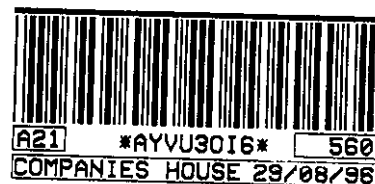


FAIREY INDUSTRIAL CERAMICS LIMITED

Company registered in England
Number 1232580

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 1995**



FAIREY INDUSTRIAL CERAMICS LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 1995

<u>CONTENTS</u>	<u>PAGES</u>
Directors' report	2-5
Report of the Auditors	6
Profit and loss account	7
Balance sheet	8
Statement of accounting policies	9-10
Notes to the financial statements	11-19

FAIREY INDUSTRIAL CERAMICS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1995

The directors present their report and the audited financial statements for the year ended 31st December 1995.

PRINCIPAL ACTIVITIES

The principal activities of the company are the manufacture of industrial ceramics, and water and air filtration equipment.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company continues to invest to improve manufacturing efficiency, and develop improved and additional products.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £1,082,000 which was appropriated as follows:

Dividends:	£,000
First Interim of 370p per share - paid	370
Second Interim of 435p per share - proposed	435
Retained Profit	277
	<hr/>
	1,082
	<hr/>

No final dividend is proposed, the profit of £277,000 has been transferred to reserves.

RESEARCH AND DEVELOPMENT

The company carries out research and development in all the main areas of its product range.

SIGNIFICANT CHANGES IN FIXED ASSETS

Movements in tangible fixed assets are set out in Note 6 to the financial statements.

CHARITABLE DONATIONS

The donations made by the company during the year for charitable purposes were £494.

FAIREY INDUSTRIAL CERAMICS LIMITED

DIRECTORS' REPORT (Continued)

DIRECTORS

The directors during the year were:

J. W. Poulter (Chairman)
C. M. Tiernan
J. C. Webster
J. A. McConnell
D. Taylor
C. E. Webb
A. Frost (Resigned 3rd February, 1995)

DIRECTORS' INTERESTS

Except as shown below, no directors who were not also directors of the holding company, had any interest, directly or indirectly in the shares of the group companies. The following are in respect of ordinary shares of 5p each of Fairey Group plc. They are in respect of the financial interest of the directors or their families and relate respectively to shareholdings and options under the Fairey Group 1987 Executive Share Option Scheme or under the Fairey Group 1988 Executive Share Option Scheme and under the Fairey Group Savings Related Share Option Scheme.

Fairey Group made a capitalisation (bonus) issue of ordinary shares of one ordinary (bonus) share for every ordinary share held on 20th June 1994. Share options were adjusted in the same ratio.

	31 December 1995 Number	1 January 1995 Number
Ordinary Shares of 5p each		
D. Taylor	32,100	35,200
C. E. Webb	46,910	50,010
J. A. McConnell	0	6,515
Executive Share Options		
C. M. Tiernan (Granted in March 1995)	10,000	0
D. Taylor	5,000	5,000
C. E. Webb	5,000	5,000
J. A. McConnell	5,000	5,000
SAYE Share Options		
C. E. Webb	587	587

FAIREY INDUSTRIAL CERAMICS LIMITED
DIRECTORS' REPORT (Continued)

EMPLOYMENT OF DISABLED PERSONS

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues, that the appropriate training is arranged and that their special needs are considered. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of a person who does not suffer from a disability, and to observe the "Code of Good Practice on the employment of disabled people".

EMPLOYEE INVOLVEMENT

The company encourages participation in company-wide quality improvement circles.

Where appropriate, consultations take place so that there is a proper balance of views in reaching conclusions or decisions.

The company reports on a quarterly basis to Fairey Group plc on progress achieved on all these matters as part of the Group's involvement programme.

The Fairey Group publishes a house magazine, "Fairey in Focus" which is made available to all employees.

FAIREY INDUSTRIAL CERAMICS LIMITED
DIRECTORS' REPORT (Continued)
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 of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

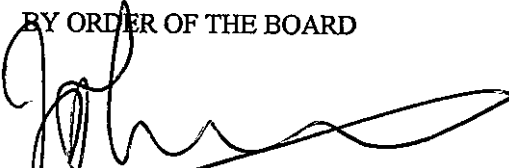
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the 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 and detection of fraud and other irregularities.

AUDITORS

The existing Auditors will continue in office.

BY ORDER OF THE BOARD



J. A. McCONNELL, SECRETARY
Stone, 1st March, 1996

REPORT OF THE AUDITORS TO THE MEMBERS OF
FAIREY INDUSTRIAL CERAMICS LIMITED

We have audited the financial statements on pages 7 to 19.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 5 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

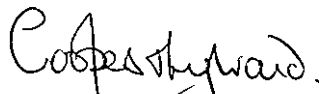
BASIS OF OPINION

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary 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.

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31st December 1995 and of its profit and total recognised gains for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



COOPERS & LYBRAND
Chartered Accountants and Registered Auditors
Birmingham

1st March, 1996

FAIREY INDUSTRIAL CERAMICS LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 1995

	Notes	<u>1995</u>	<u>1994</u>
		£,000	£,000
TURNOVER	1	8,578	8,576
Cost of sales		(4,908)	(4,948))
		<hr/>	<hr/>
GROSS PROFIT		3,670	3,628
Other operating expenses	3	(2,220)	(2,513)
		<hr/>	<hr/>
OPERATING PROFIT		1,450	1,115
Interest receivable		167	112
Interest payable on overdraft		(7)	(6)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1	1,610	1,221
Taxation	4	(528)	(409)
		<hr/>	<hr/>
PROFIT AFTER TAXATION		1,082	812
Dividends	5	(805)	(611)
		<hr/>	<hr/>
PROFIT RETAINED	15	277	201
		<hr/> <hr/>	<hr/> <hr/>

STATEMENT OF TOTAL RECOGNISED GAINS:

The company has no recognised gains or losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

NOTE OF HISTORICAL COST PROFITS:

Reported profit on ordinary activities before taxation	1,610	1,221
Difference between historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	18	55
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	1,628	1,276
	<hr/> <hr/>	<hr/> <hr/>
Historical cost profit for the year retained after taxation and dividends	295	256
	<hr/> <hr/>	<hr/> <hr/>

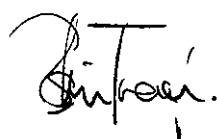
All operations in the period were continuing operations

FAIREY INDUSTRIAL CERAMICS LIMITED

BALANCE SHEET AT 31ST DECEMBER 1995

	<u>Notes</u>	<u>1995</u> £,000	<u>1994</u> £,000
FIXED ASSETS			
Tangible assets	6	3,179	3,309
CURRENT ASSETS			
Stocks	9	970	855
Debtors	10	4,013	3,755
Cash at bank and in hand		481	499
		<u>5,464</u>	<u>5,109</u>
CREDITORS : AMOUNTS FALLING DUE WITHIN ONE YEAR	11	1,894	1,934
NET CURRENT ASSETS		<u>3,570</u>	<u>3,175</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,749</u>	<u>6,484</u>
CREDITORS : AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	11	2,273	2,273
PROVISION FOR LIABILITIES AND CHARGES	12	233	245
NET ASSETS		<u>4,243</u>	<u>3,966</u>
CAPITAL AND RESERVES			
Called up share capital	13	100	100
Share premium account	15	634	634
Revaluation Reserve	15	1,262	1,280
Profit and loss account	15	2,247	1,952
Equity Shareholders' funds	15	<u>4,243</u>	<u>3,966</u>

The financial statements on pages 7 to 19 were approved by the board of directors on 1st March, 1996 and signed on its behalf by:



C. M. TIERNAN
Director

FAIREY INDUSTRIAL CERAMICS LIMITED

STATEMENT OF ACCOUNTING POLICIES

PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of Accounting

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

Turnover

Sales turnover comprises sales invoices (excluding value added tax) at fixed prices and the estimated sales value of goods delivered and accepted under contract which have not been the subject of price settlement.

Depreciation

Depreciation is calculated to write off the cost or valuation of fixed assets over their estimated useful lives on a straight line basis at the following rates per annum:

Freehold and long leasehold buildings	- 2½-5%
Short leasehold property	- Over the remaining period of the lease
Plant, machinery and other equipment	- 5-20%
Motor vehicles	- 25%
Tooling and computer software and hardware	- 33⅓%

Fixed Asset Investments

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

Goodwill

Goodwill, being either the net excess of the cost of shares in subsidiaries over the value attributable to their net tangible assets on acquisition, or the cost of other goodwill by purchase, is deducted from reserves in the year of acquisition.

Stocks and Work in Progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost represents direct cost incurred and, where applicable, a proportion of attributable overheads.

FAIREY INDUSTRIAL CERAMICS LIMITED

STATEMENT OF ACCOUNTING POLICIES (Continued)

Foreign Currencies

Assets and liabilities in overseas currencies are translated into sterling at the rates applicable at the year end. Exchange differences arising on opening net assets, less any loans hedging those investments, are taken direct to reserves, as are the differences arising between the translation of revenue items at average and closing rates. Transactions denominated in foreign currencies are translated at the rate of exchange on the day the transaction occurs. Realised exchange differences arising on trading transactions are taken to the profit and loss account.

Deferred Taxation

Provision is made by the liability method, at the expected applicable rates, for taxation deferred in respect of all timing differences between accounting and taxation treatment, except when it is thought reasonably probable that the tax effects of such deferrals will continue for the foreseeable future.

Research and Development

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

Leases

Finance lease rentals are capitalised at the total amount of rentals payable under the leasing agreement (excluding finance charges) and depreciated in accordance with the policy above. Finance charges are written off over the period of the lease in reducing amounts in relation to the written down carrying cost. Operating lease rentals are written off as incurred.

Contributions to Pension Funds

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

Cash Flow

The company is a wholly owned subsidiary of Fairey Group plc and its cash flows are included in the consolidated group cash flow statement of Fairey Group plc. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 from publishing a cash flow statement.

Government Grants

Government grants in respect of qualifying tangible fixed asset purchases are released to the profit and loss account over the expected life of the relevant asset.

FAIREY INDUSTRIAL CERAMICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 1995

1. TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) Class of business:

The company carries out one class of business being the manufacture of industrial ceramics and filtration equipment.

(b) Geographical markets supplied:

No segmental analysis in respect of geographical destination is given as the directors consider it prejudicial to the interests of the company.

(c) Profit on ordinary
activities before taxation
is stated after charging:

	£,000	£,000
Depreciation of tangible fixed assets	295	310
Hire of plant and machinery	3	3
Auditors' remuneration (including expenses) for annual audit	18	17
Auditors' remuneration other than audit	7	7
Research and Development expenditure net after <u>deduction</u> of grants received (1995: £5,000) (1994: £60,000)	298	209
	<u>298</u>	<u>209</u>

FAIREY INDUSTRIAL CERAMICS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. DIRECTORS AND EMPLOYEES

(a)	The average weekly number of persons (including directors) in the year was:	1995 <u>Number</u>	1994 <u>Number</u>
	Production	204	210
	Distribution	3	3
	Administration	16	18
		<u>223</u>	<u>231</u>
(b)	Staff costs (for above persons)	£,000	£,000
	Wages and salaries	2,683	2,734
	Social security costs	222	251
	Other pension costs	90	100
		<u>2,995</u>	<u>3,085</u>
(c)	Directors' remuneration: Emoluments (including bonus payments based on performance and pension contributions)	<u>1995</u> £,000	<u>1994</u> £,000
		225	213
	Emoluments disclosed above (excluding pension contributions) include amounts paid to:		
	The chairman	<u>Nil</u>	<u>Nil</u>
	The highest paid director	<u>70</u>	<u>44</u>
	The number of directors who received emoluments (excluding pension contributions but including bonus payments based on performance) in the following ranges were:	<u>1995</u> <u>Number</u>	<u>1994</u> <u>Number</u>
	£0 - £5,000	2	2
	£10,001 - £15,000	1	1
	£15,001 - £20,000	0	1
	£35,001 - £40,000	0	1
	£40,001 - £45,000	1	3
	£45,001 - £50,000	2	0
	£65,001 - £70,000	1	0

FAIREY INDUSTRIAL CERAMICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. OTHER OPERATING EXPENSES

	<u>1995</u>	<u>1994</u>
	£,000	£,000
Distribution costs	32	53
Administrative expenses	2,188	2,460
	<u>2,220</u>	<u>2,513</u>

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1995</u>	<u>1994</u>
	£,000	£,000
United Kingdom corporation tax at 33% (1994: 33%)		
Current	545	434
Deferred	(11)	(23)
	<u>534</u>	<u>411</u>
Over provision in respect of prior years:		
Current	(6)	(2)
Deferred	-	-
Taxation charge	<u>528</u>	<u>409</u>

5. DIVIDENDS

	<u>1995</u>	<u>1994</u>
	£,000	£,000
Ordinary Shares:		
First Interim of 370p per share paid (1994 250p paid)	370	250
Second Interim of 435p per share proposed (1994 361p proposed)	435	361
	<u>805</u>	<u>611</u>

FAIREY INDUSTRIAL CERAMICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. TANGIBLE FIXED ASSETS

	<u>Freehold Land and Buildings</u>	<u>Plant, Tooling and Motor Vehicles</u>	<u>Total</u>
COST OR VALUATION	£,000	£,000	£,000
At 1st January 1995	2,100	4,053	6,153
Additions	16	180	196
Disposals	-	(275)	(275)
Transfers	75	62	137
At 31st December 1995	<u>2,191</u>	<u>4,020</u>	<u>6,211</u>
DEPRECIATION			
At 1st January 1995	39	2,805	2,844
Charge for year	49	246	295
Eliminated in respect of disposals	-	(244)	(244)
Transfers	75	62	137
At 31st December 1995	<u>163</u>	<u>2,869</u>	<u>3,032</u>
NET BOOK VALUE			
At 31st December 1995	<u>2,028</u>	<u>1,151</u>	<u>3,179</u>
At 31st December 1994	<u>2,061</u>	<u>1,248</u>	<u>3,309</u>

Transfers represent the elimination of grants previously received and now fully written off.

Cost or open market valuation of Freehold Land and Buildings comprises:

	£,000
Cost	577
1987 valuation	512
1988 valuation	1,245
1994 valuation	(143)
	<u>2,191</u>

If the Freehold Land and Buildings had not been revalued they would have been included at the following

	£,000
Cost	1,322
Depreciation	652
Net Book Value	<u>670</u>

FAIREY INDUSTRIAL CERAMICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. CAPITAL COMMITMENTS

	<u>1995</u>	<u>1994</u>
	£,000	£,000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>193</u>	<u>18</u>

8. FIXED ASSET INVESTMENTS

The company owns the whole of the issued share capital, consisting of 100 ordinary shares of £1 each, of Fairey Industrial Products Limited, a company registered in England. The company is dormant and the aggregate value of the company's assets is not less than the carrying value.

The company is exempt from the requirement to produce group accounts by virtue of Section 228 Companies Act 1985.

9. STOCKS

	<u>1995</u>	<u>1994</u>
	£,000	£,000
Raw materials, consumables and fittings	625	492
Work in progress	262	237
Finished goods	83	126
	<u>970</u>	<u>855</u>

FAIREY INDUSTRIAL CERAMICS LIMITED

NOTES TO FINANCIAL STATEMENTS (Continued)

10. DEBTORS

	<u>1995</u>	<u>1994</u>
	£,000	£,000
Amounts falling due within one year		
Trade debtors	1,470	1,515
Amounts owed by Fairey Group plc	2,315	1,859
Other debtors	189	342
Prepayments and accrued income	39	39
	<u>4,013</u>	<u>3,755</u>

11. CREDITORS

	<u>1995</u>	<u>1994</u>
	£,000	£,000
(a) Amounts falling due within one year		
Trade creditors	550	524
Corporation tax payable	538	434
Other taxation and social security	91	130
Accruals	280	485
Dividends payable	435	361
	<u>1,894</u>	<u>1,934</u>

(b) Amounts falling due after more than one year

Amount owed to Fairey Group plc	2,235	2,235
Amount owed to Fairey Industrial Products Limited	38	38
	<u>2,273</u>	<u>2,273</u>

The above loans are interest free with no specified repayment date although confirmation has been received that the amounts will not require repayment within one year.

FAIREY INDUSTRIAL CERAMICS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. PROVISION FOR LIABILITIES AND CHARGES

(a) Provisions

	<u>1995</u>	<u>1994</u>
	<u>£,000</u>	<u>£,000</u>
Warranty	44	30
Reorganisation	-	15
Deferred tax	189	200
	<u>233</u>	<u>245</u>
	<u>==</u>	<u>==</u>

Movement in year	<u>Warranty</u>	<u>Reorganisation</u>
	<u>£,000</u>	<u>£,000</u>
At 1st January, 1995	30	15
Used in year	-	(15)
Charged in year	14	-
At 31st December, 1995	<u>44</u>	<u>-</u>
	<u>==</u>	<u>==</u>

(b) Deferred Taxation

Deferred taxation provided in the accounts and the total potential liability, including the amount for which provision has been made, are as follows:

	<u>1995</u>		<u>1994</u>	
	<u>Total</u>	<u>Amount</u>	<u>Total</u>	<u>Amount</u>
	<u>Potential</u>	<u>Provided</u>	<u>Potential</u>	<u>Provided</u>
	<u>Liability</u>	<u>£,000</u>	<u>Liability</u>	<u>£,000</u>
	<u>£,000</u>	<u>£,000</u>	<u>£,000</u>	<u>£,000</u>
Deferred Taxation derived from:				
Excess of tax allowances over depreciation	204	204	216	216
Other timing differences	(15)	(15)	(16)	(16)
Revaluation of land and buildings	44	-	44	-
	<u>233</u>	<u>189</u>	<u>244</u>	<u>200</u>
	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>

FAIREY INDUSTRIAL CERAMICS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

(b) Deferred Taxation Cont'd

Deferred tax is fully provided except for that arising on revaluation of property which the company will continue to use.

	<u>1995</u>	<u>1994</u>
	£,000	£,000
At 1st January 1995	200	223
Profit and loss account	(11)	(23)
At 31st December 1995	<u>189</u>	<u>200</u>

13. CALLED UP SHARE CAPITAL

	<u>1995</u>	<u>1994</u>
	£,000	£,000
Authorised, allotted, called up and fully paid:		
100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>

14. CONTINGENT LIABILITIES

With other members of the Group, the company has guaranteed facilities made available to Fairey Group plc by the following banks in respect of which the following amounts were outstanding at 31 December 1995;

Lloyds Bank PLC	\$20,000,000 (1994: \$15,000,000)
National Westminster PLC	£4,241,000 (1994: £1,041,000)
National Westminster PLC	\$15,000,000 (1994: \$15,000,000)

FAIREY INDUSTRIAL CERAMICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. RESERVES

	<u>Revaluation Reserve</u>	<u>Share Premium</u>	<u>Profit and loss Account</u>
	£,000	£,000	£,000
At 1st January 1995	1,280	634	1,952
Retained profit	-	-	277
Transfer from revaluation reserve to Profit & Loss Account	(18)	-	18
At 31st December 1995	<u>1,262</u>	<u>634</u>	<u>2,247</u>

The reserves of the company that may not legally be distributed under Section 264 of the Companies Act 1985 comprise the share premium account and revaluation reserve.

Reconciliation of Movement in Shareholders' Funds:

	<u>1995</u> £,000	<u>1994</u> £,000
Profit for the financial year	1,082	812
Dividends	(805)	(611)
	<u>277</u>	<u>201</u>
Opening Shareholders' funds	3,966	3,765
Closing Shareholders' funds	<u>4,243</u>	<u>3,966</u>

16. PENSION COMMITMENTS

Fairey Group plc operates a defined benefits pension plan in which the company participates. Pension contributions are invested through an independent trustee administered fund. The plan is reviewed regularly by actuaries and is funded in accordance with their advice.

When last valued on 1st January 1994 the fund showed a valuation surplus. The valuation was based on estimates of expenditure on benefits in future years and the funding rate necessary to meet that expenditure.

Further details are given in the accounts of Fairey Group plc.

17. ULTIMATE HOLDING COMPANY

The ultimate holding company is Fairey Group plc, incorporated in Great Britain and registered in England. A copy of Fairey Group plc's accounts may be obtained by writing to Fairey Group plc, Station Road, Egham, Surrey, TW20 9NP.