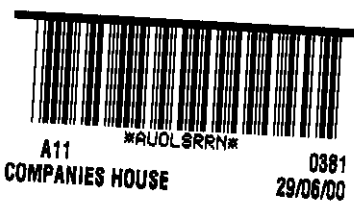


**THE DAVALL GEAR COMPANY LIMITED**

**(REGISTERED NUMBER 362087)**

**DIRECTORS' REPORT AND ACCOUNTS FOR**

**THE YEAR ENDED 31<sup>ST</sup> DECEMBER, 1999**



# THE DAVALL GEAR COMPANY LIMITED

## REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited accounts for the year to 31<sup>st</sup> December, 1999.

### ACTIVITIES

The principal activity of the company continues to be the design and manufacture of gears, gearboxes and related products.

### REVIEW OF THE BUSINESS

The result for the year was satisfactory. The business continues to operate successfully in a contracting market place.

### RESULTS

	£
Profit on ordinary activities for the year	
Before taxation	213,779
Taxation	28,192
Profit for the year	<u>241,971</u>
Dividends – proposed	241,971
Retained profit in year	0
Retained profit brought forward	<u>271,728</u>
Retained profit carried forward	<u>271,728</u>

### DIRECTORS

The directors who served during the year were :

Mr G A Watts	
Mr J R Youngs	- resigned 14.06.1999
Mr G G Woodman	- resigned 14.06.1999
Mr J R Edwards	- appointed 14.06.1999
Mr G M Norris	- appointed 14.06.1999

## THE DAVALL GEAR COMPANY LIMITED

### REPORT OF THE DIRECTORS (contd.)

#### DIRECTORS' INTERESTS

Directors' interests in the share capital of the ultimate holding company, T.I.Group Plc as recorded in the register of directors' interests were:

	Ordinary shares held as at		Ordinary shares under Option as at		
	31.12.99	14.06.99	31.12.99	14.06.99	1998
G A Watts	Nil	Nil	1876	974	974
J R Youngs	-	Nil	-	991	991
G G Woodman	-	Nil	-	991	991
J R Edwards	111,646	102,028	352,549	352,474	-
G M Norris	10,000	10,000	50,872	50,872	-

With the exception of the interests disclosed above, no director had any interest in the shares or debentures of any group company at either 31<sup>st</sup> December 1999 or 31<sup>st</sup> December 1998.

#### PAYMENT POLICY

It is company's payment policy to negotiate terms with its suppliers in all sectors to ensure that they know the terms on which payment will take place when the business is agreed. It is our policy to abide by these terms.

#### FIXED ASSETS

The changes in fixed assets during the year are summarised in note 8 to the accounts.

#### RESEARCH AND DEVELOPMENT

The company is committed to a policy of investment in the future both by acquisition of new capital equipment and by expenditure on product development and improvement.

#### POLITICAL AND CHARITABLE CONTRIBUTIONS

No charitable or political donations were made during the year.

**THE DAVALL GEAR COMPANY LIMITED**

**REPORT OF THE DIRECTORS  
(contd.)**

Year 2000

No material problems or costs were incurred in the Year 2000 date change and the Company does not expect any material effect on it's financial results.

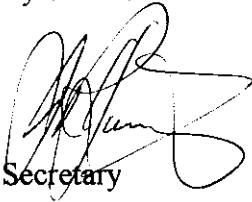
Euro

The company has in place systems and procedures whereby it can purchase, sell and account in a variety of currencies. No problems or material costs were incurred in the changeover to the Euro.

Auditors

A resolution for the re-appointment of PricewaterhouseCoopers is to be proposed at the forthcoming Annual General Meeting.

By order of the board

  
Secretary

Date: 2 March 2000

## **THE DAVALL GEAR COMPANY LIMITED**

### **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 affairs of the company and of the profit of the company for the year. In preparing those financial statements, the directors are required to:

- (i) select suitable accounting policies and then apply them consistently;
- (ii) make judgements and estimates that are reasonable and prudent;
- (iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (iv) 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 company 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 hence for taking reasonable steps for the prevention of fraud and other irregularities.

## **THE DAVALL GEAR COMPANY LIMITED**

### **REPORT OF THE AUDITORS TO THE MEMBERS OF THE DAVALL GEAR COMPANY LTD**

We have audited the financial statements on pages 8 to 17 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11.

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors are responsible for preparing the Annual Report. As described on page 5, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### **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 in order 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.

**THE DAVALL GEAR COMPANY LIMITED**

**REPORT OF THE AUDITORS TO THE MEMBERS OF THE DAVALL  
GEAR COMPANY LTD  
(contd)**

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
Chartered Accountants and Registered Auditors  
10 Bricket Road  
St Albans AL1 3JX

2 March 2000

**THE DAVALL GEAR COMPANY LIMITED**

**PROFIT AND LOSS ACCOUNT FOR  
THE YEAR ENDED 31 DECEMBER 1999**

	<u>Note</u>	<u>1999</u> £	<u>1998</u> £
TURNOVER	2	5,490,961	6,050,022
Cost of Sales		(4,469,278)	(4,762,139)
<b>GROSS PROFIT</b>		<hr/> 1,021,683	<hr/> 1,287,883
Distribution & Selling Costs		(467,307)	(390,891)
Administration Costs		(318,121)	(250,999)
<b>OPERATING PROFIT</b>	3	<hr/> 236,255	<hr/> 645,993
Interest (net)	6	(22,476)	(19,819)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<hr/> 213,779	<hr/> 626,174
Taxation on profit on ordinary activities	7	28,192	(187,795)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<hr/> 241,971	<hr/> 438,379
Dividend – paid		0	(75,000)
- proposed		(241,971)	(363,379)
<b>RETAINED PROFIT FOR THE YEAR</b>	17	<hr/> <hr/> 0	<hr/> <hr/> 0

The notes on pages 10 to 17 form part of these accounts.

The movements on reserves are shown in note 17.

All turnover and operating profit arise from continuing activities.

There are no recognised gains and losses other than the profit or loss for the period.

**THE DAVALL GEAR COMPANY LIMITED**

**BALANCE SHEET AT 31 DECEMBER, 1999**

	<u>Note</u>	<u>1999</u> £	<u>1998</u> £
<b>FIXED ASSETS</b>			
Tangible assets	8	<u>2,836,959</u>	<u>2,878,615</u>
<b>CURRENT ASSETS</b>			
Stocks	10	751,977	938,247
Debtors	11	1,372,569	1,439,277
Cash at bank and in hand		801	83,992
		<u>2,125,347</u>	<u>2,461,516</u>
<b>CREDITORS: amounts falling due within one year</b>	12	(2,444,213)	(2,688,002)
<b>NET CURRENT LIABILITIES</b>		<u>(318,866)</u>	<u>(226,486)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		2,518,093	2,652,129
<b>CREDITORS: amounts falling due after one year</b>	13	(1,819,246)	(1,914,697)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	14	(118,500)	(157,085)
		<u>580,347</u>	<u>580,347</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	308,619	308,619
Profit and Loss account	17	271,728	271,728
<b>EQUITY SHAREHOLDERS CAPITAL</b>		<u>580,347</u>	<u>580,347</u>

The accounts were approved by the board of directors on 2 March 2000

Director



The notes on pages 10 to 17 form part of these accounts.

# THE DAVALL GEAR COMPANY LIMITED

## NOTES TO THE ACCOUNTS

### 1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies which are in accordance with applicable accounting standards have been applied consistently in dealing with items which are considered material in relation to the company's accounts.

#### a) Basis of accounting

The accounts have been prepared under the historical cost convention.

#### b) Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Land and Building	2%.
Plant and machinery	7.5% to 33.3%

#### c) Stocks and work-in-progress

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost includes works overheads where applicable.

#### d) Research and development

Research and development expenditure is written off against profit in the year in which the expenditure arises.

#### e) Deferred taxation

Deferred taxation is provided at the future rate of taxation using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future.

#### f) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date or where there are matching forward contracts in respect of trading transactions, the rates of exchange specified in the contracts are used. All realised differences are taken to the Profit and Loss account and unrealised differences on forward contracts are taken to the Balance Sheet.

# THE DAVALL GEAR COMPANY LIMITED

## NOTES TO THE ACCOUNTS (Contd.)

g) Cash flow statement

The company has not produced a Cash Flow Statement as it is a wholly owned subsidiary of TI Group PLC, whose accounts include a consolidated Cash Flow Statement in accordance with paragraph 5a of Financial Reporting Standards 1 (Revised 1996).

h) Operating Leases

All leases are accounted for as operating leases and the rental charges are charged to the Profit and Loss account in the period in which these are incurred.

i) Finance Leases

The capital value of finance leases are included in Fixed Assets and depreciated in accordance with the Company's accounting policies. Interest charges are charged to the Profit and Loss account in the period in which they are incurred.

j) Pension

Employers pension contributions are set by the Pension Scheme trustees and charged to the Profit and Loss account in the period in which they are incurred.

2. TURNOVER

Turnover represents invoiced sales during the year exclusive of Value Added Tax.

All of the company's turnover and profit on ordinary activities before taxation relate to the company's principal activity.

The geographic analysis of turnover is as follows:

	1999 £	1998 £
United Kingdom	4,837,847	5,071,377
Asia, Far East and Australia	100,248	526,874
North, South and Central America	384,017	280,280
Europe	168,358	170,104
Middle East	491	1,387
	<u>5,490,961</u>	<u>6,050,022</u>

**THE DAVALL GEAR COMPANY LIMITED**

**NOTES TO THE ACCOUNTS  
(contd.)**

3. OPERATING PROFIT

Operating profit is stated after charging the following items:

	<u>1999</u>	<u>1998</u>
	£	£
Auditors' remuneration – audit	14,453	14,120
Depreciation	248,142	288,301
Operating lease charges	32,760	32,784
Research & development expenditure	<u>7,152</u>	<u>9,219</u>

4. DIRECTORS' EMOLUMENTS

	<u>1999</u>	<u>1998</u>
	£	£
For service as directors	<u>122,436</u>	<u>154,304</u>

The Company contributes to a defined benefit pension scheme for three of the directors.

5. STAFF COSTS

The average weekly number of employees, including directors, during the year was as follows:

	<u>1999</u>	<u>1998</u>
	No.	No.
Sales, administration and distribution	17	18
Manufacturing	97	111
	<u>114</u>	<u>129</u>

The aggregate payroll costs of these persons were as follows:

	<u>1999</u>	<u>1998</u>
	£	£
Wages and salaries	2,247,830	2,431,032
Social security costs	163,228	195,303
Other pension costs	108,747	106,139
	<u>2,519,805</u>	<u>2,732,474</u>

6. INTEREST

	<u>1999</u>	<u>1998</u>
	£	£
Interest Payable		
Hire purchase loans	18,550	19,819
Bank interest	3,926	0
	<u>22,476</u>	<u>19,819</u>

**THE DAVALL GEAR COMPANY LIMITED**

**NOTES TO THE ACCOUNTS  
(contd.)**

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	<u>1999</u> £	<u>1998</u> £
Based on the profit for the year:		
Corporation Tax at 30.25% (1998:31%)	31,500	190,000
Deferred taxation (credit)/charge	(61,085)	(4,517)
Taxation relating to prior years:		
Corporation Tax	1,393	2312
	<u>(28,192)</u>	<u>187,795</u>

8. TANGIBLE FIXED ASSETS

	<u>Land &amp; Buildings</u> £	<u>Plant &amp; Machinery</u> £	<u>Total</u> £
<b>COST</b>			
At 1 January, 1999	1,750,000	4,695,839	6,445,839
Additions	-	206,486	206,486
At 31 December, 1999	<u>1,750,000</u>	<u>4,902,325</u>	<u>6,652,325</u>
<b>DEPRECIATION</b>			
At 1 January, 1999	61,253	3,505,971	3,567,224
Charge for year	35,000	213,142	248,142
At 31 December, 1999	<u>96,253</u>	<u>3,719,113</u>	<u>3,815,366</u>
<b>NET BOOK VALUE</b>			
At 31 December, 1999	<u>1,653,747</u>	<u>1,183,212</u>	<u>2,836,959</u>
At 31 December, 1998	<u>1,688,747</u>	<u>1,189,868</u>	<u>2,878,615</u>
		<u>1999</u> £	<u>1998</u> £
NBV of assets subject to mortgage loans		287,746	322,742
NBV of assets subject to lease arrangements		57,563	64,291

**THE DAVALL GEAR COMPANY LIMITED**

**NOTES TO THE ACCOUNTS**

(contd.)

9. COMMITMENTS

Capital commitments at 31<sup>st</sup> December 1999, for which no provision has been made in these accounts, were as follows:

	<u>1999</u>	<u>1998</u>
	£	£
Contracted	Nil	Nil
Authorised but not contracted	<u>4,410</u>	<u>Nil</u>

10. STOCKS

	<u>1999</u>	<u>1998</u>
	£	£
Raw materials	227,204	317,590
Work in progress	303,183	348,836
Finished goods	<u>221,590</u>	<u>271,821</u>
	<u>751,977</u>	<u>938,247</u>

The replacement value of stock and work in progress is not considered to be materially different from the book value.

11. DEBTORS

	<u>1999</u>	<u>1998</u>
	£	£
Amounts falling due within one year:		
Trade debtors	1,238,037	1,304,572
Amounts owed by group companies	64,112	66,875
Other debtors	7,243	1,396
Prepayments and accrued income	<u>63,177</u>	<u>66,434</u>
	<u>1,372,569</u>	<u>1,439,277</u>

**THE DAVALL GEAR COMPANY LIMITED**

**NOTES TO THE ACCOUNTS  
(contd.)**

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1999</u>	<u>1998</u>
	£	£
Bank overdraft	307,571	362,716
Mortgage loan	89,831	90,746
Finance lease	6,534	26,135
Trade creditors	403,518	494,873
Corporation Tax	31,500	190,060
Other taxation and social security	68,762	60,782
Dividends payable	605,350	363,378
Amounts owed to group undertakings	556,007	552,019
Other creditors	12,366	24,082
Accruals and deferred income	<u>362,774</u>	<u>523,211</u>
	<u>2,444,213</u>	<u>2,688,002</u>

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1999</u>	<u>1998</u>
	£	£
Mortgage loan:		
Repayable between 1 and 2 years	82,345	91,708
Repayable between 2 and 5 years	-	86,088
Amounts owed to group company	<u>1,736,901</u>	<u>1,736,901</u>
	<u>1,819,246</u>	<u>1,914,697</u>

The Mortgage loan as referred to in notes 12 and 13 is secured on Plant and Machinery at a fixed interest rate of 5%.

There is no agreed payment term or interest charge on the group company balance.

14. PROVISION FOR LIABILITIES AND CHARGES

	<u>Warranty provision</u>	<u>Deferred tax provision</u>	<u>Total provisions</u>
	£	£	£
At 1 <sup>st</sup> January 1999	96,000	61,085	157,085
Charged to profit and loss account in year	22,500	(61,085)	(38,585)
Utilised during year	0	0	0
	-----	-----	-----
At 31 <sup>st</sup> December 1999	<u>118,500</u>	<u>0</u>	<u>118,500</u>
	=====	=====	=====

**THE DAVALL GEAR COMPANY LIMITED**

**NOTES TO THE ACCOUNTS  
(contd.)**

14. continued

The Deferred taxation provision may be analysed as follows:

	Provided		Unprovided	
	1999	1998	1999	1998
	£	£	£	£
Accelerated capital allowances	-	64,185	49,159	-
Other timing differences	=	<u>(3,100)</u>	<u>(9,394)</u>	=
	=	<u>61,085</u>	<u>39,765</u>	=

15. SHARE CAPITAL

	No.	Authorised £	Allocated, called up and fully paid	
			No.	£
Ordinary shares of £1.00 each	<u>1,000,000</u>	<u>1,000,000</u>	<u>308,619</u>	<u>308,619</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	1999 £	1998 £
Profit for the financial year	241,971	438,379
Dividends	(241,971)	(438,379)
	<u>0</u>	<u>0</u>
Opening shareholders' funds	<u>580,347</u>	<u>580,347</u>
	<u>580,347</u>	<u>580,347</u>

17. RESERVES

	Profit and Loss £
At 1 January, 1999	271,728
Retained profit for year	<u>0</u>
At 31 December, 1999	<u>271,728</u>

# THE DAVALL GEAR COMPANY LIMITED

## NOTES TO THE ACCOUNTS (contd.)

### 18. OPERATING LEASES

The commitments which fall to be paid in the following year under non-cancellable operating leases are:

	<u>Land and Buildings</u>	<u>Plant, Machinery and Vehicles</u>
Operating lease expiry:		
Within one year	0	8,328
Between 1 year & 5 years	<u>0</u>	<u>20,760</u>
	<u>0</u>	<u>29,088</u>

### 19. PENSIONS

The Company participates in the EIS Group Plc pension scheme, providing benefits on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested with an insurance company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 5<sup>th</sup> April 1996 and showed that the market value of the scheme's assets were £66.7m and that the actuarial value of those assets represented 120% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The valuation assumed that the investment return would be 2.5% higher than the rate of annual salary increase and that present and future pensions would increase at a rate of 3% per annum until 5<sup>th</sup> April 1997 and 5% per annum thereafter.

The pension charge for the period was £108,747 (1998: £106,139) and has been determined over the average remaining service lives of the employees.

### 20. RELATED PARTY DISCLOSURE

The company is a wholly owned subsidiary of TI Group PLC. In accordance with paragraph 3 (c) of FRS 8, "Related Party Transactions", the company is exempt from disclosing details of arrangements with other companies in the TI Group.

### 21. ULTIMATE HOLDING COMPANY

The ultimate holding company is TI Group PLC, a company incorporated in England. Copies of the group accounts are available from:

TI Group PLC  
50 Curzon Street  
London  
W14 7PN