

AVO INTERNATIONAL LIMITED

DIRECTORS' REPORT AND ACCOUNTS

FOR THE

YEAR ENDED 30 NOVEMBER 1998

REGISTERED NUMBER 190137



AVO INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts for the year ended 30 November 1998.

Principal Activities

The main activity of the Company is unchanged since last year and is principally the manufacture of electrical and electronic measuring instruments for sale in both the United Kingdom and overseas markets.

Review of Business Activity and Future Developments

During the year under review the Company reported a pre-tax profit of £2,215,000 compared to £2,775,000 for the previous year.

The underlying trading results continue to be satisfactory, with a stable order book.

An amount of £344,000 was transferred to reserves (£1,123,000 transferred from reserves in the previous year).

Dividends

The dividend declared and paid for the year was £1,199,000. (Prior year £2,992,000)

Directors

Unless otherwise indicated the Directors held office throughout the year.

Mr A R Bach	Resigned	30 th June 1998
Mr A J Boughtwood	Appointed	16 th November 1998
Mr C P Burns		
Mr J E Haegele		
Mr A R Hardie		
Mr K A Morriss		
Mr G R Margery		

Statement of Directors' Responsibilities

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those accounts, 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 accounts; and
- * prepare the accounts 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 accounts 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.

AVO INTERNATIONAL LIMITED

REPORT OF THE DIRECTORS (continued)

Directors' Interests in Shares or Debentures

No Director at 30 November 1998 (1997: Nil) was beneficially interested in any shares or debentures of the Company or any group Company during the financial year according to the register required to be kept under Section 325 of the Companies Act 1985.

Directors' Interest in Contracts

None of the Directors had a material interest in any contract to which the Company was a party during the financial year.

Research and Development Activities

The Company has a programme of research and development projects in order to develop new products in line with market demand and to respond to rapid change in new technology.

Political and Charitable Contributions

The Company does not make contributions to political parties. No donations were made to charitable institutions during the period.

Employment of Disabled Persons

It is Company practice to facilitate the employment of disabled persons and to provide whenever possible opportunities for training, career development and promotion. Where employees become disabled whilst in the service of the Company, every effort is made to rehabilitate them in their former jobs or some other suitable alternative, and to provide appropriate training and specialist advice.

Employees Involvement

The Company holds regular meetings with employee representatives to discuss the Company's financial results, any significant operating issues, the future plans of the Company and other matters of concern to its employees.

Policy on Payment of Creditors

It is the policy of the company to agree terms of settlement with its suppliers, which are appropriate for the markets in which they operate, and to abide by those terms where suppliers have also met their obligations. Trade creditors at the year end represented 54 days (1997 – 55 days) of average annual purchases.

Auditors

Following the merger of Price Waterhouse and Coopers & Lybrand on 1st July 1998, Price Waterhouse resigned as the Company's auditors in favour of the new firm, PricewaterhouseCoopers, and the directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. As the Company has elected to dispense with the obligation to appoint auditors annually, PricewaterhouseCoopers will be deemed to be appointed at the next date for the appointment of auditors.

Registered Office:
Archcliffe Road
Dover
Kent

BY ORDER OF THE BOARD


A R. Hardie
Secretary

27 September 1999

AVO INTERNATIONAL LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF AVO INTERNATIONAL LIMITED

We have audited the accounts on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective Responsibilities of Directors and Auditors

As described on page 1 the Company's Directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. 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 accounts.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30 November 1998 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

Thames Court
1 Victoria Street
Windsor, Berks, SL4 1HB

27 September 1999

AVO INTERNATIONAL LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 NOVEMBER 1998

	Notes	1998 £'000	1997 £'000
Turnover	1	18,150	21,250
Cost of sales		-12,276	-14,226
Gross profit		<u>5,874</u>	<u>7,024</u>
Distribution costs		-2,552	-2,890
Administrative expenses		-1,151	-1,314
Other operating income		84	-
Operating profit	2	<u>2,255</u>	<u>2,820</u>
Interest receivable and similar income		9	16
Interest payable and similar charges	3	-49	-61
Profit on ordinary activities before taxation		<u>2,215</u>	<u>2,775</u>
Tax on profit on ordinary activities	4	-672	-906
Profit for the financial year		<u>1,543</u>	<u>1,869</u>
Dividends paid and payable	5	-1,199	-2,992
Amount transferred to/(from) reserves		<u>344</u>	<u>-1,123</u>

All income and expenditure relates to continuing operations.

There were no recognised gains or losses other than the profit for the year.

There is no difference between the reported profits as stated above and the amounts that would be reported under the historical cost basis

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Called up share capital 30.11.98 £'000	Profit and loss account 30.11.98 £'000	Total shareholder's funds 30.11.98 £'000	Total shareholder's funds 30.11.97 £'000
At start of year	6,000	1	6,001	7,124
Profit for the year	-	1,543	1,543	1,869
Dividends paid	-	-1,199	-1,199	-2,992
At end of year	<u>6,000</u>	<u>345</u>	<u>6,345</u>	<u>6,001</u>

The notes on pages 6 to 13 form part of these financial statements.

AVO INTERNATIONAL LIMITED

BALANCE SHEET AS AT 30 NOVEMBER 1998

	Notes	1998	1997
		£'000	£'000
FIXED ASSETS			
Tangible assets	8	5,422	5,610
CURRENT ASSETS			
Stocks	9	1,771	2,485
Debtors	10	5,560	5,316
Cash at bank and in hand		8	386
		<u>7,339</u>	<u>8,187</u>
CREDITORS:			
Amounts falling due within 1 year	11	-4,054	-5,230
NET CURRENT ASSETS			
		<u>3,285</u>	<u>2,957</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>8,707</u>	<u>8,567</u>
CREDITORS:			
Amounts falling due after more than one year	12	-226	-297
DEFERRED INCOME			
	13	-2,071	-2,171
PROVISIONS FOR LIABILITIES AND CHARGES			
	14	-65	-98
TOTAL ASSETS LESS LIABILITIES			
		<u>6,345</u>	<u>6,001</u>
CAPITAL AND RESERVES			
Called up share capital	15	6,000	6,000
Profit and loss account		345	1
SHAREHOLDERS' FUNDS			
		<u>6,345</u>	<u>6,001</u>

These financial statements were approved by the Board on 27 September 1999 and were signed on its behalf by:



C.P. Burns
Director

The notes on pages 6 to 13 form part of these financial statements.

AVO INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS

PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies is set out below.

Accounting Convention

The accounts are prepared under the historical cost convention and in accordance with applicable U.K. accounting standards.

Cash Flow Statement

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from producing a cash flow statement on the grounds that it is a wholly owned subsidiary of a company which prepares a consolidated cash flow statement which includes the cash flows of the company.

Turnover

Turnover excludes Value Added Tax but includes transactions with fellow subsidiaries of the ultimate holding company and represents the invoiced value of goods and services supplied.

Fixed Assets

The fixed asset cost base is the purchase cost, together with any incidental expenses of acquisition. Depreciation is calculated on a straight line basis so as to write off the cost of an asset over its expected useful economic life. The principal time periods in use are:-

Freehold buildings	30	years
Plant and equipment	7-10	years
Motor vehicles	4	years
Office equipment	5-8	years
Product tooling	7	years

Freehold land is not depreciated.

Leased Assets

Assets held under finance leases are treated as tangible fixed assets and depreciated accordingly. The deemed capital element of future rentals is treated as a liability and deemed interest calculated at a rate based on the capital value outstanding and is charged over the lease period against operating profit.

Costs in respect of operating leases are charged in arriving at the operating profit.

Stocks and Work-In-Progress

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs; in the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition.

Provision is made, where necessary, for obsolete, slow moving and defective stock.

AVO INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS (continued)

PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign Currencies

Differences arising on settlement of foreign currency trading transactions are included in the profit and loss account. Any assets or liabilities denominated in a foreign currency are translated into sterling at rates of exchange ruling at the financial period end.

Development Expenditure

Development expenditure is written off as incurred.

Taxation

The charge for taxation is based on the profit for the period as adjusted for disallowable items. Tax deferred or accelerated by material timing differences is accounted for to the extent that, in the opinion of the directors, it is probable that a liability or asset will crystallise.

Pensions

The Company's main pension fund is a contributory, defined benefit, externally funded scheme which is contracted out of the UK state scheme. The fund is valued regularly by professionally qualified independent actuaries. Contributions to the fund are charged to the profit and loss account in accordance with the long term funding rate as advised by the actuaries.

AVO INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS (continued)

	30.11.98	30.11.97
1. <u>Turnover</u>	£'000	£'000
Geographical analysis of turnover:		
United Kingdom	6,943	7,719
Europe (excluding UK)	3,111	3,626
The Americas	2,971	3,365
Rest of World	5,125	6,540
	<u>18,150</u>	<u>21,250</u>
The Company operates in only one class of business.		
2. <u>Operating Profit</u>	£'000	£'000
Operating profit is stated after charging or (crediting)		
Depreciation of tangible fixed assets		
- owned assets	684	630
- leased assets	155	178
Hire of plant and equipment	22	24
Other operating leases	106	121
Auditors' remuneration		
- audit services	28	29
- non-audit services	29	46
Foreign currency exchange differences	-30	-47
Profit/ (loss) on sale of fixed assets	-8	20
Redundancy and re-organisation costs	46	63
Research and development costs	933	1,033
	<u>933</u>	<u>1,033</u>
3. <u>Interest payable and similar charges</u>	£'000	£'000
Charges on finance leases	36	54
Interest payable on bank overdraft wholly repayable within five years	13	7
	<u>49</u>	<u>61</u>
4. <u>Tax on Profit on Ordinary Activities</u>	£'000	£'000
UK Corporation tax based on the profit for the year at 31% (1997: 32%)		
- current year	680	867
- prior year adjustment	25	-59
Provision for deferred taxation (Note 14)	-33	98
	<u>672</u>	<u>906</u>
5. <u>Dividends</u>	£'000	£'000
During the year dividends of 19.98 pence per share were paid. (1997: 49.86 pence)	<u>1,199</u>	<u>2,992</u>

AVO INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS (continued)

	<u>30.11.98</u>	<u>30.11.97</u>
6. <u>Employees</u>	Number	Number
a) The average number of employees in the Company, including Directors, were:		
Production	144	152
Administration	17	32
Selling and distribution	39	36
Engineering	43	37
	<u>243</u>	<u>257</u>
b) Costs, including Directors' emoluments		
Wages and salaries	4,027	4,119
Social security costs	319	320
Other pension costs	251	209
	<u>4,597</u>	<u>4,648</u>
7. <u>Emoluments of Directors</u>	£'000	£'000
Aggregate emoluments (excluding payments to the company's defined benefit pension scheme)	285	245
Company contributions to money purchase pension schemes	36	8
Aggregate compensation for loss of office	-	33
	<u>321</u>	<u>286</u>

Retirement benefits are accruing to 4 (1997: 4) directors under a defined benefit scheme, and to 2 (1997: 2) directors under money purchase pension schemes.

The emoluments, excluding contributions to the Company's defined benefit pension scheme, of the highest paid Director of the Company are detailed below:

	<u>£'000</u>	<u>£'000</u>
Aggregate emoluments (excluding payments to the company's defined benefit pension scheme)	<u>92</u>	<u>72</u>
Company contributions to money purchase pension schemes	<u>22</u>	<u>6</u>
Accrued pension (under the Company's defined benefit pension scheme) at the end of the year	<u>26</u>	<u>23</u>

AVO INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS (continued)

8. Tangible Fixed Assets

	Freehold Land and Buildings	Plant, Equipment and Motor Vehicles	Total
	£'000	£'000	£'000
<u>Cost</u>			
At 1 December 1997	4,279	7,308	11,587
Additions	-	678	678
Disposals	-4	-206	-210
At 30 November 1998	4,275	7,780	12,055
<u>Accumulated Depreciation</u>			
At 1 December 1997	1,220	4,757	5,977
Charge for year	149	690	839
Disposals	-	-183	-183
At 30 November 1998	1,369	5,264	6,633
<u>Net book value at 30 November 1998</u>	2,906	2,516	5,422
<u>Net book value at 30 November 1997</u>	3,059	2,551	5,610
a) <u>Capital expenditure approved:</u>		30.11.98	30.11.97
		£'000	£'000
Expenditure Contracted for		70	403
b) Included within Plant, Equipment and Motor Vehicles are assets with a net book value of £317,000 (1997: £404,000) held under finance leases. The depreciation charge for the year on these assets was £155,000 (1997: £178,000).			
9. <u>Stocks</u>		30.11.98	30.11.97
		£'000	£'000
Raw materials and consumables		844	1,144
Work-in-progress		99	154
Finished goods and goods for resale		828	1,187
		1,771	2,485
10. <u>Debtors</u>		30.11.98	30.11.97
		£'000	£'000
Trade debtors		2,992	3,110
Amounts owed by group undertakings		2,124	1,819
Other debtors		2	213
ACT Recoverable		256	-
Prepayments		186	174
		5,560	5,316

AVO INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS (continued)

11. <u>Creditors: Amounts falling due within one year</u>	30.11.98	30.11.97
	£'000	£'000
Bank overdraft	209	-
Trade creditors	1,096	1,886
Amount owed to group undertakings	1,703	1,769
Other creditors	165	306
Corporation tax	395	871
Other taxes including VAT and social security costs	114	93
Accruals and deferred income	231	155
Obligations due under finance leases within 1 year	141	150
	<u>4,054</u>	<u>5,230</u>

12. <u>Creditors: Amounts falling due after more than one year</u>	30.11.98	30.11.97
	£'000	£'000
Obligations due under finance leases between 1 & 5 years (Note 17)	<u>226</u>	<u>297</u>

13. Deferred Income

This amount primarily represents the balance of monies received from the Department of Transport relating to works needed to be carried out at the Dover site as a result of the trunking of the A20 Road. Income is released to the Profit and Loss Account over the period of the expected economic lives of the assets to which it relates.

14. Deferred Taxation

	Deferred tax provision £'000
At 1 December 1997	98
Credited to the profit and loss account (Note 4)	-33
At 30 November 1998	<u>65</u>

Analysis of the deferred tax provision and the potential liability:-

	<u>30.11.98</u>		<u>30.11.97</u>	
	Full Potential Liability £,000	Provision Made £,000	Full Potential Liability £,000	Provision Made £,000
Accelerated capital allowances	641	65	667	98
Other timing differences	-13	-	-8	-
	<u>628</u>	<u>65</u>	<u>659</u>	<u>98</u>

15. <u>Called Up Share Capital</u>	30.11.98	30.11.97
	£,000	£,000
Authorised, Allotted, Called up and Fully Paid Ordinary shares of £1 each	<u>6,000</u>	<u>6,000</u>

AVO INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS (continued)

16. Contingent Liabilities and Financial Commitments

The company is currently in dispute with Al Fanar & Co, one of its former distributors in Saudi Arabia, following termination of their distributorship agreement in 1994. Al Fanar are claiming that the Company buy back the stock they hold for a figure of £34,000 and that the Company should pay them damages of £100,000. This dispute is being considered by the Saudi Arabian courts.

The Directors do not consider it likely that such damages will be awarded.

The Company, along with other group companies, has guaranteed borrowings of US\$15.0 million (prior year US\$15.0 million) under an overall bank term loan facility of US\$25.0 million (prior year US\$25.0 million) which is available to group companies. Other substantial group companies have provided similar guarantees in relation to any liability which may arise under the facility, and the Directors of the Company are of the opinion that no loss will arise as a result of the above arrangement.

17. <u>Finance Lease Commitments</u>	30.11.98	30.11.97
	£'000	£'000
The Company has the following obligations under finance leases		
Within one year	215	186
Between one and five years inclusive	247	326
	<u>462</u>	<u>512</u>
Finance charges allocated to future periods	-45	-65
	<u>417</u>	<u>447</u>

18. <u>Operating Lease Commitments</u>	30.11.98	30.11.97
	£'000	£'000
The Group has the following obligations within one year under operating leases which expire:		
Within one year	20	10
Between one and five years inclusive	137	77
	<u>157</u>	<u>87</u>

These leases relate to the company's fleet of motor cars.

19. Related Party Transactions

The Company has taken advantage of the 90% owned subsidiary exemption available under Financial Reporting Standard 8 not to disclose related party transactions with members of the Baytor Ltd and TBG Holdings NV groups.

AVO INTERNATIONAL LIMITED

NOTES TO THE ACCOUNTS (continued)

20. Pension Arrangements

An independent actuarial valuation of the U.K. pension scheme was carried out as at 6 April 1997 using the Projected Unit Method. The valuation assumed that the investment return would be 2% p.a. more than the rate of increase in salaries and that present future pensions would increase at the rate of 3% p.a. The market value of the scheme investments at the valuation date was £5,180,000 and the valuation showed that the actuarial value of these assets represented a surplus of £86,000 over the benefits that had accrued to members at the valuation date after allowing for expected future increases in salaries. The actuaries recommended that the current rates of contribution both by the employers (10%) and the employees (6%) be continued until the next valuation date of 6 April 1999.

However, following the changes to ACT announced in the Government's Budget of July 2nd 1997, the Company, in consultation with the Trustees and the Fund's Actuary, decided it was necessary to increase the rates of contribution both by the employer (to 11.5%) and by the employee (to 6.5%).

21. Ultimate Holding Company

The Directors regard TBG Holdings NV, a Company incorporated in the Netherlands Antilles, as the company's ultimate holding Company, and the largest Company in the parent group for which consolidated accounts are prepared.

The smallest company in the group for which group accounts are prepared is Baytor Ltd, which is registered in England and Wales. Copies of these accounts can be obtained from the registered office as noted on page 2 of these accounts.