). In accordance with its declared policy the Board does not propose that a dividend is paid in respect of the year. The Board intends to resume the payment of dividends as soon as earnings permit.

Share placing

In November 2001 6.8 million new shares were issued at 9p each, mainly to the first new institutional investors for many years. The proceeds assisted the working capital requirements of the Group. The Board feels that it is entirely justifiable to utilise our listing on AIM to raise new equity funding for this purpose and will be seeking further appropriate authorities from shareholders.

Acquisitions

Shareholders will already be aware of the acquisition in August 2001 of Powertron Limited for a total consideration before expenses of £1,128,000 and its profits since then have been in line with expectations. Early in the current year the first stage of integration with Bulgin Power Source has been completed and this will bring about recurring annual savings of approximately £400,000.

AFI LLC, which was acquired in February 2001, has incurred an operating loss as a result of the depressed state of the North American market. An improved performance is anticipated in the current year.

Future strategy and outlook

The Board continues to look for new acquisition targets, especially in selected areas of the power electronics sector upon which we continue to concentrate whilst ensuring that the traditional components business still provides an adequate return in the future. Of our existing businesses Bulgin Components has so far had the best start to the year with the others experiencing slow order bookings and some rescheduling of orders into the second half.

While the telecommunications sector remains subdued we are concentrating on the wireless communications, transport, utilities, defence and medical sectors and have a healthy rate of new products coming on stream.

The very unfavourable market conditions that worsened during the year under review have delayed the Group's plans for expansion and challenged the company's management to effect large scale reorganisation in response. However, the restructuring that has taken place provides a base for a return to profitability in the current year, but with the economic outlook remaining uncertain we will continue to ensure that our overhead structure is matched to revenue streams. When the recovery comes we will be very well placed to gain from it.

AS Winter
Chairman

25 June 2002

Chief Executive's Review

Bulgin Components designs and manufactures connectors, switches and other electromechanical products for industrial markets. Products are sold through distribution channels worldwide and directly to Original Equipment Manufacturers.

Demand fell sharply and remained very weak throughout the year under review. Industry statistics pointed to the worst market conditions for at least 10 years. Distributors found themselves faced with slowing demand while holding stocks of Bulgin product. Turnover declined by 24% to £8,292,000.

In response to the market downturn, the company's workforce was reduced by 24% through redundancy and productivity programmes implemented in April and December 2001. These will result in future annualised savings of approximately £800,000 at a cost of £347,000.

Despite the poor trading environment, Bulgin Components pressed ahead with new product developments and expanded its range of connectors, fuseholders and switches. Each year new products contribute 5% - 6% of turnover.

A £278,000 investment in automated production was commissioned in May 2001 and has significantly increased capacity and flexibility in the IEC connector section of the Barking factory.

The company continued to focus on sales efforts in the North American market, which is 40% of the world market for electromechanical components.

There are indications of recovery in the market with current year turnover up on the same period last year. While the market will not recover all the ground lost in the year under review, because Bulgin Components is leaner, more efficient and continues to release attractive new products, a robust recovery in financial performance is expected.

BP Purchasing sources electronic and electromechanical components on behalf of client companies (including other Elektron group companies). Turnover fell by 59% to £748,000 as the market became flooded with excess stocks of components due to the worldwide downturn in the manufacturing sector.

In the early months of the current year there are signs that the market is recovering with turnover ahead of the comparative period in the year under review.

Bulgin Power Source designs and manufactures power supplies and power management products for applications in information technology, security and access, automation, process control and communications.

Turnover fell by 17% to £2,609,000 due to slippage in customer delivery schedules and weaker demand generally. The power supply market had been growing steadily for some years but suffered a steep decline in the second half of the year under review.

During the year under review the Oracle series product range was upgraded and relaunched. Bulgin Power Source has also continued with other new product developments to improve its competitiveness. This move away from custom manufacture to product portfolio development means that research and development costs are written off as incurred rather than allocated over future accounting periods.

New order bookings have been slow in the early months of the current year although that is as much a reflection of the negotiation process as it is a comment on the current state of the market.

Powertron (acquired in August 2001) designs and manufactures power supplies for the rail and other industries. This acquisition increases

Chief Executive's Review

our exposure to the rail market both in the UK and abroad. It is anticipated that large scale rolling stock and trackside investment programmes will provide a growing revenue stream in future years.

In approximately six months as an Elektron company, Powertron turnover was £1,569,000 and profits were in line with expectations. During the first few months of the current year, Powertron activities have been integrated with those of Bulgin Power Source. All Powertron manufacturing activity has been transferred to the Bulgin Power Source facility in Lincoln. Powertron marketing and technical staff have been relocated to a newly leased facility at Knapwell, near Cambridge and the former Powertron site in Cambridge has been vacated. David Brannock, who joined Bulgin Power Source in March 2001 from Intelek Plc, has assumed overall responsibility for the consolidated businesses.

While the market remains challenging the combined and enlarged power management division is negotiating a number of important contracts with the expanded customer base.

Milmega designs and manufactures high power, solid state microwave amplifiers for use in electronic pollution test systems, medical equipment, wireless communications, defence systems and scientific research.

Due to the strong order book at the beginning of the year under review, turnover was £3,510,000 compared with £1,660,000 for 7 months of the previous year following acquisition in June 2000. Milmega produced another excellent profit performance.

New orders weakened in the latter part of calendar 2001 as the telecoms sector, which accounted for approximately 35% of turnover, slid into turmoil.

Milmega has put substantial effort and resources into redesign of the product range for more efficient manufacture and has introduced several new products which offer customers unrivalled microwave power efficiency and density.

Milmega's growth prospects remain significantly (but not exclusively) tied to the wireless communications sector. The company has completed development of amplifier products which will be vital tools in testing next generation networks and driving base station performance. Presence and progress in this market remains a strategic goal for the Elektron group.

AFI (61% acquired in February 2001, since increased to 75%) markets Elektron and third party high frequency products to the North American industrial and scientific markets.

Turnover in the year under review was £183,000 following a slower than expected start as part of the Elektron group and the depressed North American market in the months following the terrorist attacks in America. The market is picking up and we are hopeful of a better performance in the current year.

Summary and strategy

In the light of difficult market conditions the company's executive management reviewed product and marketing strategy in October 2001 and again in January 2002. The conclusion reached was that strategic goals and objectives remained valid and would be pursued with vigour.

Elektron possesses a wealth of market knowledge and design know-how. Despite the setback of the year under review these resources will continue to be applied to the specific business sectors where growth is anticipated as markets recover.

B Emerson
Group Chief Executive

25 June 2002

Financial Review

Results

Group operating loss before exceptional items and goodwill amortisation was £745,000 *(2001: £1,155,000 profit)*. Exceptional expenses were £1,501,000 *(2001: Nil)* and goodwill amortisation was £287,000 *(2001: £100,000)*.

The tax credit of £525,000 *(2001: £295,000 charge)* reflected an effective tax rate of 19.8% *(2001: 32.6%)*. In February 2002 the Group submitted early loss relief claims to extinguish the taxation payable relating to the year ended 31 January 2001 of £295,000.

Information technology

In November 2000 Bulgin Components contracted for the purchase of a new computer system to replace the system originally purchased in 1986. The Company appointed an independent IT expert to assist in the software selection and several software suppliers responded to an invitation to tender. Implementation of the system selected proved problematic and it became evident that the supplier had mis-represented many aspects of their system to the extent that full implementation would have put the Company's operations at serious risk. The contract has therefore been terminated and legal action has commenced for recovery of the amount paid. Consequently, we have made full provision against the costs incurred of £343,000.

Pension schemes

Bulgin Components, in common with many businesses of long standing, operated a defined benefit pension scheme for its employees. As disclosed in the annual report last year it was anticipated that the MFR deficit would increase as a result of falling yields and rising mortality rates. The actuarial valuation as of 2 June 2001 revealed an MFR deficit of £958,000. The Company closely monitored the deficit and subsequently commenced winding up of the Scheme as of 21 September 2001 when the MFR deficit was £667,000. Consequently, full provision has been made at 31 January 2002 for the deficit as of that date and £600,000 has been expensed through the profit and loss account as an exceptional item. It is anticipated that the liability will be extinguished over the next two years.

Since the balance sheet date, the remaining defined benefit scheme operated via Cirkit Holdings Plc has also been closed and is now in winding up. The MFR deficit at 1 April 2002 has been calculated by the Actuary to be £65,000 and this is fully provided in the accounts.

Acquisitions

Elektron completed the purchase of Powertron Limited for a total consideration before expenses of £1,128,000 on 16 August 2001. The consideration comprised £503,000 in cash together with bank guaranteed loan notes of £625,000 supported by cash deposits. The funding came from additional property related loans of £700,000, (which have now been repaid from the proceeds of the property disposals) and new facilities provided by Fortis Bank up to a maximum of £800,000.

During the year, the Company increased its shareholding in AFI LLC from 61% to 75% by the issue of new equity in AFI in order to achieve compliance with the rules regarding Venture Capital Trusts.

Subsequently, in accordance with the authority granted to the Board at the last AGM, the Company was able to place 6,777,777 ordinary shares at 9 pence per share raising £610,000 gross.

Property disposals

Given deteriorating economic conditions and the effect on the financial results in the second half of the year under review, the Board decided to reduce borrowings as far as possible. Consequently, purchasers for the freehold properties at the operations based in Lincoln and Barking were sought on a sale and leaseback basis.

The Lincoln freehold was sold for £980,000 gross with exchange on 31 January 2002 and completion shortly thereafter and has been accounted for in the year under review. The Barking property was sold for £1,730,000 gross with exchange on 25 April 2002 and completion on 24 May 2002. These two disposals, after paying off related loans, realised £945,000.

Balance Sheet and cash flow

Equity shareholders' funds decreased to £4,177,000 *(2001: £5,694,000)* after taking account of the share issue and after deducting the retained losses for the year of £2,092,000.

Cash decreased in the year by £662,000 (2001: £1,579,000). The impact of the operating losses on cash flow was reduced by tight control of working capital, net capital expenditure running below depreciation and amortisation and inward investment following the equity placing.

The Company's capital expenditure programme was cut back as the recession began to impact. In total, £1,063,000 gross was paid during the year, £516,000 net of finance. The majority of the investment took place at Bulgin Components and at Milmega where the gross cost was £674,000 and £242,000 respectively and was mainly for tooling, automated machinery and test equipment.

Funding facilities

All long-term borrowings have been repaid following the sale and leaseback of the properties.

Borrowings at the year-end were £5,769,000 *(2001: £3,078,000)* giving a gross gearing of 137% *(2001: 54%)* and gearing net of cash of 100% *(2001: 38%)*. Had the sale and leaseback of the properties been completed by 31 January 2002, the resultant borrowings would have been reduced to £3,619,000 and gearing to 85% gross and 36% net of cash. The resulting net current assets would have been £746,000.

The Group's funding facilities are now principally related to working capital requirements and are in the form of invoice discounting and overdraft facilities supported by fixed charges over certain book debts. Currently, £1,745,000 of funds are available of which £1,254,000 is utilised.

Amounts outstanding at 31 January 2002 on finance leases and hire purchase contracts totalled £1,037,000 of which £391,000 is repayable within one year.

C M Leigh
Group Finance Director
25 June 2002

Directors and Professional Advisers

Directors	**Alastair S. Winter,** M.A., C.P.F.A., M.I.Mgmt., *Non-Executive Chairman* aged 54, is chairman of Global Treasury Services (Holdings) Limited, which provides outsourced international treasury management services. Previously he was a Vice President of investment bankers Bear Stearns and before that of Chase Manhattan Bank. **Richard A.R. Bulgin,** *Deputy Chairman* aged 43, joined the company in September 1977. He was managing director of Cirkit Holdings PLC from 1989 until taking over responsibility for sales and marketing at Bulgin Components PLC in 1998. **Brian Emerson,** B.A. (Econ)., F.C.A., *Group Chief Executive* aged 55, is an experienced chief executive of technology-driven international businesses. Previously chief executive of Real Time Control Plc and managing director, Europe of Thermo Voltek Corp., he joined the Group in October 1998. **Christopher M. Leigh,** B.A. (Hons)., F.C.A., *Group Finance Director* aged 42, is a Chartered Accountant with 18 years post qualification experience. He trained with a large city practice and spent time in industry carrying out projects in the UK and abroad before joining Elektron in 1990. **J. Anthony D. Skailes,** F.C.A., M.S.I., *Non-Executive Director* aged 64, was a stockbroker at Vivian Gray from 1966 where he was Senior Partner from 1982 until it was acquired in 1987 by Gerrard & National PLC. He continued as a director of Gerrard Vivian Gray Limited until his retirement in 1995 and remains a consultant.
Company Secretary	**Christopher M. Leigh,** B.A. (Hons)., F.C.A.
Registered Office	First Floor Hurst House 131/133 New London Road Chelmsford Essex CM2 0QN
Registered in England	No. 448274
Registrars	Capita IRG plc Bourne House 34 Beckenham Road Kent BR3 4TU
Nominated Adviser & Nominated Broker	Teather & Greenwood Limited Beaufort House 15 St Botolph Street London EC3A 7QR
Auditors	Bright Grahame Murray Chartered Accountants and Registered Auditors 124/130 Seymour Place London W1H 1BG
Bankers	National Westminster Bank Plc P.O. Box 3787, 12 The Rows Harlow Essex CM20 1BS Fortis Bank S.A./N.V. Camomile Court 23 Camomile Street London EC3A 7PP
Solicitors	Wollastons Brierly Place New London Road Chelmsford Essex CM2 0AP

Remuneration Report

Introduction

The rules relating to securities traded on the Alternative Investment Market ("AIM") do not require AIM companies to report in accordance with the Combined Code appended to the London Stock Exchange Listing Rules. However, the Board believes in the principles of good corporate governance and accordingly presents its report on the remuneration of the Directors to the shareholders of the Company.

Policy on Executive Directors' remuneration

(i) The responsibilities for making recommendations on directors' remuneration is vested in the Remuneration Committee comprising the two Non-Executive Directors.

(ii) It is the aim of the Committee to ensure that executive directors are rewarded competitively taking into account their experience, skills, development and performance. In so doing the Committee takes account of the relatively small size of the Group, the consequential associated risks to providing a stable employment environment and the responsibilities attaching to the office of director in a public quoted company.

Analysis of Executive Directors' remuneration

(i) Full disclosure of Directors' emoluments, including pension contributions, bonuses and benefits in kind are detailed in Note 9 to the financial statements. Directors' share options are detailed on page 10 in the Report of the Directors.

(ii) The basic salaries of the three Executive Directors are set by reference to an annual survey of main board remuneration which analyses salaries for industrial companies the size of Elektron PLC. The positioning of individuals' pay within the reported bands is determined by reference to the Committee's assessment of the individual's experience and contribution to the Group's affairs.

(iii) Bonuses are payable by reference to the provisions contained in the individual contracts of employment and by reference to individual performance-related targets as determined by the Remuneration Committee.

(iv) Benefits are determined by reference to individual Directors' contracts of employment and are considered by the Committee in conjunction with the whole package. Benefits include the use of company cars, mobile telephone and medical insurance.

(v) Pension contributions are to defined contribution schemes. It is the policy of the Committee to recommend the provision of defined contribution schemes. During the year Messrs R.A.R. Bulgin and C.M. Leigh agreed, at no cost, to amend their service contracts to remove the target benefit provisions included within their money purchase pension schemes. This eliminates a significant potential liability of the Company.

(vi) Mr R.A.R. Bulgin and Mr C.M. Leigh each have service contracts which are terminable upon three years notice from the Company and three years notice from the Executives. Mr B. Emerson has a service contract terminable upon one years notice by the Company and six months from the Executive.

Non-Executive Directors' remuneration

The remuneration of the Non-Executive Directors is determined by the Board as a whole after considering comparable market data and reflects the amount of time given and the contribution made to the Group's affairs. They do not receive any bonuses nor do they participate in the share option scheme.

On behalf of the Board

J.A.D. Skailes
Chairman, Remuneration Committee

25 June 2002

Report of the Directors

The Directors present their Annual Report on the affairs of the Group together with the audited financial statements for the year ended 31 January 2002.

Activity

The principal activity of the Group is the design and manufacture of electronic and electromechanical components and power electronics products. The Group also operates a business which trades electronic components. The principal operating subsidiaries are listed in Note 15.

Business review and future developments

A review of the business for the year and comments on future developments are contained in the Chairman's Statement, the Chief Executive's Review and the Financial Review on pages 2 to 6.

Results and dividends

The loss for the year after taxation was £2,127,000 *(2001: profit £610,000)*. No interim dividend has been paid *(2001: £113,000)* and the Directors are not recommending the payment of a final dividend *(2001: £113,000)*. The deficit of £2,092,000 is to be met from reserves *(2001: £384,000 transferred to reserves)*.

Research and development

The Board considers that research and development continues to play a vital role in maintaining and increasing the Group's competitive position in the market. Details are set out in Notes 5 and 13 to the financial statements.

Directors and their interests

The Directors at 31 January 2002 and those who served during the year are named below, together with their interests in the Company's Ordinary shares of 5p each.

	At 31 January 2002	At 1 February 2001
Beneficial interests		
A.S. Winter	**125,000**	125,000
R.A.R. Bulgin	**2,289,419**	2,289,419
B. Emerson	**240,222**	18,000
C.M. Leigh	**44,000**	44,000
J.A.D. Skailes	**580,291**	580,291
Non-beneficial interests		
R.A.R. Bulgin and C.M. Leigh	**364,500**	364,500
J.A.D. Skailes	**850,000**	850,000
J.A.D. Skailes as a trustee of A.F. Bulgin Settlements	**6,303,943**	6,303,943

No Director had any interest in the shares of the Company's subsidiaries at any time during the year.

No Director had a material interest in any contract of significance with the Company or its subsidiary undertakings during the year other than as disclosed in Note 33 to the financial statements.

Report of the Directors

Executive share option schemes

(i) At 1 February 2001 and 31 January 2002 C.M. Leigh was the only Director who held options under the Bulgin PLC executive share option scheme approved by shareholders in 1992 to subscribe for Ordinary shares of 5p each pursuant to the rules of the scheme. At 1 February 2001 and 31 January 2002 he had options to acquire 40,000 Ordinary shares of 5p each, exercisable at 9p per share.

The options are exercisable until 28 June 2003.

No options were granted or exercised during the year.

The middle market price of the Ordinary shares at 31 January 2002 was 9p per share and the range during the year was 8.25p to 22.25p per share.

(ii) On 17 January 2001 the shareholders, in General Meeting, approved the adoption of a new Executive Share Option Scheme including appropriately challenging performance conditions.

On 26 February 2001, Messrs B. Emerson, C.M. Leigh and R.A.R. Bulgin were granted options to purchase 1,000,000, 500,000 and 200,000 Ordinary shares of 5p each respectively, at 20p per share.

These options are exercisable after three years but before ten years from the date of granting.

Share capital

Details of share capital are given in Note 22 to the financial statements.

Charitable and political donations

The Group made no charitable or political contributions during the year.

Post balance sheet events

Details of the post balance sheet events relating to the sale and leaseback of the Company's freehold property and the winding up of the remaining defined benefit pension scheme are given in Note 34 to the financial statements.

Supplier payment policy

The Group applies a policy of agreeing the terms of payment as part of the commercial arrangement negotiated with suppliers. It is Group policy that payments to suppliers are made in accordance with those terms, provided that suppliers also comply with all relevant terms and conditions. The average creditor days in the year for the Group were 58 and for the Company were nil.

Employees

All employees receive equal opportunities for training and career development. The sole criterion for selection and promotion is the individual's suitability for the position of employment offered. The Group supports the employment of disabled persons wherever appropriate. Each individual operating Company within the Group operates its own communication and consultative programmes relevant to its own particular workforce.

Introduction of the Euro

The Group undertakes transactions in a number of currencies. The Board views the Euro as another currency in which it is required to trade and as such will take the usual steps to minimise its exposure to the risk of currency fluctuations.

Report of the Directors

Corporate governance

Whilst there is no requirement for AIM companies to comply with the Combined Code and the Turnbull Committee's guidance on Internal Control, the Company is committed to high standards of corporate governance throughout the Group. It therefore intends to comply over time with the main provisions in-so-far as they are appropriate for smaller companies. At present the main areas of compliance are as follows:

Directors

(i) *The Board*

The Board consists of a Non-Executive Chairman, one Non-Executive Director and three Executive Directors and their biographies appear on page 7. These indicate the high level and range of business experience which, the Board believes, enables it to provide clear and effective leadership of the Company.

The Board meets at least 10 times each year and more frequently where business needs require. The Board has a schedule of matters reserved to it for decision and the requirement for Board approval on those matters is known to senior management within the Group. This includes subjects such as material capital and revenue commitments, business acquisitions and disposals and appointments to the Boards of subsidiary companies.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. In addition, each Director has access to the services of the Company Secretary. The Secretary is charged by the Board with ensuring that all relevant regulations are complied with.

(ii) *Chairman and Chief Executive*

The differing roles of Chairman and Chief Executive are acknowledged by the Board. The Chairman is required to conduct Board meetings and meetings of shareholders and to ensure that all Directors are properly briefed in order to take full and constructive part in Board discussions. The Chief Executive is required to develop and lead business strategies and processes to enable the Group's business to meet the requirements of its shareholders.

(iii) *Supply of Information*

To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information.

The agenda for regular Board Meetings includes a Chief Executive's report and a Finance Director's report together with documents regarding specific matters.

(iv) *Appointments to the Board*

The Board does not consider it appropriate to appoint a nomination committee given the Board is small in number. It is the Board's policy to encourage each member to meet individually and collectively with prospective Directors.

(v) *Re-appointment*

Any Director appointed during the year is required, in accordance with the Company's articles of association, to retire and seek appointment by shareholders at the next annual general meeting. The articles also require that one third of the Directors (excluding the Group Chief Executive) retire by rotation each year and seek re-appointment at the annual general meeting. The Directors required to retire will be those who have been longest in office since their last appointment or re-appointment.

Report of the Directors

Directors' remuneration

(i) *Executive remuneration*

Full details of Directors' remuneration are contained in Note 9 of the financial statements. A statement of the Company's remuneration policy is set out in the Remuneration Report on page 8. The members of the Remuneration Committee and the principal terms of reference are also included in that report. The Chief Executive attends meetings of the Committee to discuss the performance of the other Executive Directors and make proposals as necessary, but is not present when his own position is being discussed.

(ii) *Non-Executive remuneration*

The remuneration of Non-Executive Directors is determined by the Board as a whole after considering comparable market data and reflects the amount of time given and the contribution made to the Group's affairs.

Communication with shareholders

(i) *Dialogue*

The Company places a great deal of importance on constructive communication with its shareholders.

(ii) *Use of the AGM*

All shareholders have the opportunity to put questions at the Company's Annual General Meeting. In view of the low number of attendees at general meetings the Board does not propose making formal business presentations but instead will allow time for informal discussion after the conclusion of formal proceedings.

Accountability and audit

(i) *Internal financial control*

The Board of Directors has overall responsibility for the Group's system of internal financial control, which is designed to provide reasonable, but not absolute, assurance against material mis-statement or loss.

The key procedures that are in place are:

- the retention of an independent firm of internal auditors to review internal controls of existing operations and, as part of the due diligence process, of potential acquisitions;
- a comprehensive budgeting system including reviews at operating unit level and formal reviews and approvals of the annual budget by the Directors;
- monitoring of actual results and comparison to budget for each operating unit on a monthly basis;
- a clearly defined organisation structure within which individual responsibilities are identified and can be monitored;
- defined procedures for the appraisal, review and authorisation of capital and major revenue and development expenditure;
- the Audit Committee meets with the external auditors at least twice a year.

(ii) *Financial reporting*

It is the Board's responsibility to always present a balanced assessment of the Company's position and prospects. The respective responsibilities of the Directors and the auditors in connection with these financial statements are explained on pages 14 and 15. The Directors' report on the business as a going concern is on page 13 in the Report of the Directors.

Report of the Directors

(iii) *Audit Committee and auditors*

The Audit Committee comprises the two Non-executive Directors and is chaired by Mr J.A.D. Skailes. The Executive Directors may be invited to attend meetings.

The external auditors are invited to attend meetings where appropriate and the Committee has access to their advice without the presence of the Executive Directors. The Committee has authority to examine any matters relating to the financial affairs of the Group and to the Group's external audit. This includes the appointment of and agreement of fees of the external auditors.

The Committee's functions include the monitoring of:

- financial controls throughout the Group to ensure that satisfactory standards are maintained
- financial reporting to ensure compliance with regulatory requirements.

The reports compiled by the independent internal auditors are reviewed by the Committee. The work carried out to date has found the controls to be generally satisfactory. Recommendations for improvement have either been implemented or are in the course of implementation.

Going concern

After making due enquiries, the Directors formed a judgement when approving the financial statements that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Auditors

Bright Grahame Murray have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

A separate notice of the Annual General Meeting, which is to be held on Wednesday 2 October 2002, will be sent to shareholders in accordance with the prescribed notice period.

By order and on behalf of the Board

C. M. Leigh
Company Secretary

25 June 2002

Hurst House
131-133 New London Road
Chelmsford
Essex CM2 0QN

Statement of 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 the affairs of the Company and the Group as at the end of the financial year 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 departure disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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

Independent Auditors' Report

To the Members of Elektron PLC

We have audited the financial statements of Elektron PLC for the year ended 31 January 2002 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Directors, the Chairman's Statement, the Chief Executive's Review, the Financial Review and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, 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 of the Group as at 31 January 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Bright Grahame Murray

Chartered Accountants and Registered Auditors

124/130 Seymour Place
London W1H 1BG

25 June 2002

Group Profit and Loss Account

Year ended 31 January 2002

	Notes	2002 £'000	2001 £'000
Turnover – continuing operations		**15,159**	17,536
– acquisitions		**1,752**	–
	3	**16,911**	17,536
Cost of sales	4	**(11,115)**	(11,123)
Gross profit		**5,796**	6,413
Net operating expenses – normal	4	**(6,828)**	(5,358)
– exceptional	4	**(1,501)**	–
Operating (loss)/profit – continuing operations		**(2,381)**	1,055
– acquisitions		**(152)**	–
Operating (loss)/profit	5	**(2,533)**	1,055
Profit on disposal of freehold property		**122**	–
(Loss)/profit on ordinary activities before interest		**(2,411)**	1,055
Net interest payable	6	**(241)**	(150)
(Loss)/profit on ordinary activities before taxation		**(2,652)**	905
Taxation on (loss)/profit on ordinary activities	10	**525**	(295)
(Loss)/profit on ordinary activities after taxation		**(2,127)**	610
Minority interests – equity		**35**	–
(Loss)/profit attributable to shareholders	24	**(2,092)**	610
Dividends	11	**–**	(226)
Transfer (from)/to reserves	23	**(2,092)**	384
(Loss)/earnings per ordinary share – basic	12	**(4.49p)**	1.35p
– diluted	12	**(4.48p)**	1.35p
(Loss)/earnings per ordinary share before goodwill amortisation – basic	12	**(3.87p)**	1.57p
– diluted	12	**(3.87p)**	1.57p

Statement of Total Recognised Gains and Losses

Year ended 31 January 2002

	2002 £'000	2001 £'000
(Loss)/profit attributable to shareholders	**(2,092)**	610
Unrealised surplus on revaluation of properties	**-**	787
Total recognised gains and losses for the financial year	**(2,092)**	1,397

Note of Historical Cost Profits and Losses

Year ended 31 January 2002

	2002 £'000	2001 £'000
Reported (loss)/profit on ordinary activities before taxation	**(2,652)**	905
Realisation of property revaluations of previous years	**(84)**	–
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**5**	6
Historical cost (loss)/profit on ordinary activities before taxation	**(2,731)**	911
Taxation on (loss)/profit on ordinary activities	**525**	(295)
Minority interests	**35**	–
Dividends	**-**	(226)
Historical cost (loss)/profit for the year after taxation and dividends	**(2,171)**	390

Analysis of Operating (Loss)/Profit

Year ended 31 January 2002

	2002 £'000	2001 £'000
Operating (loss)/profit – before exceptional items and goodwill amortisation	**(745)**	1,155
– exceptional items	**(1,501)**	-
– goodwill amortisation on continuing operations	**(171)**	(100)
– goodwill amortisation on acquisitions	**(116)**	-
	(2,533)	1,055

Balance Sheets

As at 31 January 2002

		Group		Company	
		2002	2001	**2002**	2001
	Notes	**£'000**	£'000	**£'000**	£'000
Fixed assets					
Intangible assets	13	**1,624**	950	**–**	–
Tangible assets	14	**4,433**	5,134	**1,728**	2,511
Investment in subsidiary undertakings	15	**–**	–	**5,885**	4,349
		6,057	6,084	**7,613**	6,860
Current assets					
Stocks	16	**2,335**	2,237	**–**	–
Debtors	17	**3,951**	3,553	**1,285**	205
Cash at bank and in hand	30	**1,535**	941	**1,120**	113
		7,821	6,731	**2,405**	318
Creditors: Amounts falling due within one year	18	**(7,873)**	(5,325)	**(2,288)**	(752)
Net current (liabilities)/assets		**(52)**	1,406	**117**	(434)
Total assets less current liabilities		**6,005**	7,490	**7,730**	6,426
Creditors: Amounts falling due after more than one year	19	**(1,792)**	(1,589)	**(1,438)**	(1,015)
Provisions for liabilities and charges	21	**–**	(207)	**(106)**	(119)
Net assets		**4,213**	5,694	**6,186**	5,292
Capital and reserves					
Called up share capital	22	**2,602**	2,263	**2,602**	2,263
Share premium	23	**270**	36	**270**	36
Revaluation reserve	23	**985**	906	**985**	906
Profit and loss account	23	**320**	2,489	**2,329**	2,087
Shareholders' funds – Equity	24	**4,177**	5,694	**6,186**	5,292
Minority interests – equity		**36**	–	**–**	–
Capital employed		**4,213**	5,694	**6,186**	5,292

Approved by the Board and signed on its behalf by:

B. Emerson
C.M. Leigh } *Directors*

25 June 2002

Group Cash Flow Statement

Year ended 31 January 2002

	Notes	2002 £'000	2001 £'000
Cash flow from operating activities	7	**137**	1,160
Returns on investments and servicing of finance			
Interest received		**56**	27
Interest paid		**(209)**	(144)
Interest element of hire purchase and finance lease payments		**(49)**	(38)
		(202)	(155)
Taxation			
UK Corporation tax (paid)		**(39)**	(106)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(516)**	(582)
Amounts invested in intangible fixed assets		**(21)**	(182)
Proceeds of sale of freehold property		**-**	-
Proceeds of sale of tangible fixed assets		**37**	47
		(500)	(717)
Acquisitions and disposals			
Acquisition of operations	32	**(1,386)**	(1,303)
Equity dividends paid		**(113)**	(226)
Net cash (outflow) before financing		**(2,103)**	(1,347)
Financing			
Issue of shares		**573**	5
Loan notes		**625**	-
Debt due beyond a year:			
Increase in bank loans		**1,009**	158
Capital element of loan repayments		**(367)**	(146)
Capital element of hire purchase and finance lease payments		**(399)**	(249)
Net cash inflow/(outflow) from financing		**1,441**	(232)
(Decrease) in cash in the year	29	**(662)**	(1,579)

Notes to the Financial Statements

1. Accounting policies

The particular accounting policies adopted by the Directors are described below:

(a) **Accounting convention**
The financial statements are prepared in accordance with the historical cost convention, modified to include the revaluation of land and buildings, and are in accordance with applicable Accounting Standards.

(b) **New accounting standards**
(i) FRS 17 "Retirement Benefits" need not be applied in full until the year ended 31 January 2004. Pension costs are accounted for in accordance with SSAP 24 and additional disclosures are given, as required by FRS 17 (Note 28).
(ii) FRS 18 "Accounting Policies" has been adopted and did not cause any changes in policy. After careful review, the Directors are satisfied that current accounting policies are the most appropriate for the Group. Therefore, there has been no impact on the profit and loss account and no prior year adjustment is required.
(iii) During the year, the Group adopted the provisions of FRS 19 "Accounting for Deferred Tax".

(c) **Basis of consolidation**
The consolidated financial statements incorporate the financial statements of the Company and all subsidiary undertakings drawn up to 31 January each year. The results of businesses acquired during the year are included from the effective date of acquisition.

(d) **Goodwill**
Goodwill arising on consolidation or purchased goodwill represents the excess of the consideration given, over the fair value of the identifiable net assets acquired. Having due regard to factors affecting the useful economic life of goodwill, it is the Group's policy to amortise goodwill over a period of five years.

(e) **Development costs**
All costs incurred on research and development are written off to the profit and loss account as incurred, unless such expenditure relates to a clearly defined project where the outcome both technically and commercially can be assessed with reasonable certainty.

The deferred costs are written off to the profit and loss account over a period of up to three years commencing from the date of commercial production of the products concerned.

(f) **Tangible fixed assets**
The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated on the cost or valuation of each tangible fixed asset individually on a straight line basis and is designed to write off the costs of the assets less any residual value over their estimated useful lives. Freehold land is not depreciated. The estimated useful lives are:-

Freehold buildings and improvements	25 – 50 years
Plant, equipment and tools	3 – 15 years
Motor vehicles	4 years
Fixtures and fittings	8 – 16 years

The Group's policy is to write off the book value of each tangible fixed asset evenly over its estimated remaining life. Reviews are made periodically of the estimated remaining lives of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear.

(g) **Stocks**
Stocks are valued at the lower of cost and net realisable value. Cost comprises all direct expenditure and, where appropriate, production overheads based on the normal level of activity. Where necessary, provision is made for obsolete, slow moving and defective stocks.

(h) **Long Term Contracts**
The attributable profit on long term contracts is recognised once their outcome can be assessed with reasonable certainty. The profit recognised reflects the proportion of work completed to date on the project.

Costs associated with long term contracts are included in the work in progress to the extent that they cannot be matched with contract work accounted for as turnover. Long term contract balances included in work in progress are stated at cost, after provision has been made for any foreseeable losses and the deduction of applicable payments on account.

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

(i) **Leases**
Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated in equal annual amounts over the lease term.

Operating lease rentals are written off as incurred.

Notes to the Financial Statements

1. Accounting policies *(continued)*

(j) **Deferred taxation**
Full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date. Deferred tax assets are only recognised to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(k) **Foreign currency transactions**
Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account. The results of overseas subsidiary undertakings are translated at the average rates of exchange ruling during the year. Exchange translation differences on consolidation in respect of foreign equity investments are taken to reserves.

(l) **Pension costs**
For defined benefit schemes, pension contributions are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the relevant operating company. Full provision for any deficit is made for schemes in winding up. Contributions to the defined contribution schemes are expensed as incurred.

2. Parent Company profit and loss account

As permitted by Section 230 of the Companies Act 1985 the profit and loss account of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the financial year amounted to £321,000 *(2001: £1,156,000)* before dividends to shareholders of £Nil *(2001: £226,000)*.

3. Turnover

The turnover, comprising amounts invoiced excluding value added tax, and the (loss)/profit on ordinary activities before taxation are attributable to the principal activity of the Group and originate in the United Kingdom, with the exception of turnover of £183,000 (2001: £nil) and loss on ordinary activities before taxation of £141,000 (2001: £nil) which originate from North America.

Group turnover by geographical destination is analysed below:

	2002 £'000	2001 £'000
United Kingdom	**9,962**	9,975
Rest of Europe	**4,549**	4,408
North America	**1,350**	1,923
Rest of World	**1,050**	1,230
	6,949	7,561
	16,911	17,536

4. Cost of sales and net operating expenses

	2002 Continuing £'000	**2002 Acquisitions £'000**	**2002 Total £'000**	2001 Total £'000
Cost of sales	**9,957**	**1,158**	**11,115**	11,123
Net operating expenses				
Distribution costs	**1,611**	**36**	**1,647**	1,810
Administrative expenses	**4,587**	**594**	**5,181**	3,548
Normal operating expenses	**6,198**	**630**	**6,828**	5,358
Exceptional administrative expenses	**1,501**	**–**	**1,501**	–
	7,699	**630**	**8,329**	5,358

Notes to the Financial Statements

5. Operating (Loss)/profit

Operating (loss)/profit is after charging:

	2002 £'000	2001 £'000
Amortisation of Goodwill	**287**	100
Depreciation on owned tangible fixed assets	**542**	431
Depreciation on tangible fixed assets held under finance leases	**196**	185
Research and development expenditure		
– deferred expenditure amortised	**216**	116
– current year expenditure	**673**	404
Operating lease rentals		
– land and buildings	**98**	35
– plant and machinery	**21**	2
Auditors' remuneration – audit services	**60**	53
– non audit services	**44**	21
Exceptional items:		
Restructuring costs	**347**	–
IT system write-off	**343**	–
Abortive acquisition costs	**211**	–
Pension scheme provisions	**600**	–
	1,501	–

6. Net interest payable

	2002 £'000	2001 £'000
Bank overdrafts and loans wholly repayable within five years	**176**	51
Bank loans not wholly repayable within five years	**72**	95
Finance leases and hire purchase contracts	**49**	37
	297	183
Interest receivable	**(56)**	(33)
	241	150

7. Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	2002 £'000	2001 £'000
Operating (loss)/profit	**(2,533)**	1,055
Amortisation of goodwill	**287**	100
Depreciation charges	**738**	616
Amortisation of development costs	**216**	116
Provision for exceptional administrative costs	**489**	–
Loss/(profit) on disposal and write off of tangible fixed assets	**327**	(27)
Decrease/(increase) in stocks	**222**	(588)
Decrease/(increase) in debtors	**1,260**	(1,001)
(Decrease)/increase in creditors	**(873)**	889
Exchange adjustments	**4**	–
Cash flow from operating activities	**137**	1,160

Included in cash flow from operating activities is £1,012,000 *(2001: £40,000)* net outflow in respect of exceptional administrative expenses.

Notes to the Financial Statements

8.	**Staff information (including Directors)**	**2002 £'000**	2001 £'000
	Employee costs, including redundancy, were:		
	Wages and salaries	**6,211**	5,666
	Social security costs	**541**	450
	Other pension costs excluding exceptional provisions (Note 28)	**472**	382
		7,224	6,498

The average monthly number of persons employed by the Group during the year was as follows:

	2002 No.	2001 No.
Administration and sales	**87**	105
Production	**344**	320
	431	425

9.	**Directors' emoluments**	**2002 £'000**	2001 £'000
	Salaries, fees and benefits	**397**	382
	Bonuses	**20**	19
	Pension contributions	**46**	40
		463	441

The bonuses in the year are payable by reference to individual Directors' contracts of employment and by reference to performance related targets as determined by the Remuneration Committee. Pension contributions are to defined contribution schemes.

The emoluments of the highest paid Director were £156,000 *(2001: £124,000)* and the Company made pension contributions of £20,000 *(2001: £18,000)* on his behalf.

Details of individual Directors' emoluments for the year are as follows:

	Salary/ fees £'000	Bonus £'000	Benefits £'000	Sub- total £'000	Pension contributions £'000	**2002 Total £'000**	2001 Total £'000
B. Emerson	127	20	9	156	20	**176**	142
R.A.R. Bulgin	84	–	29	113	12	**125**	129
C.M. Leigh	94	–	14	108	14	**122**	129
J.A.D. Skailes	15	–	–	15	–	**15**	15
A.S. Winter	25	–	–	25	–	**25**	26
	345	20	52	417	46	**463**	441

The fees in respect of A.S. Winter were paid to Argyll Europe Limited, a company of which he is a director and shareholder.

Notes to the Financial Statements

10. Taxation on (loss)/profit on ordinary activities

(a) **Analysis of (credit)/charge for the period**

	2002 £'000	2001 £'000
Current taxation:		
UK Corporation Tax on (loss)/profit for the period	**(199)**	269
Adjustments in respect of previous periods	**(16)**	(5)
Total current taxation (Note 10(b))	**(215)**	264
Deferred taxation:		
Origination and reversal of timing differences	**(280)**	30
Adjustments in respect of previous periods	**(30)**	1
Total deferred taxation (Note 21)	**(310)**	31
Taxation on (loss)/profit on ordinary activities	**(525)**	295

(b) **Factors affecting taxation (credit)/charge for the period**
The current taxation (credit)/charge differs from that resulting by applying the standard rate of corporation tax in the UK (30%) and is explained below:

	2002 £'000	2001 £'000
(Loss)/profit on ordinary activities before taxation	**(2,652)**	905
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% *(2001: 30%)*	**(796)**	271
Effects of:		
Expenses not deductible for tax purposes (primarily goodwill amortisation and abortive acquisition costs)	**162**	32
Capital allowances for period in excess of depreciation	**(26)**	(23)
Other timing differences (primarily pension contributions)	**166**	(7)
Losses carried forward	**258**	–
Pre-acquisition losses of subsidiary	**(12)**	(1)
Unrelieved losses of overseas subsidiary	**43**	–
Other differences	**6**	(3)
Adjustment to taxation charge in respect of previous periods	**(16)**	(5)
Current taxation (Note 10(a))	**(215)**	264

(c) **Factors that may affect future taxation charges**
The sale of freehold property during the year resulted in a capital loss of £36,000, which has been carried forward with capital losses brought forward from previous periods.

No provision has been made for deferred taxation on gains arising due to the sale of freehold property after the year end due to the availability of capital losses brought forward.

Deferred taxation assets have only been recognised for companies with a past history of profitable trading. Consequently, tax losses carried forward in Bulgin Power Source have not been recognised as a deferred taxation asset. Recognition would have increased the asset shown in the balance sheet by £118,000.

11. Dividends

	2002 £'000	2001 £'000
Proposed dividend payable of Nil p *(2001: 0.25p) per share*	**–**	113
Interim dividend paid of Nil p *(2001: 0.25p)* per share	**–**	113
	–	226

Notes to the Financial Statements

12. (Loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the (losses)/earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of the diluted earnings per share is based on the basic (losses)/earnings per share, adjusted to allow for the issue of shares on the assumed conversion of dilutive options.

The adjusted (loss)/earnings per share has been provided in order that the effects of goodwill amortisation on reported (losses)/earnings can be fully appreciated.

The calculation of (losses)/earnings is based on the (loss)/profit attributable to shareholders and is set out below:

	2002		2001	
	(Losses) £'000	**Per-share amount Pence**	Earnings £'000	Per-share amount Pence
(Loss)/profit attributable to shareholders	**(2,092)**	**(4.49)**	610	1.35
Amortisation of goodwill	**287**	**0.62**	100	0.22
Adjusted (loss)/profit attributable to shareholders	**(1,805)**	**(3.87)**	710	1.57

The weighted average number of shares used in the calculations is set out below:

	2002		2001	
	Basic	**Diluted**	Basic	Diluted
Weighted average number of shares in issue				
– ordinary shares	**46,575,083**	**46,575,083**	45,190,000	45,190,000
– share options	**-**	**50,547**	17,122	103,562
	46,575,083	**46,625,630**	45,207,122	45,293,562
(Loss)/earnings per share – standard	**(4.49p)**	**(4.48p)**	1.35p	1.35p
– before goodwill amortisation	**(3.87p)**	**(3.87p)**	1.57p	1.57p

13. Intangible fixed assets

	Group			*Company*
	Development costs £'000	Goodwill £'000	Total £'000	Goodwill £'000
Cost				
At 1 February 2001	242	1,185	1,427	330
Additions	21	1,156	1,177	–
Completed contracts	(195)	–	(195)	–
At 31 January 2002	**68**	**2,341**	**2,409**	**330**
Amortisation				
At 1 February 2001	47	430	477	330
Charge for the year	216	287	503	–
Completed contracts	(195)	–	(195)	–
At 31 January 2002	**68**	**717**	**785**	**330**
Net book value				
At 31 January 2002	**-**	**1,624**	**1,624**	**-**
At 31 January 2001	195	755	950	–

Notes to the Financial Statements

14. Tangible fixed assets

Group	Leasehold Improvements	Freehold land and buildings	Plant and machinery	Equipment, fixtures, fittings and vehicles	Total
Cost or valuation	£'000	£'000	£'000	£'000	£'000
At 1 February 2001	29	2,450	4,037	2,433	8,949
Additions	6	–	656	401	1,063
Acquisitions	–	–	261	123	384
Disposals	–	(800)	(25)	(567)	(1,392)
Exchange	–	–	–	1	1
At 31 January 2002	**35**	**1,650**	**4,929**	**2,391**	**9,005**
Depreciation					
At 1 February 2001	6	–	2,461	1,348	3,815
Charge for the year	4	28	367	339	738
Acquisitions	–	–	133	76	209
Disposals	–	(12)	(13)	(165)	(190)
At 31 January 2002	**10**	**16**	**2,948**	**1,598**	**4,572**
Net book value					
At 31 January 2002	**25**	**1,634**	**1,981**	**793**	**4,433**
At 31 January 2001	23	2,450	1,576	1,085	5,134
Assets held under finance leases and hire purchase contracts					
Net book value					
At 31 January 2002	**–**	**–**	**638**	**318**	**956**
At 31 January 2001	–	–	843	252	1,095

Company	Leasehold Improvements	Freehold land and buildings	Plant and machinery	Equipment, fixtures, fittings and vehicles	Total
Cost or valuation					
At 1 February 2001	2	2,450	–	117	2,569
Additions	–	–	–	78	78
Transfers	–	–	51	–	51
Disposals	–	(800)	(51)	(56)	(907)
At 31 January 2002	**2**	**1,650**	**–**	**139**	**1,791**
Depreciation					
At 1 February 2001	–	–	–	58	58
Charge for the year	–	28	–	30	58
Transfers	–	–	26	–	26
Disposals	–	(12)	(26)	(41)	(79)
At 31 January 2002	**–**	**16**	**–**	**47**	**63**
Net book value					
At 31 January 2002	**2**	**1,634**	**–**	**92**	**1,728**
At 31 January 2001	2	2,450	–	59	2,511

Notes to the Financial Statements

14. Tangible fixed assets *(continued)*

The freehold land and building of £1,650,000 is included at a valuation carried out as at 31 January 2001. The depreciable amount of freehold property is £350,000 *(2001: £890,000).*

The Group's freehold properties were revalued at 31 January 2001, on the basis of open market value for existing use by independent qualified valuers. The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the United Kingdom. The two properties owned by the Group were valued by independent Chartered Surveyors, Bidwells Property Consultants and Ralphs & Janes.

The amount of freehold land and buildings, included at valuation, determined according to the historical cost accounting rules is as follows:

	Group		*Company*	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Cost	**364**	1,345	**364**	1,345
Accumulated depreciation	**(61)**	(147)	**(61)**	(147)
Net book value	**303**	1,198	**303**	1,198

15. Investment in subsidiary undertakings

	Company	
	2002	2001
	£'000	£'000
At 1 February	**4,349**	3,038
Additions (Note 32)	**1,536**	1,311
At 31 January	**5,885**	4,349

The following principal subsidiary undertakings are all wholly owned, except for AFI LLC which is 75% owned, and operated primarily during the year in the country of incorporation.

Company	*Principal activity*	*Country of Incorporation*
AFI LLC	Supply of electronic equipment	USA
Bulgin Components PLC	Design and manufacture of electronic and electromechanical components	England
Bulgin Power Source PLC	Design and manufacture of power supplies	England
BP Purchasing (Electronics) Limited	Sourcing and supply of electronic and electromechanical components	England
Milmega Ltd	Design and manufacture of electronic equipment	England
Powertron Ltd	Design and manufacture of power supplies	England

16. Stocks

	Group	
	2002	2001
	£'000	£'000
Raw materials	**1,502**	1,710
Work in progress	**559**	277
Finished goods and goods for resale	**274**	250
	2,335	2,237

Notes to the Financial Statements

17. Debtors

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Trade debtors (Note 20)	**2,669**	3,309	**-**	–
Amounts owed by subsidiary undertakings	**-**	–	**293**	169
Other debtors	**1,054**	96	**980**	3
Prepayments	**148**	148	**12**	33
Deferred taxation (Note 21)	**80**	–	**-**	–
	3,951	3,553	**1,285**	205

The recoverability of the deferred taxation asset is dependent on future taxable profits in excess of those arising from the reversal of deferred taxation liabilities. Deferred taxation assets have only been recognised for companies with a past history of profitable trends where there is persuasive and reliable evidence in the form of management accounts and financial projections that trading profits are anticipated to arise in the year to 31 January 2003.

18. Creditors: Amounts falling due within one year

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
4% fixed rate loan notes 2003	**625**	–	**625**	–
Bank overdrafts	**2,128**	872	**-**	–
Bank loans	**1,077**	319	**863**	134
Obligations under finance leases and hire purchase contracts	**391**	298	**24**	–
Trade creditors	**1,865**	2,314	**-**	–
Amounts owed to subsidiary undertakings	**-**	–	**224**	400
Corporation tax	**36**	228	**-**	–
Other taxes and social security costs	**290**	236	**126**	16
Other creditors	**439**	249	**38**	51
Deferred consideration	**178**	–	**178**	–
Accruals	**844**	696	**210**	38
Proposed dividends	**-**	113	**-**	113
	7,873	5,325	**2,288**	752

19. Creditors: Amounts falling due after more than one year

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Bank loans	**902**	1,018	**902**	1,015
Obligations under finance leases and hire purchase contracts	**646**	571	**29**	–
Amounts owed to subsidiary undertakings	**-**	–	**507**	–
Other creditors	**244**	–	**-**	–
	1,792	1,589	**1,438**	1,015

Notes to the Financial Statements

20. (a) Borrowings

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
4% fixed rate loan notes 2003	**625**	–	**625**	–
Bank overdrafts	**2,128**	872	**–**	–
Bank loans	**1,979**	1,337	**1,765**	1,149
Obligations under finance leases and hire purchase contracts	**1,037**	869	**53**	–
	5,769	3,078	**2,443**	1,149
Due within one year	**4,221**	1,489	**1,512**	134
Due after more than one year	**1,548**	1,589	**931**	1,015
	5,769	3,078	**2,443**	1,149
Analysis of repayments:				
Loan notes, bank loans and overdrafts:				
Within one year	**3,830**	1,191	**1,488**	134
Between one and two years	**126**	130	**126**	127
Between two and five years	**348**	373	**348**	373
After five years by instalments	**428**	515	**428**	515
	4,732	2,209	**2,390**	1,149
Finance leases and hire purchase contracts:				
Within one year	**391**	298	**24**	–
In two to five years	**646**	571	**29**	–
	1,037	869	**53**	–
	5,769	3,078	**2,443**	1,149

Bank loans of £1,765,000 *(2001: £1,149,000)* are secured by charges on freehold properties, bear interest at 1.75% above LIBOR and have been repaid in full since the balance sheet date. Bank overdrafts of £450,000 are secured by a fixed charge over trade debtors of £972,000.

The loan notes were issued in connection with the acquisition of Powertron Limited which took place in August 2001. Under the terms of the acquisition part of the consideration was satisfied by the issue of £625,000 4% fixed rate guaranteed loan notes 2003. At the loan note holders' option, early repayment in part or in full may be requested. The Company has placed £625,000 on a restricted bank deposit account at a variable interest rate. The fair value of these loan notes is not considered to be materially different to their book value.

(b) Financial assets and liabilities

As permitted by FRS13 the Company has chosen to exclude short term debtors and creditors when disclosing details of financial instruments.

(i) **Financial instruments**

The Group's financial instruments comprise borrowings, cash at bank and in hand and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Group has not entered into derivatives transactions nor does it trade in financial instruments as a matter of policy. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board's policy on each is described below and has not changed since 2001. Operations are financed through working capital management and short term flexibility is achieved by overdraft facilities.

Treasury matters are dealt with on a Group basis and are approved by the Main Board. At 31 January 2002 gross gearing was 137% *(2001: 54%)*.

Export turnover for the year accounted for 41% *(2001: 43%)* of sales. Un-hedged exposure in respect of sales and purchases has not led to material exchange gains or losses.

20. (b) Financial assets and liabilities *(continued)*

(ii) **Financial assets: excluding debtors due within one year**

The only financial asset held is cash at bank and in hand, which attracts interest at variable rates. The balances as at 31 January are detailed below:

	2002 £'000	2001 £'000
Sterling accounts	**1,389**	894
US Dollar accounts	**146**	47
	1,535	941

(iii) **Financial liabilities: excluding non-debt current liabilities**

The only financial liabilities of the Group which are subject to interest charges are bank loans and overdrafts, loan notes and obligations under finance leases and hire purchase contracts. The bank overdraft and bank loans attract interest at variable rates. Interest charges on finance leases and hire purchase contracts are negotiated at the market rate prevailing at the time the commitment is made.

The main risk arising from the Group's financial instruments is interest rate risk. Interest rate exposure is managed by using a mixture of fixed and floating rate borrowings. Details of interest rates are disclosed in Note 20 (a) above.

At 31 January the interest rate profile of the Group's financial liabilities, all of which are denominated in sterling, was as follows:

	2002 £'000	2001 £'000
Floating rate financial liabilities	**5,144**	3,078
Fixed rate financial liabilities	**625**	–
	5,769	3,078

(iv) **Maturity**

The maturity profile is shown in Note 20 (a) above.

(v) **Fair value of financial assets and liabilities**

The fair value of financial assets and liabilities is not significantly different from their book value.

(c) Currency risk

The Group has transactional currency exposure arising from normal trading activity. Such exposure arises from sales and purchases in currencies other than sterling. The Group does not trade in derivatives or make speculative hedges.

At 31 January 2002 the Group had no commitment under non-cancellable forward contracts *(2001: £62,000)*.

The Group's currency exposure being those transactional exposures that give rise to net currency gains and losses recognised in the profit and loss account, after taking account of forward contracts where appropriate, was as follows:

	2002			2001		
	Cash at bank and in hand £'000	**Other net monetary assets/ (liabilities) £'000**	**Total £'000**	Cash at bank and in hand £'000	Other net monetary assets/ (liabilities) £'000	Total £'000
US dollar	**146**	**(25)**	**121**	47	29	76
Euro	**–**	**31**	**31**	–	14	14
Swedish Krona	**–**	**(24)**	**(24)**	–	(22)	(22)
	146	**(18)**	**128**	47	21	68

Notes to the Financial Statements

21. Provisions for liabilities and charges

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Deferred taxation:				
At 1 February	**207**	163	**119**	121
Transfer (to)/from profit and loss account (Note 10)	**(310)**	31	**(13)**	(2)
Acquisition	**23**	13	**-**	–
(Asset)/provision at 31 January	**(80)**	207	**106**	119

	Group		Company	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Accelerated capital allowances	**242**	190	**107**	89
Short term timing differences	**(164)**	36	**(1)**	30
Taxation losses carried forward	**(158)**	(19)	**-**	–
Undiscounted (asset)/provision for deferred taxation	**(80)**	207	**106**	119

The deferred taxation asset is disclosed within debtors (Note 17).

22. Called-up share capital

	2002	2001
	£'000	£'000
Authorised		
100,000,000 *(2001: 100,000,000)* Ordinary shares of 5p each	**5,000**	5,000
Allotted, called up and fully paid		
52,034,443 *(2001: 45,256,666)* Ordinary shares of 5p each	**2,602**	2,263

During the year the 6,777,777 ordinary shares of 5p each were issued in a placing at a premium of 4p per share.

At 31 January 2002 under the Bulgin Plc Executive Share Option Scheme, there were unexercised options on 123,334 *(2001: 123,334)* Ordinary shares of 5p each. These options are exercisable in whole or in part at a price of 9.0p per share until 28 June 2003.

During the year no options were exercised.

At 31 January 2002 under the Elektron PLC Executive Share Option Scheme, there were unexercised options on 3,725,000 *(2001: Nil)* Ordinary shares of 5p each. These options are exercisable after three years but before ten years from the date of granting in whole or in part at a price of 20p per share.

23. Reserves

Group	*Share premium*	*Revaluation reserve*	*Profit and loss account*
	£'000	£'000	£'000
At 1 February 2001	36	906	2,489
Transfer to profit and loss account	–	–	(2,092)
Issue of shares	234	–	–
Transfer	–	79	(79)
Exchange differences	–	–	2
At 31 January 2002	**270**	**985**	**320**

Notes to the Financial Statements

23. Reserves *(continued)*

Company	*Share premium* £'000	*Revaluation reserve* £'000	*Profit and loss account* £'000
At 1 February 2001	36	906	2,087
Transfer to profit and loss account	–	–	321
Issue of shares	234	–	–
Transfer	–	79	(79)
At 31 January 2002	**270**	**985**	**2,329**

24. Reconciliation of movement in shareholders' funds

	2002 **£'000**	2001 £'000
(Loss)/profit attributable to shareholders	**(2,092)**	610
Dividends	**–**	(226)
	(2,092)	384
Issue of shares	**573**	5
Revaluation	**–**	787
Exchange differences	**2**	–
Net (decrease)/increase in shareholders' funds	**(1,517)**	1,176
Opening shareholders' funds	**5,694**	4,518
Closing shareholders' funds – equity	**4,177**	5,694

25. Capital commitments

Expenditure contracted but not provided for in the financial statements amounted to £31,000 *(2001: £361,000)*.

26. Lease commitments

At 31 January 2002 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		*Other*	
	2002 **£'000**	2001 £'000	**2002** **£'000**	2001 £'000
Expiring between two and five years	**67**	60	**–**	1
Expiring after five years	**93**	–	**–**	–
	160	60	**–**	1

The Company has annual commitments under non-cancellable operating leases of £27,000 in respect of land and buildings and £Nil in respect of other.

27. Contingent liabilities

The Company has composite banking arrangements with subsidiary undertakings which are limited to the amount standing to the credit of its own banking account.

Notes to the Financial Statements

28. Pension schemes

(i) Defined contribution schemes

The Group operated one defined contribution scheme for all qualifying employees. The assets of the scheme were held in separate trustee administered funds managed by an insurance company. During the year contributions to the scheme ceased with members being eligible to join a Group Personal Pension Plan.

Contributions to the defined contribution scheme, to the Group Personal Pension Plan and to other Personal Pension Plans are charged to the profit and loss account as they become payable. The pension cost charge for the year was £312,000 (2001: £231,000) and outstanding contributions at the year-end amounted to £19,000 (2001: £11,000).

(ii) Defined benefit schemes

The Group operated two defined benefit schemes for qualifying employees. Contributions were assessed in accordance with the advice of independent qualified actuaries.

The Bulgin Components scheme was put into winding up as of 21 September 01 at which time the Actuary calculated the market value of the assets to be £1,388,000, the present value of the scheme liabilities to be £2,055,000 and the consequent Minimum Funding Requirement ("MFR") deficit to be £667,000.

The Cirkit Holdings scheme was put into winding up on 15 April 02 at which time the Actuary calculated the market value of the assets to be £674,000, the present Value of the Scheme liabilities to be £739,000 and the consequent MFR deficit to be £65,000.

As stated in the accounting policies note, pension contributions are normally charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives, but where a scheme is in winding up full provision is made for any MFR deficit. Provisions of £472,000 and £65,000 are included in creditors as at 31 January 2002 for the estimated deficits in the Bulgin Components and Cirkit Holdings schemes respectively. Assuming, asset values do not decline, the deficits are expected to be met by payments over the next two years.

The pension cost charge for the year was £760,000 (2001: £151,000) including a £600,000 exceptional charge to account for the winding up of the schemes. The outstanding contributions at the year-end amounted to £4,000 (£2001: £8,000).

The profit and loss account charge for pension costs and the disclosures above are given on the basis of SSAP 24, which is to be replaced by FRS 17. The additional disclosures which follow are given in preparation of FRS 17 being adopted. They relate only to the defined benefit schemes and omit comparative figures in accordance with the transitional rules of FRS 17. The last full actuarial valuations of the Bulgin Components pension scheme and the Cirkit Holdings pension scheme were carried out by qualified independent actuaries as at 2 June 2001 and 30 April 2001, respectively, and updated to 31 January 2002.

The transitional arrangements of FRS 17 require disclosure of assets and liabilities as at 31 January 2002 calculated in accordance with the requirements of FRS 17. The assets of the schemes have been taken at market value and the liabilities have been calculated on the projected unit method, using the following principal actuarial assumptions:

	Bulgin Components	*Cirkit Holdings*
Inflation	2.4% per annum	2.6% per annum
Rate of discount	5.6% per annum	5.5% per annum
Rate of increase in pension in payment and deferment	2.4% per annum	2.6% per annum
Revaluation rate for deferred pensioners	2.6% per annum	2.6% per annum
Salary increases	Not applicable	Not applicable

On this basis the scheme deficits would notionally be:	Bulgin Components £'000	Cirkit Holdings £'000	Total £'000
Fair value of assets	1,529	712	2,241
Present value of scheme liabilities	(2,925)	(1,251)	(4,176)
Actuarial deficit	(1,396)	(539)	(1,935)
Deferred taxation	419	162	581
Actuarial deficit after taxation	(977)	(377)	(1,354)

The total actuarial deficit after taxation of £1,354,000 would have been shown as a liability had the consolidated balance sheet been prepared under FRS 17. This would have increased the pension provisions as at 31 January 2002 by £978,000 and reduced the profit and loss reserve from a £320,000 surplus to a £658,000 deficit.

Notes to the Financial Statements

28. Pension schemes *(continued)*

(ii) Defined benefit schemes *(continued)*

The approximate distribution of the scheme assets at 31 January 2002 was as follows:

	Bulgin Components	*Cirkit Holdings*
Equities	3%	71%
Bonds	–	22%
Other	–	7%
Managed and unitised funds	97%	–
	100%	100%

The expected long-term rate of return over the following year is 5.5% for bonds and other and 7.5% for equities.

29. Reconciliation of net cash flow to movement in net debt

	2002 £'000	2001 £'000
(Decrease) in cash in the year	**(662)**	(1,579)
Cash (inflow)/outflow from (increase)/decrease in net debt and lease financing	**(868)**	237
Change in net debt resulting from cash flows	**(1,530)**	(1,342)
New finance lease and hire purchase agreements	**(547)**	(664)
Acquisitions	**(20)**	–
Movement in net debt in the year	**(2,097)**	(2,006)
Net debt at 1 February (Note 30)	**(2,137)**	(131)
Net debt at 31 January (Note 30)	**(4,234)**	(2,137)

30. Analysis of net debt

	As at 1 February 2001 £'000	*Cash flow £'000*	*Acquisitions £'000*	*Non-cash movement £'000*	**As at 31 January 2002 £'000**
Cash at bank and in hand	941	(31)	–	–	**910**
Cash deposits (Note below)	–	625	–	–	**625**
	941	594	–	–	**1,535**
Bank overdrafts	(872)	(1,256)	–	–	**(2,128)**
	69	(662)	–	–	**(593)**
Finance leases and hire purchase contracts	(869)	399	(20)	(547)	**(1,037)**
Debt due within 1 year – loan notes	–	(625)	–	–	**(625)**
Debt due within 1 year – bank loans	–	(210)	–	(700)	**(910)**
Debt due beyond 1 year – bank loans	(1,337)	(432)	–	700	**(1,069)**
Net debt	(2,137)	(1,530)	(20)	(547)	**(4,234)**

The Company has placed £625,000 on a restricted bank deposit account at a variable interest rate.

31. Major non-cash transactions

During the year the Group entered into finance lease and hire purchase arrangements in respect of fixed assets with a total capital value at the inception of these agreements of £547,000 *(2001: £664,000)*.

Notes to the Financial Statements

32. Acquisitions

(i) Companies acquired

During the year ended 31 January 2002 the Group made two acquisitions:

Name	*Location*	*Company or Asset Purchase*	*Date*
AFI LLC	USA	Company	February 2001
Powertron Ltd	UK	Company	August 2001

(ii) Consolidated summary

The impact on the Consolidated balance sheet is the following:

	Balance Sheets of acquired businesses £'000	*Adjustments to align accounting policies* £'000	*Fair value at date of acquisition* £'000
Tangible fixed assets	182	(7)	175
Current assets	1,196	–	1,196
Creditors	(921)	–	(921)
Net assets acquired	457	(7)	450
Minority interests			(70)
Goodwill capitalised (Note 13)			1,156
Total consideration (Note 15)			1,536
Of which:			
Cash and loan notes			1,358
Deferred consideration			178
			1,536

The net cash outflow in respect of the acquisitions is as follows:

	£'000
Consideration	1,281
Acquisition expenses	77
Bank and cash balances acquired	28
Total cash flow in respect of acquisitions	1,386

The summarised results for each of the businesses acquired, covering the period from the most recent statutory accounts until the acquisition date is shown in the table below:

	Turnover £'000	Operating Profit/(Loss) £'000	Profit/(Loss) before taxation £'000	Taxation £'000	Previous year end
AFI LLC	21	(30)	(30)	–	31.12.00
Powertron Ltd	815	(28)	(30)	1	31.05.01

The impact of the acquisitions on the Group cash flow for the period to 31 January 2002 is presented in the table below:

	Cash flow from Operations £'000	Interest Paid £'000	Financing £'000	Change in cash £'000
AFI LLC	(280)	(1)	–	(285)
Powertron Ltd	–	(4)	(95)	(100)

Notes to the Financial Statements

32. Acquisitions *(continued)*

(iii) AFI LLC

The Group purchased 61% of AFI LLC for a consideration of £185,000 on 28 February 2001 and a further 14% for a consideration of £161,000 on 19 October 2001. In its last financial year to 31 December 2000, AFI made a loss after taxation of £99,000.

	Carrying value and fair value at date of acquisition £'000
Tangible fixed assets	29
Current assets	318
Creditors	(68)
Net assets acquired	279
Minority interests	(70)
	209
Consideration	
Cash	331
Acquisition expenses	15
Total	346
Goodwill	137

(iv) Powertron Limited

The Group purchased Powertron Limited for a total consideration of £1,191,000 on 16 August 2001. In its last financial year to 31 May 2001, Powertron made a profit after taxation of £157,000.

	Balance Sheet of acquired business £'000	*Adjustments to align accounting policies* £'000	*Fair value at date of acquisition* £'000
Tangible fixed assets	153	(7)	146
Current assets	878	–	878
Creditors	(853)	–	(853)
Net assets acquired	178	(7)	171
Consideration			
Cash and loan notes			950
Acquisition expenses			62
Deferred consideration			178
Total			1,190
Goodwill			1,019

The deferred consideration relates to the net assets acquired in accordance with the sale agreement and was paid on 22 February 2002.

33. Related party transactions

(a) Details of investments in principal subsidiary undertakings are included in Note 15. In accordance with FRS 8, disclosure is not required of transactions and balances between Group companies where such transactions are eliminated on consolidation.

(b) As disclosed in Note 9, Argyll Europe Limited, a company of which Mr A. S. Winter is a director and shareholder, charged fees of £25,000 *(2001: £26,000)* during the year in respect of services provided by him as non-executive Chairman.

34. Post balance sheet events

(i) Property disposals

The Barking property was sold for £1,730,000 gross with exchange on 25 April 2002 and completion on 24 May 2002. This disposal, together with the disposal of the Lincoln freehold and after paying off related loans, realised £945,000.

(ii) Pension schemes

Since the balance sheet date, the remaining defined benefit scheme operated via Cirkit Holdings Plc has been closed and is now in winding up. The MFR deficit at 1 April 2002 has been calculated by the Actuary to be £65,000 and this is fully provided in the accounts.

Group Five Year Record

	£'000				
	2002	2001	2000	1999	1998
Turnover – continuing operations	**15,159**	17,536	13,373	12,058	13,514
– acquisitions	**1,752**	–	–	–	–
	16,911	17,536	13,373	12,058	13,514
– discontinued operations	**–**	–	1,039	4,740	5,982
	16,911	17,536	14,412	16,798	19,496
(Loss)/profit before taxation	**(2,652)**	905	665	(271)	586
Shareholders' net assets	**4,177**	5,694	4,518	4,218	4,760
(Loss)/earnings per share – basic	**(4.49p)**	1.35p	1.06p*	(0.71p)	1.21p
– diluted	**(4.48p)**	1.35p	1.05p*	(0.71p)	1.20p
Dividends per share	**Nil**	0.50p	0.41p*	1.25p	1.25p

* Including adjustment for the compensatory scrip issue at enfranchisement.

Investor Information

Financial calendar

Annual General Meeting	2 October 2002
Interim results announced	September 2002

Share price listings

Financial Times
Daily Telegraph
London Evening Standard

Current shareholdings > 3% on the Register

Trustees of the AF Bulgin Settlements	12.11%
Rathbone Nominees Limited	9.61%
Specialist Holdings Limited	7.78%
James Capel (Nominees) Limited	4.58%
R.C. Greig Nominees Limited	3.85%

Group web-site

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