

Registrar

Company Number
33672

ISPC Surface Preparation Limited
(formerly USF Surface Preparation Limited)

Report and financial statements
Year ended 31 December 2003



ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Report of the directors for the year ended 31 December 2003

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The principal activities of the company are the manufacture and supply of surface preparation machinery and associated spare parts and servicing.

Business review

Turnover was £27,316,000 for the year ended 31 December 2003 compared to £32,062,000 for the year ended 31 December 2002. The operating loss for the year ended 31 December 2003, before exceptional items, was £285,000 compared to a profit of £558,000 for the year ended 31 December 2002.

As described in note 21, during the year the group was acquired by International Surface Preparation Corporation. Significant exceptional restructuring costs amounting to £3,315,000 were incurred in the UK in re-organising operations and these are detailed in note 3. As part of this process the company also sold its Metaref trading division, reporting a profit on disposal of £1,489,000.

The loss on ordinary activities after exceptional items and interest payable was £2,476,000 (2002 profit of £476,000)

The company name changed from USF Surface Preparation Limited on 16 September 2003.

Results and dividends

The audited financial statements for the year ended 31 December 2003 are set out on pages 6 to 23. The loss for the year after taxation was £2,496,000 (31 December 2002 – profit £560,000).

The directors do not recommend payment of a dividend (2002: *£nil*).

Directors and directors' interests

The directors who held office during the year were as follows:

A T Carmichael (resigned 14 August 2003)
S A Cole (resigned 14 August 2003)
H A Rodder (resigned 14 August 2003)
H M Andresen (appointed 14 August 2003)
M M Iwan (appointed 14 August 2003, resigned 2 December 2003)

None of the directors who held office at the end of the financial year had any disclosable beneficial interest in the shares of the company or any other group company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them during the financial year.

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Report of the directors for the year ended 31 December 2003 (continued)

Market value of land and buildings

The directors consider that the market value of the company's interest in land and buildings, based upon professional valuations carried out after the end of the financial year amounts to £3,474,000. This is £1,143,000 greater than the net book value shown in these financial statements.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes 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 and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The directors are responsible for communicating relevant information to all employees and for developing their involvement in company affairs as appropriate.

Company's policy on payment of creditors

The group agrees terms and conditions which include payment details with its suppliers. Payment is made in accordance with those terms and conditions, provided that the supplier has also complied with them. At 31 December 2003 the average number of days trade creditors was 42 (2002 43).

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 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; and
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Report of the directors for the year ended 31 December 2003 (continued)

Auditors

On 31 December 2003, BDO Stoy Hayward, the company's auditors, transferred their business to BDO Stoy Hayward LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. Accordingly BDO Stoy Hayward resigned as auditors on that date and the directors appointed BDO Stoy Hayward LLP as successor. A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the board



H M Andresen
Director

27 October 2004

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Report of the independent auditors

To the shareholders of ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

We have audited the financial statements of ISPC Surface Preparation Limited for the year ended 31 December 2003 on pages 6 to 24 which have been prepared under the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

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 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with 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.

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Report of the independent auditors (Continued)

Basis of audit opinion (continued)

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 loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors
Manchester*

Date *27 October 2004*

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Profit and loss account for the year ended 31 December 2003

	Note	2003		Total £000	2002 £'000
		Continuing operations £000	Discontinued operations £000		
Turnover	2	26,995	321	27,316	32,062
Cost of sales		(20,131)	(236)	(20,367)	(24,447)
Gross profit		<u>6,864</u>	<u>85</u>	<u>6,949</u>	<u>7,615</u>
Other operating expenses		(7,234)	-	(7,234)	(7,057)
Operating (loss)/profit before exceptional items		<u>(370)</u>	<u>85</u>	<u>(285)</u>	<u>558</u>
Exceptional charges	2			(3,315)	-
Profit on sale of an operation	2			1,489	-
Interest payable and similar charges	4			(365)	(82)
(Loss)/profit on ordinary activities before taxation	3			<u>(2,476)</u>	<u>476</u>
Tax on (loss)/profit on ordinary activities	7			(20)	84
(Loss)/profit on ordinary activities after taxation for the year				<u>(2,496)</u>	<u>560</u>

All amounts relate to continuing activities.

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Balance sheet at 31 December 2003

	Note	£000	2003 £000	£000	2002 £000
Fixed assets					
Intangible assets	8		1,062		1,164
Tangible assets	9		3,212		4,306
Investments	10		4,571		4,571
			<u>8,845</u>		<u>10,041</u>
Current assets					
Stocks	11	3,748		4,046	
Debtors	12	15,234		21,081	
Cash at bank and in hand		955		1,130	
			<u>19,937</u>	<u>26,257</u>	
Creditors: amounts falling due within one year	13	(6,378)		(14,309)	
			<u>13,559</u>		<u>11,948</u>
Total assets less current liabilities					
			<u>22,404</u>		<u>21,989</u>
Creditors: amounts falling due after more than one year	14		(17,980)		(15,074)
Provisions for liabilities and charges	15		(295)		(290)
			<u>4,129</u>		<u>6,625</u>
Net assets					
Capital and reserves					
Called up share capital	16		1,336		1,336
Share premium account	17		314		314
Other reserve	17		169		169
Profit and loss account	17		2,310		4,806
			<u>4,129</u>		<u>6,625</u>
Shareholders' funds					
Shareholders' funds may be analysed as:					
Equity interests			2,809		5,305
Non-equity interests			1,320		1,320
			<u>4,129</u>		<u>6,625</u>

These financial statements were approved by the board of directors on 27 October 2004 and were signed on its behalf by


H.M. Andresen
 Director

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Reconciliation of movements in shareholders' funds for the year ended 31 December 2003

	2003	2002
	£000	£000
(Loss)/profit for the financial year	(2,496)	560
Net (reduction in)/addition to shareholders' funds	(2,496)	560
Opening shareholders' funds	6,625	6,065
Closing shareholders' funds	4,129	6,625

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003

1 Accounting policies

The following accounting policies have all been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about the group.

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements (Revised 1996)' not to prepare a cash flow statement on the grounds that at least 90% of the voting rights in the company are controlled within the group headed by Surface Preparation (Gibraltar) Limited and the company's results are included in consolidated financial statements.

The company has taken advantage of the exemption contained in FRS 8 not to disclose transactions or balances with entities which form part of the group. The consolidated financial statements within which this company is included, can be obtained from the address given in note 21.

Intangible fixed assets and amortisation

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which the directors consider to be twenty years. Provision is made for any impairment.

Patents and trade marks are included at cost and depreciated in equal, annual instalments over a period of eight years which is their estimated useful economic life. Provision is made for any impairment.

Fixed assets and depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	2% to 2.5% per annum
Short leasehold land and buildings	Term of lease
Plant and equipment	10% to 25% per annum
Motor vehicles, computers, office equipment fixtures and fittings	25% per annum

Residual value is calculated on prices prevailing at the date of acquisition.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials (on a first in first out basis), direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 (*continued*)

1 Accounting policies (*continued*)

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Pension costs and other post retirement benefits

The company offers pensions to substantially all employees through a defined benefit scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular costs are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the period in which it is incurred.

Finance costs

Finance costs of debt and non-equity shares are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount. Where the finance costs for non-equity shares are not equal to the dividends on these instruments, the difference is also accounted for in the profit and loss account as an appropriation of profits.

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes on sales where applicable.

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 (continued)

2 Turnover and (loss)/profit on ordinary activities before taxation

An analysis of turnover by geographical market is given below:

	2003 £000	2002 £000
United Kingdom	13,051	14,837
Rest of World	14,265	17,225
	<u>27,316</u>	<u>32,062</u>

All turnover is attributable to the principal activity of the company.

3 (Loss)/profit on ordinary activities before taxation

	2003 £000	2002 £000
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(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):

Depreciation and amounts written off tangible assets:

Owned	825	550
Held under finance leases and hire purchase contracts	22	45
Amortisation of patents and trademarks	12	12
Amortisation of goodwill	90	90
Loss on sale of fixed assets	(2)	-
Operating lease rentals – plant and machinery	461	543
Operating lease rentals - land and buildings	787	840
Auditors' remuneration - audit services	68	80
- non-audit services	10	-
	<u> </u>	<u> </u>

Exceptional items

Exceptional costs comprise the following in respect of the re-structuring of UK operations:

	£000
Redundancy costs	1,139
Amounts written off fixed assets	382
Provisions against current assets	644
Provision for property costs and termination of leases	423
Other restructuring costs	727
	<u>3,315</u>

The exceptional profit on sale of an operation amounting to £1,489,000, relates to the disposal of the trade and assets of the Metaref division for consideration of £1,894,000.

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 *(continued)*

3 (Loss)/profit on ordinary activities before taxation *(continued)*

Discontinued operations

During the year the business and assets of the Metaref division were disposed of. Details of discontinued activities are disclosed on the face of the profit and loss account and comparatives were as follows:

	Continuing operations £'000	2002 Discontinued operations £'000	Total £'000
Turnover	30,486	1,576	32,062
Cost of sales	23,274	(1,173)	(24,447)
Gross profit	<u>7,212</u>	<u>403</u>	<u>7,615</u>
Other operating expenses	7,057	-	7,057
Operating profit	<u><u>155</u></u>	<u><u>403</u></u>	<u><u>558</u></u>

4 Interest payable and similar charges

	2003 £000	2002 £000
Finance charges payable in respect of finance leases and hire purchase contracts	4	13
On all other loans	290	238
On bank loans and overdrafts	87	157
Exchange (gain)/loss on foreign currency borrowings	-	(318)
Other interest received	(16)	(8)
	<u><u>365</u></u>	<u><u>82</u></u>

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 (continued)

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year (analysed by category) was as follows:

	2003	2002
Production	152	205
Sales	74	84
Administration	39	44
	<u>265</u>	<u>333</u>

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£000	£000
Wages and salaries	6467	7,679
Social security costs	566	706
Other pension costs (see note 19)	460	498
	<u>7493</u>	<u>8,883</u>

6 Directors' remuneration

	2003	2002
	£000	£000
Directors' emoluments	222	332
Company contributions to money purchase pension schemes	8	14
	<u>230</u>	<u>346</u>

The emoluments, excluding pension contributions, of the highest paid director were £84,063 (2002:£119,000), and pension contributions of £947 (2002:£1,307) were made to a money purchase scheme on his behalf.

Retirement benefits are accruing to the following numbers of directors under:

	2003	2002
	£000	£000
Money purchase schemes	2	2
Defined benefit schemes	1	1
	<u>3</u>	<u>3</u>

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 (continued)

7 Tax on (loss)/profit on ordinary activities

Analysis of charge for year:

	2003		2002	
	£'000	£'000	£'000	£'000
UK corporation tax	-		6	
Overseas tax	20		-	
Adjustments in respect of prior periods	-		(90)	
	<hr/>		<hr/>	
Total current tax		20		(84)
Deferred tax		-		-
		<hr/>		<hr/>
Tax on profit on ordinary activities		20		(84)
		<hr/>		<hr/>

The company has an estimated deferred tax asset arising from losses to amounting to £1,592,000 (2002: £452,000). These are available to relieve future profits. There is a net deferred tax asset of £1,175,000 at the balance sheet date.

The asset has not been recognised in the company's financial statements on the basis that the directors do not regard it as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Factors affecting the tax charge for the current period:

The current tax charge for the year is at a rate higher than the standard rate of corporation tax in the UK 30% (2002: 30%). The differences are explained below.

	2003	2002
	£'000	£'000
(Loss)/profit on ordinary activities before tax	(2,419)	476
	<hr/>	<hr/>
Current tax at 30% (2002: 30%)	(726)	142
Effects of:		
Depreciation for the year in excess of capital allowances	(316)	(71)
Losses	-	(152)
Permanent differences	1,421	68
Other timing differences	(379)	13
Overprovision	-	6
Adjustments to tax charge in respect of previous periods	-	(90)
Overseas tax paid	20	-
	<hr/>	<hr/>
Total current tax charge (see above)	20	(84)
	<hr/>	<hr/>

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 (continued)

8 Intangible fixed assets

	Patents and trade marks £000	Goodwill £000	Total £000
Cost			
At beginning and end of year	96	1,802	1,898
Amortisation			
At beginning of year	76	658	734
Charge for the year	12	90	102
At end of year	88	748	836
Net book value			
At 31 December 2003	8	1,054	1,062
At 31 December 2002	20	1,144	1,164

The directors consider each acquisition separately for the purposes of determining the amortisation period of any goodwill that arises. The directors consider the useful economic life of these acquisitions is 20 years, and therefore goodwill is amortised over this period.

9 Tangible fixed assets

	Freehold property £000	Short leasehold £000	Plant and machinery £000	Total £000
Cost				
At beginning of year	3,118	133	7,357	10,608
Additions	-	27	53	80
Disposals	(223)	-	(809)	(1,032)
At end of year	2895	160	6601	9656
Depreciation				
At beginning of year	558	130	5,614	6,302
Charge for year	56	4	787	847
Disposals	(50)	-	(655)	(705)
At end of year	564	134	5,746	6,444
Net book value				
At 31 December 2003	2,331	26	855	3,212
At 31 December 2002	2,560	3	1,743	4,306

Included in the total net book value of plant and machinery is £10,000 (2002:£265,000) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year on these assets was £22,000 (2002: £45,000)

Included within freehold property is £336,000 (2002: £336,000) of land which has not been depreciated.

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 *(continued)*

10 Fixed asset investments

	Shares in group undertakings £000	Other investments £000	Total £000
Cost			
At beginning and end of year	4,448	123	4,571

The principal subsidiary in which the company's interest at the year end is more than 20% is as follows. Non trading group companies are not included in this disclosure.

	Country of Incorporation	Principal Activity	Class of share	%
Matrasur Composites SA	France	Holding Company	Ordinary	100

11 Stocks

	2003 £000	2002 £000
Raw materials and consumables	78	149
Work in progress	771	208
Finished goods and goods for resale	2,899	3,689
	<u>3,748</u>	<u>4,046</u>

12 Debtors

	2003 £000	2002 £000
Trade debtors	4,192	7,224
Amounts owed by group undertakings	10,471	13,000
Other debtors	44	387
Prepayments	527	470
	<u>15,234</u>	<u>21,081</u>

All debtors fall due within one year.

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 (continued)

13 Creditors: amounts falling due within one year

	2003	2002
	£000	£000
Obligations under finance leases and hire purchase contracts	8	68
Bank loans and overdrafts	-	1,824
Trade creditors	2,915	3,411
Amounts owed to group undertakings	1,498	6,729
Other taxation and social security	241	701
Other creditors	175	271
Accruals	1,293	1,305
Other loans	248	-
	<u>6,378</u>	<u>14,309</u>

Other loans consist of loans from (net of balances set off) GMAC Commercial Finance Plc, under the same terms as detailed in note 14 below.

14 Creditors: amounts falling due after more than one year

	2003	2002
	£000	£000
Obligations under finance leases and hire purchase contracts	12	20
Other loans	2,080	-
Amounts owed to group undertakings	15,888	15,054
	<u>17,980</u>	<u>15,074</u>

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	2003	2002
	£000	£000
On demand or within one year	8	68
Between one and two years	12	8
Between two and five years	-	12
	<u>20</u>	<u>88</u>

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 (continued)

14 Creditors: amounts falling due after more than one year

The maturity of obligations for other loans is as follows:

	2003 £000	2002 £000
On demand or within one year	248	1,824
Between one and two years	1,468	-
Between two and five years	612	-
	<u>2,328</u>	<u>1,824</u>

Other loans due after more than one year, £2,080,000, consist of 7 year term loans from GMAC Commercial Finance Plc. Repayments are by equal instalments totalling £30,583 per month until August 2010.

Interest on term loans is charged at 2.25% over bank base rates. Interest on short term loans is charged at 2% over bank base rates.

Cross guarantees in favour of GMAC Commercial Finance Plc are in place between all ISPC Group companies party to the agreement (see note 20).

Facilities are secured by a fixed charge over book debts (for short term finance) and in relation to all facilities by a fixed and floating charge over the assets of the company.

15 Provisions for liabilities and charges

	Product warranties £000
At 1 January 2003	290
Charged to profit and loss account	200
Utilised in year	(195)
At 31 December 2003	<u>295</u>

The provision for product warranties relates to expected warranty claims on products sold generally in the last twelve months. It is expected that most of this expenditure will be incurred in the next financial year and that all will be incurred within three years of the balance sheet date.

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 (continued)

16 Called up share capital

	2003 £000	2002 £000
<i>Authorised, allotted, called up and fully paid</i>		
16,201 ordinary shares of £1 each	16	16
1,320,000 deferred shares of £1 each (non equity)	1,320	1,320
	<u>1,336</u>	<u>1,336</u>

Voting and dividend rights

The deferred shares do not have any voting rights and are not entitled to receive distributions.

Priority on a winding up

In the event of a winding up, the assets of the company will be distributed as follows:

- o firstly, the holders of the ordinary shares receive £10 per share.
- o secondly, the holders of the deferred shares receive the amount paid up on those shares.
- o finally, the balance of such assets is distributed to the holders of the ordinary shares.

17 Share premium and reserves

	Share premium account £000	Other reserve £000	Profit and loss account £000	Total £000
At 1 January 2003	314	169	4,806	5,289
Sustained loss for the year	-	-	(2,496)	(2,496)
	<u>314</u>	<u>169</u>	<u>2,310</u>	<u>2,793</u>

18 Financial commitments

There were no capital commitments at 31 December 2003 (2002 – nil).

Annual commitments under non-cancellable operating leases are as follows:

	2003		2002	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year	45	36	85	100
Between two and five years	520	229	540	204
After five years	254	-	129	-
	<u>819</u>	<u>265</u>	<u>754</u>	<u>304</u>

19 Pension arrangements

The company operates a funded defined benefit scheme for its employees. The assets of the schemes are held separately from those of the company in an independently administered fund. Contributions to the scheme are charged to the profit and loss account and are determined by a qualified Actuary on the basis of triennial valuations using the Attained Age normal method. The most recent valuation was at 6 April 2001 and the assumptions that have the most significant effect on the results of the valuation are the rate of return on investments and the rates of increase in salaries and pensions.

It was assumed that investment returns would be 8% p.a salary increases would average 6% p.a and pensions coming into payment in respect of pension in excess of the GMP element would increase at the rate of 3.75% p.a (being our assumption for pension increasing at 5% p.a or in line with RPI if less, with a minimum of 3% p.a in most cases). The GMP element of pensions coming in to payment was assumed to increase at 3% p.a in accordance with the scheme rules.

The market value of the scheme assets at the valuation date was £14,029,000. The actuarial value of these assets represented 101% of the benefits that had accrued to members after allowing for expected increases in earnings. The company is paying reduced contributions to the scheme, calculated so that the surplus is expected to be removed over the future working lifetime of the active membership as at the valuation date.

The pension cost charge for the year for defined benefit schemes was £426,000 (2002: £427,000).

The company also operates a number of defined contribution schemes for which the pension cost charge for the year amounted to £71,000 (2002: £82,000).

Contributions outstanding at the year end in respect of the scheme were £13,000 (2002: £14,000).

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 "Accounting for Pension Costs", under FRS 17 "Retirement Benefits" the following transitional disclosures are required:

The valuation at 6 April 2001 has been updated by the actuary on an FRS 17 basis as at 31 December 2003.

The major assumptions used in this valuation were:

	2003	2002
	%	%
Rate of increase in salaries	3.00	2.25
Rate of increase in pensions in payment	3.00	2.25
Discount rate	5.40	5.40
Inflation assumption	3.00	2.25

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 (continued)

19 Pension arrangements (continued)

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long term rate of return 2003	Value at 2003 £000	Long term rate of return 2002	Value at 2002 £000
Assets				
Equities	8.25%	7,232	8.25%	6,247
Bonds	4.84%	7,261	5.40%	6,519
Other – Property	4.00%	2	4.00%	8
		14,495	6.54%	12,774
Present value of scheme liabilities		(21,803)		(17,634)
Deficit in the scheme – Pension liability		(7,308)		(4,860)
Related deferred tax asset		2,192		1,458
Net pension liability		(5,116)		(3,402)

The amount of this net pension liability would have a consequential effect on reserves.

Movement in deficit during the year

	2003 £000	2002 £000
Deficit in scheme at beginning of year	(4,860)	(1,681)
Current service cost	(287)	(383)
Contributions paid	408	430
Other finance (costs)/income	(95)	58
Actuarial loss	(2,474)	(3,284)
Deficit before tax in the scheme at end of year	(7,308)	(4,860)

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 (continued)

19 Pension arrangements (continued)

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

Analysis of other pension costs charged in arriving at operating (loss)/profit

	2003	2002
	£000	£000
Current service cost	(287)	(383)
Past service cost	-	-
	<hr/>	<hr/>
	(287)	(383)
	<hr/> <hr/>	<hr/> <hr/>

Analysis of amounts included in other finance (costs)/income

	2003	2002
	£000	£000
Expected return on pension scheme assets	865	1,006
Interest on pension scheme liabilities	(960)	(948)
	<hr/>	<hr/>
	(95)	58
	<hr/> <hr/>	<hr/> <hr/>

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 (*continued*)

19 Pension arrangements (*continued*)

Analysis of amount recognised in statement of total recognised gains and losses

	2003 %	2003 £000	2002 %	2002 £000
Actual return less expected return on scheme assets		933		(2,118)
Percentage of year end scheme assets	6.4		16.5	
Experience gains and losses arising on scheme liabilities		(1,048)		20
Percentage of present value of year end scheme liabilities	4.8		0.1	
Changes in assumptions underlying the present value of scheme liabilities		(2,359)		(1,186)
Percentage of present value of year end scheme liabilities	10.8		6.7	
		<hr/>		<hr/>
Actuarial loss recognised in statement of total recognised gains and losses		(2,474)		(3,284)
Percentage of present value of year end scheme liabilities	11.3		18.6	

20 Contingent liabilities

Cross guarantees in favour of GMAC Commercial Finance Plc are in place between ISPC Group companies as guarantors to the agreement, including ISPC Surface Preparation Limited, ISPC Surface Preparation Deutschland GmbH and its subsidiary undertakings and ISPC EBE BV.

The company has given bank guarantees to customers in respect of advance payments and the performance of goods sold, amounting to £637,000 (2002: £1,724,000).

At the balance sheet date the sterling value of outstanding forward exchange contracts was £801,000.

A guarantee is in place for £40,000 in favour of Customs & Excise.

ISPC Surface Preparation Limited (formerly USF Surface Preparation Limited)

Notes forming part of the financial statements for the year ended 31 December 2003 (continued)

21 Ultimate controlling party

On 19 August 2003, International Surface Preparation Corporation, a company incorporated in the USA, acquired the surface preparation sub-group of Vivendi Environment SA; following this transaction, the directors regard International Surface Preparation Corporation as the ultimate parent company and ultimate controlling party.

The smallest group in which the results of the company are consolidated is that headed by Surface Preparation (Gibraltar) Limited, a company incorporated in Gibraltar.

The largest group in which the results of the company are consolidated is that headed by International Surface Preparation Corporation of 603 Park Point Drive, Suite 200, Golden, CO 80401, USA, a company incorporated in the US.