

AESSEAL PLC
DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003
COMPANY NUMBER 2101607



AESSEAL PLC

DIRECTORS AT 31 DECEMBER 2003

H Conger - Chairman
C J Rea OBE
G W Bridge
R Rea
M O Williams
R J Smith
J Wilkinson
A Roddis
R S Cook
D C Owen

SECRETARY

G W Bridge

REGISTERED OFFICE

Global Technology Centre, Mill Close, Bradmarsh Business Park, Rotherham S60 1BZ

AUDITORS

Roddis Taylor Robinson, Chartered Accountants, 275 Glossop Road, Sheffield S10 2HB

BANKERS

HSBC Bank plc, PO Box 50, 17 Church Street, Sheffield S1 1HH

AESSEAL PLC

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2003

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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ACCOUNTS

The Directors present their report and accounts for the year ended 31 December 2003.

ACTIVITIES

The principal activity of the Company is the design, development, manufacture, sale and support of mechanical seals and engineered sealing systems.

BUSINESS REVIEW

The Directors consider the results for the year and the position at 31 December 2003 to be satisfactory.

RESULTS FOR THE YEAR

Profit on ordinary activities before taxation amounted to £1801108 (2002 £2000144) and after taxation £1242081 (2002 £1424013).

DIVIDENDS

No interim dividend was paid in the year (2002 £Nil). The Directors do not recommend payment of a final dividend for the year ended 31 December 2003.

FIXED ASSETS

Details of changes in tangible fixed assets are given in note 6 to the accounts.

CHARITABLE CONTRIBUTIONS

The Company gave £6275 for charitable purposes in the year.

AESSEAL PLC

REPORT OF THE DIRECTORS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2003

RESEARCH AND DEVELOPMENT ACTIVITIES

The company continues to be committed to investment in research and development in all its areas of activity. This covers new products and processes and innovation in areas such as information technology.

EMPLOYEES

The company organises employee communication and involvement both centrally and locally. All employees are encouraged to understand the Company's business and especially the needs of the customers it serves.

The Company gives consideration to the possibility of employing disabled persons wherever such opportunities exist. Those employees who become disabled are given the opportunity and assistance to continue in their employment or to be trained for other more suitable positions.

POLICY ON PAYMENT OF CREDITORS

It is Company policy to follow a standard payment practice. The terms of the payment practice can be obtained from the Company's registered address which is Global Technology Centre, Mill Close, Bradmarsh Business Park, Rotherham S60 1BZ.

Terms of payment are agreed with suppliers, in line with the standard payment practice, and are adhered to.

The number of creditor days at the year end was 46 days (2002 39 days).

DIRECTORS

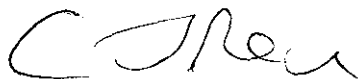
The members of the Board during the year were:

H Conger (Appointed 1 January 2003)
C J Rea OBE
G W Bridge
R Rea
M O Williams
R J Smith
J Wilkinson
A Roddis
R S Cook
D C Owen

AUDITORS

Roddis Taylor Robinson, Chartered Accountants, offer themselves for re-appointment in accordance with Section 385 Companies Act 1985.

On behalf of the Board



C J Rea OBE

16 July 2004

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AESSEAL PLC

We have audited the financial statements of AESSEAL plc for the year ended 31 December 2003 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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 the law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

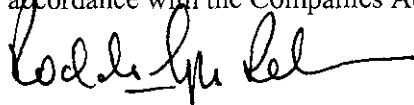
Basis of audit opinion

We conducted our audit in accordance with the 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 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 as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Roddis Taylor Robinson
Chartered Accountants
Registered Auditors

16 July 2004

AESSEAL PLC**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 DECEMBER 2003**

<u>Notes</u>	<u>2003</u> £	<u>2002</u> £
2 TURNOVER		
Continuing operations	23367466	21851238
Change in stocks of finished goods	127234	5173771
Other operating income	200000	387000
	<u>23694700</u>	<u>27412009</u>
20 Raw materials and consumables	(9413325)	(13583176)
Staff costs	(7844958)	(7616716)
Depreciation	(1349763)	(1199510)
Other operating charges	(3114703)	(2923660)
	<u>(21722749)</u>	<u>(25323062)</u>
OPERATING PROFIT		
Continuing operations	<u>1971951</u>	<u>2088947</u>
3 Net interest payable and similar charges	<u>(170843)</u>	<u>(88803)</u>
4 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1801108	2000144
5 Tax on profit on ordinary activities	<u>(559027)</u>	<u>(576131)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	1242081	1424013
Dividends	-	-
15 PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES	<u>1242081</u>	<u>1424013</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**FOR THE YEAR ENDED 31 DECEMBER 2003**

The Company had no recognised gains or losses other than the profit for the year of £1242081 (2002 £1424013).

AESSEAL PLC

BALANCE SHEET AT 31 DECEMBER 2003

<u>Notes</u>	<u>2003</u> £	<u>2002</u> £
FIXED ASSETS		
6 Tangible assets	5850978	5470530
CURRENT ASSETS		
7 Stocks	6299762	6271268
8 Debtors	6672648	5908837
Cash at bank and in hand	114690	452569
	13087100	12632674
9 CREDITORS (amounts due within one year)	(8661411)	(8062690)
NET CURRENT ASSETS	4425689	4569984
TOTAL ASSETS LESS CURRENT LIABILITIES		
	10276667	10040514
10 CREDITORS (amounts due after one year)	(6254121)	(7310049)
12 PROVISIONS FOR LIABILITIES AND CHARGES	(435000)	(385000)
	3587546	2345465
CAPITAL AND RESERVES		
14 Called up share capital	50000	50000
15 Profit and loss account	3537546	2295465
16 SHAREHOLDERS' FUND	3587546	2345465

Signed on behalf of the Board



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C J Rea OBE

AESSEAL PLC

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2003

1. ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the Company's accounts.

a) BASIS OF PREPARATION OF ACCOUNTS

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards. There were no material departures from those standards.

The Company has taken advantage of the exemption in Financial Reporting Standard No. 1 from producing a cash flow statement as it is a wholly owned Subsidiary undertaking of AES Engineering Limited.

b) TURNOVER

Turnover represents the amounts received or receivable for goods and services provided to customers during the year excluding value added tax.

c) TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is calculated at rates intended to write off the cost of the fixed assets over the expected useful lives of the assets concerned. The principal annual rates are:

Plant and machinery	10% straight line
Fixtures and fittings	15% straight line
Computer equipment	20% straight line
Test equipment and tools	20% straight line
Motor vehicles	25% straight line
Short leasehold property	Equal instalments over period of lease

d) STOCKS AND WORK IN PROGRESS

Stock and work in progress are stated at the lower of cost and net realisable value. In respect of work in progress and finished goods, cost includes direct materials, labour and manufacturing overheads incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price less further cost to completion and selling costs. Provision is made for slow moving and obsolete stock.

e) DEFERRED TAXATION

Deferred taxation is provided on the liability method to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes. Tax deferred or accelerated is accounted for in respect of all material timing differences.

AESSEAL PLC

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2003

1. ACCOUNTING POLICIES (CONTINUED)

f) OPERATING CONTRIBUTIONS

Operating contributions are credited to the profit and loss account on a receivable basis.

g) PENSION COSTS

The Company operates defined contribution pension schemes. The charge in the profit and loss account for pension costs is the amount of the Company's contributions payable to the pension schemes in the year.

h) FOREIGN CURRENCY

Transactions denominated in foreign currencies are translated into the local currency using the exchange rate ruling at the date of the transaction. Assets and liabilities denominated in a foreign currency have been translated into the local currency at the year end rates. All revaluation differences and realised foreign exchange differences are taken to the profit and loss account.

i) LEASING

Assets acquired under finance leases or hire purchase contracts are capitalised and depreciated in the same manner as other tangible fixed assets. The related obligations, net of future finance charges, are included in creditors.

Operating lease rentals are charged to the profit and loss account as they are incurred.

j) RESEARCH AND DEVELOPMENT

Research and development of a revenue nature is written off in the year in which it is incurred.

2. SEGMENT INFORMATION

The Company's turnover and profit before taxation are derived from its principal activity.

As permitted by the Companies Act and SSAP 25 the Directors have not disclosed segmental information as they consider it would be seriously prejudicial to the Company's interests.

AESSEAL PLC

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2003

3. NET INTEREST (PAYABLE)/RECEIVABLE AND SIMILAR CHARGES

	<u>2003</u> £	<u>2002</u> £
Interest receivable	45088	41469
Foreign currency exchange gains (net)	20194	83655
Bank overdrafts	(192237)	(181804)
Finance charges – hire purchase obligations and finance leases	(43888)	(32123)
	<u>(170843)</u>	<u>(88803)</u>

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>2003</u> £	<u>2002</u> £
After charging:		
Directors' emoluments (see note 19)	780237	688273
Depreciation – owned assets	1179288	1055785
Depreciation – assets held under hire purchase contracts	167466	165134
Auditors' remuneration including expenses		
Audit	14750	14000
Non Audit services	7100	8415
Operating leases – property	65282	48591
Research and development costs	2530576	2296828
Loss on disposal of fixed assets	3009	-
	<u> </u>	<u> </u>
After crediting:		
Foreign currency exchange gains (net)	20194	83655
Profit on disposal of fixed assets	-	21409
Operating contributions receivable	80000	270000
	<u> </u>	<u> </u>

AESSEAL PLC

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2003

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of the tax charge:

The tax charge on the profit on ordinary activities for the year was as follows:

	<u>2003</u> £	<u>2002</u> £
Current tax:		
UK Corporation tax on profits of the period	473784	537131
Adjustments in respect of previous periods	35243	-
	<u>509027</u>	<u>537131</u>
Deferred tax:		
Origination and reversal of timing differences	50000	39000
	<u>559027</u>	<u>576131</u>
Tax on profits on ordinary activities		

Factors affecting the tax charge:

The tax charged on the profit for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	<u>2003</u> £	<u>2002</u> £
Profit on ordinary activities before tax	<u>1801108</u>	<u>2000144</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002 30%)	540332	600043
Effects of:		
Expenses not deductible/expenses allowable for tax purposes	19283	4375
Capital allowances in excess of depreciation for the period	(37253)	(43712)
Origination and reversal of other timing differences	(29578)	(3575)
Other reliefs	(19000)	(20000)
Under provision in prior year	35243	-
Current tax charge for period	<u>509027</u>	<u>537131</u>

AESSEAL PLC

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2003

6. TANGIBLE FIXED ASSETS

	<u>Land and Buildings</u> £	<u>Plant, Fixtures and Equipment</u> £	<u>Motor Vehicles</u> £	<u>Total</u> £
Cost:				
At 1 January 2003	37462	9383357	944592	10365411
Additions	12285	1542546	254933	1809764
Disposals	-	(301028)	(292397)	(593425)
At 31 December 2003	49747	10624875	907128	11581750
Depreciation:				
At 1 January 2003	22829	4379234	492818	4894881
Provision for the year	11321	1133598	201835	1346754
Disposals	-	(267008)	(243855)	(510863)
At 31 December 2003	34150	5245824	450798	5730772
Net book value:				
At 31 December 2003	15597	5379051	456330	5850978
At 31 December 2002	14633	5004123	451774	5470530

The net book value of land and buildings comprises:

	<u>2003</u> £	<u>2002</u> £
Short leasehold	15597	14633

The cost of depreciable assets included in land and buildings at 31 December 2003 was £49747 (2002 £37462).

The net book value of tangible fixed assets includes an amount of £990363 (2002 £1470364) in respect of assets held under hire purchase contracts or finance leases.

AESSEAL PLC

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2003

7. STOCKS

	<u>2003</u> £	<u>2002</u> £
Raw materials and work in progress	807492	906232
Finished goods and goods for resale	5492270	5365036
	<u>6299762</u>	<u>6271268</u>

8. DEBTORS

	<u>2003</u> £	<u>2002</u> £
Trade debtors	2592349	2620363
Amounts owed by Group undertakings	3806795	2906552
Other debtors	63849	97104
Prepayments and accrued income	209655	284818
	<u>6672648</u>	<u>5908837</u>

9. CREDITORS (AMOUNTS DUE WITHIN ONE YEAR)

	<u>2003</u> £	<u>2002</u> £
Bank overdrafts	5420734	5371033
Obligations under finance leases and hire purchase contracts	252083	454550
Trade creditors	1833276	1199206
Amounts owed to Group undertakings	254284	47360
Other creditors	9674	9811
Corporate tax payable	240987	337131
Other taxes and social security	201856	261584
Accruals and deferred income	448517	382015
	<u>8661411</u>	<u>8062690</u>

AESSEAL PLC

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2003

10. CREDITORS (AMOUNTS DUE AFTER ONE YEAR)

	<u>2003</u>	<u>2002</u>
	£	£
Obligations under finance leases and hire purchase contracts	452309	711018
Amounts owed to Group undertakings	5801812	6599031
	<u>6254121</u>	<u>7310049</u>

11. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	<u>2003</u>	<u>2002</u>
	£	£
Obligations under finance leases and hire purchase contracts	704392	1165568
Due within one year (included in current liabilities)	(252083)	(454550)
Repayable between two and five years	<u>452309</u>	<u>711018</u>

The obligations under finance leases and hire purchase contracts are secured on certain tangible fixed assets of the Company.

12. PROVISIONS FOR LIABILITIES AND CHARGES

	<u>Deferred Taxation</u>
	£
At 1 January 2003	385000
Transfer from profit and loss account	50000
At 31 December 2003	<u>435000</u>

AESSEAL PLC

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2003

13. DEFERRED TAXATION

The balance at 31 December 2003 is made up as follows:-

	<u>2003</u> £	<u>2002</u> £
Timing differences:		
Accelerated capital allowances	437000	393000
Other timing differences	(2000)	(8000)
	<u>435000</u>	<u>385000</u>

14. CALLED UP SHARE CAPITAL

	<u>2003</u> £	<u>2002</u> £
Authorised:		
50000 ordinary shares of £1 each	<u>50000</u>	<u>50000</u>
Allotted and fully paid:		
50000 ordinary shares of £1 each	<u>50000</u>	<u>50000</u>

15. RESERVES

	<u>Profit and Loss Account</u> £
At 1 January 2003	2295465
Retained profit for the year	<u>1242081</u>
At 31 December 2003	<u>3537546</u>

AESSEAL PLC

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2003

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>2003</u> £	<u>2002</u> £
Equity interests:		
Profit for the year and net increase in shareholders' funds	1242081	1424013
Opening shareholders' funds	2345465	921452
Closing shareholders' funds	<u>3587546</u>	<u>2345465</u>

17. CAPITAL COMMITMENTS

Commitments for capital expenditure at the year end were as follows:

	<u>2003</u> £	<u>2002</u> £
Authorised and contracted for	<u>725000</u>	<u>-</u>

18. LEASING COMMITMENTS

At 31 December 2003 the Company had annual commitments under non-cancellable operating leases as detailed below:

	<u>2003</u> £	<u>2002</u> £
Land and buildings		
Operating leases which expire:		
Within two to five years	47500	35667
After five years	<u>10560</u>	<u>-</u>

AESSEAL PLC

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2003

19. INFORMATION REGARDING DIRECTORS

Share interests:

One Director had a non-beneficial interest in shares at 31 December 2003. The details of the interests in the shares of the Company at that date and corresponding details at 31 December 2002 are as follows:

	<u>2003</u>	<u>2002</u>
C J Rea	<u>1</u>	<u>1</u>

Directors' interests in Parent undertaking:

The interest of C J Rea, who is a Director of the Parent Company, in the shares of AES Engineering Limited are shown in that Company's accounts. Other Directors have the following interests in the Parent undertaking:

	<u>2003</u>	<u>2002</u>
Ordinary shares of £1 each		
R Rea	13258	13258
M O Williams	<u>11075</u>	<u>11075</u>
"B" ordinary shares of £1 each		
A Roddis	222	-
J Wilkinson	<u>166</u>	<u>-</u>

Remuneration:

	<u>2003</u> £	<u>2002</u> £
Directors' emoluments amounted to:		
Emoluments including benefits in kind	717184	614259
Money purchase pension scheme contributions	<u>63053</u>	<u>74014</u>
	<u>780237</u>	<u>688273</u>

	<u>2003</u> £	<u>2002</u> £
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Highest paid Director:

Emoluments including benefits in kind	148855	123150
Money purchase pension scheme contributions	<u>17250</u>	<u>23594</u>
	<u>166105</u>	<u>146744</u>

There are six Directors who are members of money purchase pension schemes (2002 six).

Financial transactions:

During the year the Company traded with AES Engineering Limited and Subsidiaries of AES Engineering Limited. All transactions were carried out on a normal commercial basis.

AESSEAL PLC

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2003

20. PARTICULARS OF EMPLOYEES

The average number of persons employed by the Company (including Directors) during the year was:

Category:	<u>2003</u>	<u>2002</u>
Sales engineers	54	51
Management and administration	88	99
Production and stores	174	171
	<u>316</u>	<u>321</u>
Their total remuneration was:	<u>2003</u>	<u>2002</u>
	£	£
Wages and salaries	7076541	6884834
Social security costs	649986	622281
Other pension costs	118431	109601
	<u>7844958</u>	<u>7616716</u>

21. PENSION COSTS

The Company operates defined contribution pension schemes. The assets of the schemes are held separately from those of the Company in independently administered funds.

Contributions payable to the schemes by the Company are included in the pension cost charge in respect of the year and amounted to £118431 (2002 £109601). There were outstanding contributions at the year end of £14052 (2002 £26688).

22. RELATED PARTIES

a) Controlling Parties

The Company is under the control of AES Engineering Limited. The ultimate controlling party is considered to be Mr C J Rea, by virtue of his shareholding in that Company.

b) Related Party Transactions

Advantage has been taken of the exemption in FRS8 from disclosing transactions with AES Engineering Limited and other Group Companies in the AES Group as the Company is a 100% Subsidiary undertaking of AES Engineering Limited. The Company did not enter into any material transactions with the Directors during the year.

AESSEAL PLC

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2003

23. PARENT UNDERTAKING AND ULTIMATE HOLDING COMPANY

AES Engineering Limited is the Company's smallest and largest Parent undertaking and ultimate Holding Company.

Copies of the accounts of AES Engineering Limited can be obtained from the Registered Office at Global Technology Centre, Mill Close, Bradmarsh Business Park, Rotherham S60 1BZ, United Kingdom.

24. COMMITMENTS ON BEHALF OF GROUP COMPANIES

Along with the other Group undertakings based in the United Kingdom, the Company has given security in favour of HSBC Bank plc against Group borrowings by way of an Unlimited Multilateral Company guarantee to secure all liabilities of each other, and a debenture giving fixed and floating charges over assets of the Company.

25. APPROVAL OF ACCOUNTS

These accounts were approved at a Directors' meeting held on 16 July 2004.