# SURFACE TECHNOLOGY INTERNATIONAL LTD

## REPORT AND FINANCIAL STATEMENTS

## YEAR ENDED 31 MAY 2000




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COMPANIES HOUSE
0455
03/05/01

*S F Brocklehurst & Co*
*The Hollies*
*Woodham Road*
*Woking*
*Surrey GU21 4EN*

sti

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## BANKERS

Nat West Bank
Old Market Square Branch
3 London Street
Basingstoke
Hants RG21 7NS.

## SOLICITORS

Stringer Saul
17 Hanover Square
London WIR 9AJ

## AUDITORS

S F Brocklehurst & Co.
The Hollies
Woodham Road
Woking
Surrey GU21 4EN.

## FINANCIAL ADVISORS

Reid & Co.
Witan Court
305 Upper Fourth Street
Central Milton Keynes
MK9 1EH.

**SURFACE TECHNOLOGY INTERNATIONAL LTD**

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## SURFACE TECHNOLOGY INTERNATIONAL LIMITED

### CHAIRMANS REPORT

The company has completed a challenging year and I consider the results to be satisfactory taking into account the difficult trading conditions we have had to contend with.

### TRADING

The year has seen considerable disruption with the ongoing problems in the supply of Electronic Components, resulting in more customers requiring a Fully Procured Service. This has led to an increase in turnover by 19% to £9.2m. This would have been higher if our component supply problems had been less. The impact of these problems increased the need to carry additional stocks and increased both costs and the demands on our cash.

The year has seen export Sales increase by 6% to 20% and we continue to improve our market penetration in both Europe and North America.

On behalf of the Directors I would like to congratulate the Management Team and their loyal staff on their successes achieved during the year.

The continued progress in Sales Growth that has been made in the last part of the year will ensure a return to higher profits and continued growth next year.

### FUTURE

The first quarter has seen a very positive start to the year, with sales of just under £4m. We continue to attract new customers and our order book grows accordingly. A major capital investment plan is now underway to ensure the company remains a key force in the Specialist Contract Manufacturing Marketplace.

Simon Best
Chairman
30 November 2000

**SURFACE TECHNOLOGY INTERNATIONAL LTD**

**Report of the directors for the year ended 31 May 2000**

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The directors present their report together with the audited financial statements for the year ended 31 May 2000.

The principal activity of the company is that of the provision of assembly services for the electronics industry.

The directors of the company during the year and their notifiable interests in the allotted shares of the company were:-

| | *31 May 2000* | *1 June 1999* |
|---|---|---|
| CHIGA Consultants Ltd ( resigned 1 April 2000) | - | - |
| PALGO Ltd (resigned 1 April 2000) | - | - |
| S A Best (appointed 1 April 2000) | 50,200 | - |
| P M Smith (appointed 1 April 2000) | 200 | - |

The results of the year's trading, the financial position of the company and the transfer to reserves are shown in the annexed financial statements.

During the year the company made charitable donations of £1,107.

The directors recommend that a dividend of £180,709 be paid in respect of the year.

The directors consider that the company has traded satisfactorily in the year.

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 departure disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

## Report of the directors for the year ended 31 May 2000 (continued)

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.

The Auditors, Messrs S F Brocklehurst & Co., have indicated their willingness to act and will be proposed for reappointment under Section 385 (2) of the Companies Act 1985.

**By order of the Board**

**Reid & Co Professional Services Ltd**
**Company Secretary**
**Company No 02292621**
**30 November 2000**

## Report of the auditors

## To the directors of Surface Technology International Ltd

We have audited the financial statements on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

*Respective responsibilities of directors and auditors*

The company's directors are responsible for the preparation of the 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 an 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 May 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**S F Brocklehurst & Co**
**Chartered Accountants and**
**Registered Auditors**
**30 November 2000**

**The Hollies**
**Woodham Road**
**Woking**
**Surrey GU21 4EN**

## SURFACE TECHNOLOGY INTERNATIONAL LTD

### Balance sheet at 31 May 2000

| | Note | 2000 £ | 1999 £ |
|---|---|---|---|
| **Tangible Fixed Assets** | 2 | 1,081,947 | 1,284,573 |
| **Current assets** | | | |
| Stocks | 3 | 1,313,530 | 447,664 |
| Debtors | 4 | 1,451,189 | 909,487 |
| Cash at bank and in hand | | 45,993 | 258,350 |
| | | 2,810,712 | 1,615,501 |
| **Creditors : amounts falling due within one year** | 5 | 3,069,644 | 2,107,097 |
| **Net current liabilities** | | - 258,932 | - 491,596 |
| **Total assets less current liabilities** | | 823,015 | 792,977 |
| **Creditors : amounts falling due after more than one year** | 6 | 68,965 | 211,336 |
| **Net Assets** | | £ 754,050 | £ 581,641 |
| **Capital and reserves** | | | |
| Called up share capital | 7 | 100,400 | 100,000 |
| Profit and loss account | | 653,650 | 481,641 |
| **Shareholders' Funds** | 8 | £ 754,050 | £ 581,641 |

**On behalf of the Board**

S A Best
**Director**

The financial statements were approved by the Board of Directors on 30 November 2000.

The annexed notes form part of these financial statements.

## SURFACE TECHNOLOGY INTERNATIONAL LTD

### Profit and Loss Account for the year ended 31 May 2000

| | NOTES | 2000 | 1999 |
|---|---|---|---|
| | | £ | £ |
| **TURNOVER** | | 9,185,302 | 7,696,350 |
| Cost of Sales | | 6,549,788 | 4,877,048 |
| **GROSS PROFIT** | | 2,635,514 | 2,819,302 |
| Administrative Expenses | | 1,984,659 | 2,015,046 |
| **OPERATING PROFIT** | 9 | 650,855 | 804,256 |
| Interest payable | 10 | 144,828 | 115,930 |
| Interest receivable | | - 6,056 | - 4,647 |
| **PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION** | | 512,083 | 692,973 |
| Taxation on profit on ordinary activities | 11 | 159,365 | 63,000 |
| **PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION** | | 352,718 | 629,973 |
| Dividends | | 180,709 | 100,000 |
| Retained profits for the year | | 172,009 | 529,973 |
| Capitalisation of Reserves | | 0 | - 50,000 |
| Retained profits brought forward | | 481,641 | 1,668 |
| **RETAINED PROFITS CARRIED FORWARD** | | £ 653,650 | £ 481,641 |

The only recognised gain for the period is the profit for the period.

There were no acquisitions and no discontinued operations in the year.

The annexed notes form part of these financial statements.

**SURFACE TECHNOLOGY INTERNATIONAL LTD**

**Cash Flow Statement for the year ended 31 May 2000**

| | Notes | 2000 £ | 1999 £ |
|---|---|---|---|
| **RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES** | | | |
| Operating profit | | 650,855 | 804,256 |
| Depreciation charges | | 396,532 | 322,689 |
| Increase in stocks | | - 865,866 | - 228,249 |
| Increase in debtors | | - 541,702 | - 399,608 |
| Increase in creditors | | 897,515 | 472,264 |
| **NET CASH INFLOW FROM OPERATING ACTIVITIES** | | £ 537,334 | £ 971,352 |
| **CASH FLOW STATEMENT** | | | |
| Net cash inflow from operating activities | | 537,334 | 971,352 |
| Returns on investments and servicing of finance | 16 | - 138, 772 | - 111,283 |
| Taxation | | - 62,165 | - |
| Capital expenditure | 16 | - 193,906 | - 778,779 |
| Issue of ordinary share capital | | 400 | - |
| | | 142,891 | 81,290 |
| Equity Dividends Paid | | - 180,709 | - 100,000 |
| **DECREASE IN CASH** | | £ - 37,818 | £ - 18,710 |
| **RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT** | | | |
| Decrease in cash in the year | 17 | - 37,818 | - 18,710 |
| Change in net debt | | | |
| Net debt at 1 June 1999 | | - 596,522 | - 577,812 |
| **NET DEBT AT 31 MAY 2000** | | £ - 634,340 | £ - 596,522 |

## 1 Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below and have remained unchanged from the previous year, and also have been consistently applied within the same accounts.

(a) *Basis of Preparation of Financial Statements.*
The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The effects of events relating to the year ended 31 May 2000 before the date of approval of the financial statements by the Board of Directors have been included in the statements to the extent required to show a true and fair view of the state of affairs at 31 May 2000 and of the results for the year ended on that date.

(b) *Depreciation*

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

| | |
|---|---|
| Motor vehicles | - 25% per annum |
| Furniture, fixtures and equipment | - 10 - 20% per annum |
| Leasehold premises | - over life of lease |

(c) *Stocks and Work in Progress*

Stocks and Work in Progress are stated at the lower of cost and net realisable value as follows:-

*Raw Materials and Consumables* – Cost means purchase price calculated on a first in, first out basis.

*Work in progress and finished goods* - Cost consists of direct materials and labour and attributable production overheads.

*Net realisable value* is based on estimated selling price less further costs to completion and disposal.

(d) *Leasing*

Tangible fixed 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.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the year of the lease.

(e) *Research and Development*

Expenditure is written off to the profit and loss account in the year in which it is incurred.

(f) *Foreign exchange*

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances at the year-end denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date.

(g) *Deferred taxation*

Provision is made for taxation at the rate applicable at the Balance Sheet date in respect of items where there is a timing difference between their treatment for financial statements and taxation purposes except where there is reasonable probability that a liability will not arise in the foreseeable future.

(h) *Turnover*

Turnover represents the value of sales completed during the year exclusive of Value Added Tax from the principal activity. 20% of sales were export (1999 – 14%).

(i) *Pension Costs*

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £71,522 (1999 - £ 80,926). There were no outstanding or prepaid contributions at the year-end.

## 2. Tangible fixed assets

| | Total | Motor Vehicles | Furniture Fixtures & Equipment | Leasehold Premises |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| *Cost* | | | | |
| As at 1 June 1999 | 2,206,813 | 41,650 | 2,130,320 | 34,843 |
| Additions | 200,106 | 27,001 | 173,105 | - |
| Disposals | - 45,739 | - 41,650 | - 4,089 | - |
| As at 31 May 2000 | 2,361,180 | 27,001 | 2,299,336 | 34,843 |
| *Depreciation* | | | | |
| As at 1 June 1999 | 922,240 | 33,809 | 872,037 | 16,394 |
| Charge for the year | 395,925 | 4,503 | 389,622 | 1,800 |
| Disposals | - 38,932 | - 35,880 | - 3,052 | - |
| As at 31 May 2000 | 1,279,233 | 2,432 | 1,258,607 | 18,194 |
| *Net book value* | | | | |
| At 31 May 2000 | £1,081,947 | £24,569 | £1,040,729 | £16,649 |
| At 31 May 1999 | £1,284,573 | £ 7,841 | £ 1,258,283 | £18,449 |

The net book value of the company's tangible fixed assets included £ 368,973 (1999 - £ 922,082) in respect of assets held under lease and hire purchase contracts.

## 3. Stocks

| | 2000 | 1999 |
|---|---|---|
| | £ | £ |
| Materials and consumables | 960,005 | 67,248 |
| Work in progress | 353,525 | 380,416 |
| | £1,313,530 | £447,664 |

## 4. Debtors

| | 2000 | 1999 |
|---|---|---|
| | £ | £ |
| Trade debtors | 1,380,412 | 848,413 |
| Other debtors | 3,961 | 1,300 |
| Prepayments | 66,816 | 59,774 |
| | £1,451,189 | £909,487 |

## 5. Creditors : Amounts falling due within one year

| | 2000 £ | 1999 £ |
|---|---|---|
| Trade creditors | 2,091,889 | 1,005,860 |
| Corporation tax | 160,200 | 63,000 |
| Other taxes and social security costs | 162,996 | 96,651 |
| Accruals | 43,185 | 255,714 |
| Lease and hire purchase – current instalments (see note 6) | 217,415 | 350,561 |
| Bank overdraft | 393,953 | 292,975 |
| Other creditors | 6 | 42,336 |
| | £3,069,644 | £2,107,097 |

The bank overdraft is secured over the leasehold premises of the company and a fixed and floating charge over the assets of the company.

## 6. Creditors : amounts falling due after more than one year

| | 2000 £ | 1999 £ |
|---|---|---|
| Obligations under contracts | 286,380 | 561,897 |
| Less current portion shown in current liabilities | 217,415 | 350,561 |
| Repayable 2 – 5 years | £ 68,965 | £211,336 |

Obligations under lease and hire purchase contracts are shown after deducting £29,581 (1999 - £57,687)financing charges which are allocated to future years.

## 7. Called Up Share Capital

| | 2000 £ | 1999 £ |
|---|---|---|
| Ordinary Shares of £1 each Authorised | £104,000 | £100,000 |
| Ordinary Shares of £1 each Allotted and Fully Paid | £100,400 | £100,000 |

On 1 April 2000, the authorised share capital of the company was increased by the creation of 1000 'A' ordinary shares of £1 each, 1000 'B' ordinary shares of £1 each, 1,000 'C' ordinary shares of £1 each and 1000 'D' ordinary shares of £1 each, all ranking pari passu with the existing ordinary shares of the company.

On 1 April 2000, 100 'A' ordinary shares of £1 each, 100 'B' ordinary shares of £1 each, 100 'C' ordinary shares of £1 each and 1000 'D' ordinary shares of £1 each were issued at par.

## 8. Reconciliation of Movements in Shareholders' Funds

| | 2000 | 1999 |
|---|---|---|
| | £ | £ |
| Profit for the Financial Year | 352,718 | 629,973 |
| Dividends | 180,709 | 100,000 |
| Net Addition to Shareholders' Funds | 172,009 | 529,973 |
| Opening Shareholders' Funds | 581,641 | 51,668 |
| Share Capital Allotted | 400 | - |
| Closing Shareholders' Funds | £754,050 | £ 581,641 |

## 9. Operating loss is stated after charging:

| | 2000 | 1999 |
|---|---|---|
| | £ | £ |
| Profit on Disposal of fixed assets | 607 | - 17,278 |
| Depreciation and amortisation of owned assets | 313,772 | 150,266 |
| Depreciation of assets held under lease and hire purchase contracts | 82,153 | 189,701 |
| Auditors' remuneration | 5,500 | 5,000 |
| Management services | 175,137 | 264,794 |
| *Hire of equipment* - | | |
| Plant and machinery | 19,371 | 2,791 |
| Other | 84,485 | 25,978 |

## 10. Interest payable

| | 2000 | 1999 |
|---|---|---|
| | £ | £ |
| Bank interest and charges | 41,385 | 22,647 |
| Lease and hire purchase interest | 36,091 | 32,732 |
| Discounting charges | 67,352 | 60,551 |
| | £144,828 | £115,930 |

## 11. Taxation on profit on ordinary activities

| | 2000 | 1999 |
|---|---|---|
| | £ | £ |
| UK Corporation Tax 20% -30% | 160,200 | 63,000 |
| Overprovision in prior year | - 835 | - |
| | £159,365 | £ 63,000 |

The company is a close company under the provisions of the Income and Corporation Taxes Act 1988.

## 12. Staff Costs

The average number of persons employed by the company during the year, including directors, was as follows:

| | 2000 Number | 1999 Number |
|---|---|---|
| Management and administration | 24 | 18 |
| Production | 103 | 105 |
| Sales | 8 | 7 |

The aggregated payroll costs of these persons were as follows:

| | 2000 £ | 1999 £ |
|---|---|---|
| Wages and salaries | 2,016,681 | 1,754,000 |
| Social security | 185,824 | 157,903 |
| Other pension costs | 71,522 | 80,926 |
| | £ 2,274,027 | £1,992,829 |

## 13. Leasing commitments

At 31 May 2000 the company had annual commitments under non-cancellable operating leases as detailed below:-

| | 2000 | | 1999 | |
|---|---|---|---|---|
| | Land and Buildings £ | Other £ | Land and Buildings £ | Other £ |
| *Operating leases which expire:* | | | | |
| Within one year | - | 10,167 | - | 11,055 |
| Within two to five years | - | 109,179 | - | 19,769 |
| Over five years | 85,000 | - | 85,000 | - |
| | 85,000 | 119,346 | 85,000 | 30,824 |

## 14. Contingent liability

The total potential liability to deferred taxation is as follows:

| | 2000 | 1999 |
|---|---|---|
| Capital allowances in excess of depreciation | £76,000 | £72,000 |

## 15. Related party disclosures

The directors and their transactions with the company during the year were as follows:

CHIGA Consultants Limited, a company controlled by Mr S A Best, a shareholder, billed the company £118,204 (1999 - £ 168,645) for management services. At 31 May 2000 £42,935 was owed by CHIGA Consultants Ltd. This was repaid after the year-end.

PALGO Limited, a company controlled by Mr P Smith, billed the company £56,933 (1999 -£ 59,613) for management services. At 31 May 2000 £11,510 was owed to PALGO Ltd.

## 16. Gross cash flows

| | 2000 | 1999 |
|---|---|---|
| | £ | £ |
| *Returns on investments and servicing of finance* | | |
| Interest paid | - 144,828 | - 115,930 |
| Interest received | 6,056 | 4,647 |
| | £ -138,772 | £ - 111,283 |
| *Capital expenditure* | | |
| Payments to acquire tangible fixed assets | - 200,106 | - 809,479 |
| Receipts from sales of tangible fixed assets | 6,200 | 30,700 |
| | £ -193,906 | £ - 778,779 |

## 17. Analysis of changes in net debt

| | 1999 | Cashflows | Other changes | At 2000 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Cash in hand, at bank | 258,350 | - 212,357 | - | 45,993 |
| Overdrafts | - 292,975 | - 100,978 | - | - 393,953 |
| Debt due within one year | - 350,561 | 275,517 | - 142,371 | - 217,415 |
| Debt due after one year | - 211,336 | - | 142,371 | - 68,965 |
| Total | £ - 596,522 | £ - 37,818 | £ - | £ - 634,340 |