

Norman Hay plc

Report and Financial Statements

Year ended

31 December 2013

Company number: 00405025

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Norman Hay plc

Report and Financial Statements for the year ended 31 December 2013

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Directors

Executive Directors

P L Hay
V P Bellanti
N A Ogden
Mrs B M Cattle

Non-Executive Director

A R Steedman

Secretary and registered office

N A Ogden, Godiva Place, Coventry, CV1 5PN

Company Number

00405025

Auditors

BDO LLP, 125 Colmore Row, Birmingham, B3 3SD

Norman Hay plc

Chairman's Statement for the year ended 31 December 2013

Chairman's statement

In 2013 the Group's overall operating profits were satisfactory as we benefited from the results of recent acquisitions which offset to a large extent the cost of exiting from other loss making operations.

This 14% rise in pre-exceptional operating profits was achieved despite taking into account losses suffered by our engineering division in the first seven months of the year as some of our major customers delayed placing orders with us until later in the year.

Trading losses were also incurred in our surface coatings operations in Malaysia and Dubai; the Malaysian operation, which we had operated for six years, has now been sold and the new start-up facility in Dubai closed, albeit at a significant cost to the Group.

Lessons have been learned.

The better news is that underlying profits from on-going operations of £3.6m were up 17% on the previous year and therefore your Directors recommend maintaining the final dividend for the year at 3.2p (2012 - 3.2p), making a total of 6.0p for the year (2012 - 6.0p).

If approved at the Annual General Meeting to be held on 19 June 2014, the dividend will be paid on 17 July 2014 to shareholders on the register on 17 June 2014.

Our investments in acquiring Sterr & Eder, based near Munich in Germany and SIFCO ASC, with operations in the USA, UK, Sweden and France, have proved to be very successful and both companies have performed particularly well in their first year as part of the Norman Hay Group and are integral to our plans for the future.

The expanded processing facility in Perth, Western Australia places us well there for the future, though current trading is slightly slower than we would like, reflecting the Australian economy and the ebb and flow that is all part of the oil and gas industry which it serves.

I would particularly like to thank our joint venture partners in China where our operations serving the rapidly growing automotive sector there have performed extremely well. We are committed to the continued expansion of our activities in China and the wider Asian region.

Our investment in people and systems, whilst being costly in the short term, has seen us take a significant step forward in our core strengths of Marketing and HR which are key to both succession planning and our future success in a world market place that is constantly changing.

Trading throughout the Group in 2014 has started well.

As ever, any business is only as good as the people in it. We are therefore fortunate to have a number of great individuals and teams across the Group of whom I am justifiably very proud.

Peter L Hay
Chairman
Date: 19 May 2014

Norman Hay plc

Strategic report for the year ended 31 December 2013

The Directors present their strategic report together with the audited financial statements for the year ended 31 December 2013.

Financial review

Revenue in 2013 was £44.8m (2012 - £34.7m). The increase is largely driven by our acquisitions of SIFCO ASC, in December 2012, and Sterr & Eder, in January 2013. Whilst certain contracts in our engineering division were delayed, our impregnation sealants business performed particularly well, showing strong overall sales growth.

Gross margins held up well, buoyed by our two new acquisitions and by a solid performance across our traditional product areas.

Distribution and administrative expenses rose to £14.4m (2012 - £9.8m) in line with the size of the expanded business.

The Group continues to invest both in its employees and its facilities, with investment in larger premises in Perth, Australia, and expenditure on other facilities both new and existing is ongoing. The average number of Group employees rose to 474 (2012 - 330).

Profit from operations before exceptional items was £2.8m (2012 - £2.4m).

Trading losses led the Group to close our operations in Malaysia and Dubai, which resulted in exceptional losses of £520k. We found buyers for the plant and machinery in both locations and as a result of this, cash will be returned to the UK from both sites during 2014.

In addition to the above, a re-assessment of the deferred consideration payable following our acquisition of ACI in Aberdeen has created a one-off profit of £317k which we have treated as exceptional.

The effective tax rate for the year has increased to 41.2% (2012 - 7.5%). This significant difference is largely as a result of income which was not taxable in 2012, and the losses suffered in the UK relating to the write-downs in Malaysia and Dubai for which we do not receive tax relief. Further details of the tax charge can be found in note 9 of the financial statements.

The 2013 profits have helped the Group maintain a strong balance sheet, with net assets increasing. Norman Hay plc continues to exercise effective management of cash, but the acquisitions have led to a deterioration of the Group cash balance compared to 2012. However, this has not impacted upon our ability to invest where required as is demonstrated by our investment in new premises in Perth and in Sweden.

Financial key performance indicators

| | 2013 £'000 | 2012 £'000 |
|---------------------------------|---------------|---------------|
| Revenue | 44,844 | 34,656 |
| Profit before exceptional items | 2,771 | 2,437 |
| Cash and Bank/(Net Borrowings) | (2,093) | (229) |
| Net assets | 17,307 | 17,234 |

Norman Hay plc

Strategic report for the year ended 31 December 2013 (continued)

Key performance indicators (KPIs)

Key performance indicators are used to measure and evaluate Group performance against targets and monitor various activities throughout the Group. The main key performance indicators employed in the Group include:

- Achieving revenue and profit targets;
- Meeting agreed milestones on existing project opportunities;
- Developing the core customer base;
- Identifying and securing new customers in new markets.

The above key performance indicators are monitored by the Board to ensure that they are progressing as planned in a timely manner. At this stage the Board is confident that these targets are being met.

Principal risks and uncertainties

During the last year, the Group has continued to execute strategies to optimise business opportunities and minimise exposure to principal risks and uncertainties.

As the Group expands worldwide there is a potential risk of financial loss or damage to our reputation resulting from inadequate or failed internal processes and systems, or the actions of people or external events. The Group manages these potential risks through appropriate controls and loss mitigation actions.

Examples include:

- Taking sufficient insurance cover, including business interruption;
- Maintaining disaster recovery plans for all major sites;
- Maintaining rigorous data back-up procedures;
- Carrying out a regular review of the principal suppliers and customers of the Group, and how each impacts on the Group's business;
- Regularly reviewing performance against budgets and forecasts; and
- Ensuring that exposure to foreign exchange is minimised through prompt payment of inter Group current accounts, and forward contracting where applicable.

The Board and management teams continue to monitor potential risk areas and adjust tactical and strategic plans accordingly to protect our businesses.

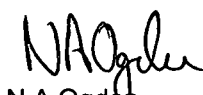
Pro-active working capital management and analysis of historic and anticipated trading patterns assist the Board in its decision making. Financial reviews are undertaken at Board and management levels to analyse and understand current and future results.

Our personnel are a major element within our business, and play a key role in managing the Group's growth and associated risk. It is important that the Group succeeds in attracting, developing and retaining qualified, experienced and motivated staff worldwide.

The Board of Directors of Norman Hay plc accepts its collective responsibility in providing health and safety leadership and regards the effective management of health and safety risks as key to the fulfilment of the Group's business objectives.

Approval

This strategic report was approved by order of the Board on 19 May 2014.



N A Ogden
Secretary

Norman Hay plc

Report of the Directors for the year ended 31 December 2013

The Directors present their report together with the audited financial statements for the year ended 31 December 2013.

Results and dividends

The Consolidated Statement of Comprehensive Income is set out on page 10 and shows revenue for the year of £ 44.8m (2012 - £34.7m) and profit before tax of £2.4m (2012 - £4.4m).

Dividends paid in the year are shown in note 10 of the Financial Statements.

Principal activities and business review

The principal activities of the Group for the year ended 31 December 2013 remain those of impregnation sealants, surface coatings and chemical process plant. The principal activity of the Company was that of a holding company.

The Chairman's Statement and Strategic Review on pages 1 - 3 provide a review of the business for the year ended 31 December 2013. The Strategic Review also contains the principal risks and uncertainties facing the Group.

Financial instruments

Details of the use of Financial Instruments and Financial Instruments Risk Management are contained in Note 31 of the Financial Statements.

Directors

The Directors of the Company during the year were:

| | |
|----------------|---|
| P L Hay | (Executive Director) |
| V P Bellanti | (Executive Director) |
| N A Ogden | (Executive Director) |
| Mrs B M Cattle | (Executive Director) (appointed 1 January 2013) |
| A R Steedman | (Non-Executive Director) |

Directors' interests

Interest in shares

The interests of the Directors and their immediate families in the share capital of the Company are set out below:

| | 1 January 2013 Beneficial | 31 December 2013 Beneficial |
|----------------|---------------------------------|-----------------------------------|
| P L Hay | 2,210,870 | 2,210,870 |
| V P Bellanti | 125,000 | 165,000 |
| N A Ogden | - | - |
| A R Steedman | - | - |
| Mrs B M Cattle | 5,000 | 5,000 |

Norman Hay plc

Report of the Directors for the year ended 31 December 2013 (continued)

Directors' interests (continued)

Interest in shares (continued)

The details of the Directors' interests in share options, are as follows:

| | 1 January 2013 Beneficial | 31 December 2013 Beneficial |
|-----------------------------|---------------------------------|-----------------------------------|
| P L Hay Approved (a) | 32,000 | 32,000 |
| V P Bellanti Approved (a) | 32,000 | 32,000 |
| P L Hay Unapproved (b) | 388,075 | 388,075 |
| V P Bellanti Unapproved (b) | 588,075 | 588,075 |
| N A Ogden Approved (c) | 50,000 | 50,000 |
| Mrs B M Cattle Approved (c) | 25,000 | 25,000 |

- (a) The approved options are exercisable between 1 December 2012 and 30 November 2019 at 62.5p per share.
- (b) The unapproved options are exercisable between 1 December 2010 and 30 November 2019 at 62.5p per share upon the share price achieving 150p or a change in control.
- (c) The approved options are exercisable between 12 January 2012 and 11 January 2019 at 79.5p per share.

Substantial shareholdings

At 31 December 2013, the Company had been notified of the following holdings in the issued share capital of the Company:

| | Ordinary shares | % |
|------------------------------|--------------------|-------|
| P L Hay | 2,210,870 | 14.92 |
| G Luker | 1,476,571 | 9.97 |
| A M Hay | 1,108,170 | 7.48 |
| Ogier Employee Benefit Trust | 1,011,500 | 6.86 |
| Westcombe Investments | 949,711 | 6.41 |
| Miss C Bewsher | 747,161 | 5.04 |
| D Bewsher | 746,511 | 5.03 |
| Miss A Hendy | 510,000 | 3.44 |
| N Hendy | 250,000 | 1.69 |

Miss A Hendy and N Hendy may be considered associates of Westcombe Investments. These three shareholders do not consider themselves to be a concert party under the rules of the Takeover Panel. However, they consider that they may be deemed to be acting in concert by certain regulatory bodies.

Save as disclosed, no other person or company has a material interest in the shares of the Company of 3% or more or, being an investment manager, interests aggregating to 10% or more.

Norman Hay plc

Report of the Directors for the year ended 31 December 2013 (continued)

Indemnity cover

Third party indemnity cover for the Directors was in force during the year, up to and including the year-end date and the date of this report.

Employees

The Directors place considerable value on the involvement of employees and recognise the importance of communicating effectively on matters which affect their current and future interests. This communication is achieved through regular meetings at local operating level and through informal briefing sessions.

The Group's policy is to ensure that, as far as is reasonably practicable, there is a working environment which will minimise the risk to health and safety of its employees and those persons who are authorised to be on its premises.

The Group continues to give full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. If an employee becomes disabled, the Group endeavours to continue his or her employment if this is practicable and, in appropriate cases, special training may be given.

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Directors have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- For the Company financial statements, state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Norman Hay plc

Report of the Directors for the year ended 31 December 2013 *(continued)*

Auditors

All of the current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditors for the purpose of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board



N A Ogden

Company Secretary

Date: 19 May 2014

Norman Hay plc

Independent Auditor's Report

TO THE MEMBERS OF NORMAN HAY plc

We have audited the financial statements of Norman Hay plc for the year ended 31 December 2013 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity, the Company Balance Sheet and related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Norman Hay plc

Independent Auditor's Report *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

BDO LLP

*Mark Anslow (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham
United Kingdom*

Date: 19 May 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Norman Hay plc

Consolidated Statement of Comprehensive Income for the year ended 31 December 2013

| | Note | 2013 £'000 | 2012 £'000 |
|---|------|---------------|---------------|
| Revenue | 2 | 44,844 | 34,656 |
| Cost of sales | | (27,662) | (22,434) |
| Gross profit | | 17,182 | 12,222 |
| Distribution expenses | | (633) | (443) |
| Administrative expense | | (13,789) | (9,399) |
| Other operating income | | 11 | 57 |
| Profit from operations before exceptional items | 3 | 2,771 | 2,437 |
| Exceptional items | 4 | (203) | (1,316) |
| Profit from operations after exceptional items | | 2,568 | 1,121 |
| Finance income | 7 | 9 | 52 |
| Finance expense | 8 | (162) | (16) |
| Share of post-tax profit of associates | | - | 321 |
| Profit on disposal of associates | | - | 2,901 |
| Profit before tax | | 2,415 | 4,379 |
| Tax expense | 9 | (996) | (328) |
| Profit for the year | | 1,419 | 4,051 |
| Other comprehensive income | | | |
| Exchange differences on translation of foreign operations | | (177) | (79) |
| Total comprehensive income | | 1,242 | 3,972 |

The notes on pages 16 to 49 form part of these financial statements.

Norman Hay plc

Consolidated Statement of Comprehensive Income for the year ended 31 December 2013 (*continued*)

| | 2013 | 2012 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Profit attributable to: | | |
| Owners of the parent | 1,308 | 3,961 |
| Non-controlling interest | 111 | 90 |
| | <hr/> | <hr/> |
| | 1,419 | 4,051 |
| | <hr/> | <hr/> |
| Total comprehensive income attributable to: | | |
| Owners of the parent | 1,131 | 3,882 |
| Non-controlling interest | 111 | 90 |
| | <hr/> | <hr/> |
| | 1,242 | 3,972 |
| | <hr/> | <hr/> |

The notes shown on pages 16 to 49 form part of these financial statements.

Norman Hay plc

Consolidated Statement of Financial Position for the year ended 31 December 2013

| <i>Company no: 00405025</i> | Note | 2013 | 2013 | 2012 | 2012 |
|--------------------------------------|------|--------|---------------|-------------------|-------------------|
| | | £'000 | £'000 | restated £'000 | restated £'000 |
| Assets | | | | | |
| Non-current assets | | | | | |
| Intangible assets | 11 | 7,428 | | 5,961 | |
| Property, plant and equipment | 12 | 7,507 | | 6,716 | |
| Investments | 13 | 26 | | 26 | |
| Financial assets | 14 | 324 | | 430 | |
| Total non-current assets | | | 15,285 | | 13,133 |
| Current assets | | | | | |
| Inventories | 15 | 2,752 | | 2,333 | |
| Trade and other receivables | 16 | 12,162 | | 12,769 | |
| Cash and cash equivalents | 17 | 3,572 | | 4,287 | |
| Total current assets | | | 18,486 | | 19,389 |
| Total assets | | | 33,771 | | 32,522 |
| Liabilities | | | | | |
| Non-current liabilities | | | | | |
| Other financial liabilities | 22 | 3,354 | | 3,783 | |
| Deferred tax liabilities | 24 | 401 | | 635 | |
| Other payables | 23 | 125 | | 467 | |
| Total non-current liabilities | | | 3,880 | | 4,885 |
| Current liabilities | | | | | |
| Other financial liabilities | 18 | 2,311 | | 733 | |
| Trade and other payables | 19 | 9,390 | | 9,408 | |
| Provisions | 20 | 267 | | 156 | |
| Current tax liabilities | 21 | 616 | | 106 | |
| Total current liabilities | | | 12,584 | | 10,403 |
| Total liabilities | | | 16,464 | | 15,288 |
| NET ASSETS | | | 17,307 | | 17,234 |

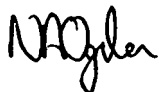
The notes shown on pages 16 to 49 form part of these financial statements.

Norman Hay plc

Consolidated Statement of Financial Position for the year ended 31 December 2013 (continued)

| <i>Company no: 00405025</i> | Note | 2013 £'000 | 2013 £'000 | 2012 £'000 | 2012 £'000 |
|--|------|---------------|---------------|---------------|---------------|
| Equity | | | | | |
| Share capital | 27 | 1,482 | | 1,482 | |
| Share premium account | | 1,265 | | 1,265 | |
| Capital redemption reserve | | 94 | | 94 | |
| Other non-distributable reserve | | 766 | | 766 | |
| Reserve for own shares | | (841) | | (500) | |
| Share scheme reserve | | 43 | | 43 | |
| Foreign exchange reserve | | (59) | | 118 | |
| Retained earnings | | 14,228 | | 13,748 | |
| | | | | | |
| Equity attributable to equity holders of the parent Company | | | 16,978 | | 17,016 |
| Non-controlling interest | | | 329 | | 218 |
| TOTAL EQUITY | | | 17,307 | | 17,234 |

The financial statements were approved by the Board of Directors and authorised for issue on 19 May 2014.



N A Ogden
Director

The notes shown on pages 16 to 49 form part of these financial statements.

Norman Hay plc

Consolidated Cash Flow Statement for the year ended 31 December 2013

| | Note | 2013 £'000 | 2012 restated £'000 |
|--|------|----------------|---------------------------|
| Cash flows from operating activities | | | |
| Profit from operations | | 2,568 | 1,121 |
| Amortisation | 11 | 147 | - |
| Depreciation | 12 | 1,306 | 728 |
| Profit on sale of property, plant and equipment | | (35) | (3) |
| (Increase)/decrease in inventories | | (338) | 774 |
| Decrease in receivables | | 702 | 52 |
| Decrease in payables | | (1,278) | (569) |
| Increase/(decrease) in provisions | | 111 | (3) |
| | | <hr/> | <hr/> |
| Cash generated from operations | | 3,183 | 2,100 |
| Finance income | 7 | 9 | 52 |
| Finance expense | | (145) | (16) |
| Income taxes paid | | (720) | (442) |
| Share of profit from associates | | - | 321 |
| | | <hr/> | <hr/> |
| Net cash flows from operating activities | | 2,327 | 2,015 |
| Cash flows from investing activities | | | |
| Acquisition of subsidiaries, net of cash acquired | 35 | (1,081) | (6,733) |
| Purchase of property, plant and equipment | 12 | (1,857) | (872) |
| Proceeds from disposal of property, plant and equipment | | 128 | 33 |
| Proceeds from disposal of investment in equity accounted-for associates, net of disposal costs | | - | 3,855 |
| Payment of deferred consideration | | (244) | - |
| | | <hr/> | <hr/> |
| Net cash used in investing activities | | (3,054) | (3,717) |
| Cash flows from financing activities | | | |
| Dividends paid to shareholders | 10 | (828) | (826) |
| Finance lease repayment | | (5) | (68) |
| New loans raised | | 278 | 4,416 |
| Repayment of loans | | (695) | (154) |
| Cash transferred to EBT to repurchase shares | | (341) | (211) |
| | | <hr/> | <hr/> |
| Net cash (used in)/from financing activities | | (1,591) | 3,157 |
| | | <hr/> | <hr/> |
| Net (decrease)/increase in cash and cash equivalents | | (2,318) | 1,455 |
| Cash and cash equivalents at the beginning of the year | | 4,287 | 2,832 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at the end of the year | 32 | 1,969 | 4,287 |
| | | <hr/> <hr/> | <hr/> <hr/> |

The notes shown on pages 16 to 49 form part of these financial statements.

Norman Hay plc

Consolidated Statement of Changes in Equity for the year ended 31 December 2013

| | Share capital £'000 | Share premium account £'000 | Capital redemption reserve £'000 | Other non distributable reserve £'000 | Reserve for own shares £'000 | Share scheme reserve £'000 | Foreign exchange reserve £'000 | Retained earnings £'000 | Total £'000 | Non- controlling interest £'000 | Total equity £'000 |
|---|------------------------|-----------------------------------|--|--|---------------------------------------|-------------------------------------|---|-------------------------------|----------------|--|--------------------------|
| At 1 January 2012 | 1,482 | 1,265 | 94 | 766 | (289) | 43 | 197 | 10,613 | 14,171 | 128 | 14,299 |
| Purchase of shares by EBT | - | - | - | - | (211) | - | - | - | (211) | - | (211) |
| Dividends paid in year | - | - | - | - | - | - | - | (826) | (826) | - | (826) |
| Total comprehensive income for the year | - | - | - | - | - | - | (79) | 3,961 | 3,882 | 90 | 3,972 |
| At 31 December 2012 and 1 January 2013 | 1,482 | 1,265 | 94 | 766 | (500) | 43 | 118 | 13,748 | 17,016 | 218 | 17,234 |
| Purchase of shares by EBT | - | - | - | - | (341) | - | - | - | (341) | - | (341) |
| Dividends paid in year | - | - | - | - | - | - | - | (828) | (828) | - | (828) |
| Total comprehensive income for the year | - | - | - | - | - | - | (177) | 1,308 | 1,131 | 111 | 1,242 |
| At 31 December 2013 | 1,482 | 1,265 | 94 | 766 | (841) | 43 | (59) | 14,228 | 16,978 | 329 | 17,307 |

Notes

- Share capital represents the nominal value of shares in issue.
- The Share premium account represents the difference between the amount paid by shareholders subscribing for new shares and the nominal value of those shares.
- The Capital redemption reserve relates to purchases by the Company of its own shares.
- Other non-distributable reserve arises from the elimination of share capital of acquired companies in excess of nominal value of shares issued.
- Reserve for own shares is the sum paid for shares held by the Norman Hay plc Employee Benefit Trust.
- The Share scheme reserve represents the fair value of share options granted.
- The Foreign exchange reserve arises from fluctuations in the value of net assets denominated in currencies other than Sterling.
- Retained earnings is the cumulative comprehensive income less items recognised in other equity reserves.
- The non-controlling interest represents the interests of the minority shareholders in subsidiaries of the Group.

The notes shown on pages 16 to 49 form part of these financial statements.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013

1 Accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements are presented in Sterling, which is also the Group's functional currency.

Amounts are rounded to the nearest thousand, unless otherwise stated.

The Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed separately below.

Comparative figures for the prior year ended 31 December 2012 have been restated as detailed in note 36.

Standards, interpretations and amendments to published standards effective from 1 January 2013

A number of new standards, interpretations and amendments effective for the first time for periods beginning on (or after) 1 January 2013, have been adopted in these financial statements. The nature and effect of each new standard, interpretation and amendment adopted by the Group is detailed below. Note: not all new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2013 affect the Group's annual consolidated financial statements.

IFRS 1 First-time Adoption of IFRSs (Amendments and Improvements)

IFRS 7 Financial Instrument Disclosures (Amendments)

IFRS 8 Operating Segments (Improvements)

IFRS 10 Consolidated Financial Statements (Amendments)

IFRS 11 Joint Arrangements

IFRS 12 Disclosures of Interests in Other Entities

Amendments to IFRS 10, IFRS 11 and IFRS 12

IFRS 13 Fair Value Measurement

IAS1 Presentation of Financial Statements (Amendments and Improvements)

IAS 16 Property Plant and Equipment (Improvements)

IAS 27 Separate Financial Statements (Amendments)

IAS 28 Investments in Associates and Joint Ventures (Amendments)

IAS 32 Financial Statements: Presentation (Improvements)

IAS 34 Interim Financial Reporting (Improvements)

IFRIC 20 Stripping Cost in the Production Phase of a Surface Mine

The above standards are not considered to have a material impact on the Group's consolidated financial position or performance.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

Standards, interpretations and amendments to published standards not yet effective

Standards that have been issued, but are not yet effective for the financial year ended 31 December 2013 include:

| | Effective date (periods beginning on or after) |
|--|--|
| IFRS 1 <i>First-time Adoption of IFRSs (Improvements)</i> | 1 July 2014 |
| IFRS 2 <i>Share based Payments (Improvements)</i> | 1 July 2014 |
| IFRS 3 <i>Business Combinations (Improvements)</i> | 1 July 2014 |
| IFRS 7 <i>Financial Instrument Disclosures (Amendments)</i> | 1 January 2015 |
| IFRS 8 <i>Operating Segments (Improvements)</i> | 1 July 2014 |
| IFRS 9 <i>Financial Instruments</i> | 1 January 2015 |
| IFRS 10 <i>Consolidated Financial Statements (Amendments)</i> | 1 January 2014 |
| IFRS 13 <i>Fair Value Measurement (Improvements)</i> | 1 July 2014 |
| IAS 16 <i>Property Plant and Equipment (Improvements)</i> | 1 July 2014 |
| IAS 19 <i>Employee Benefits (Amendments)</i> | 1 January 2014 |
| IAS 24 <i>Related Party Disclosures (Improvements)</i> | 1 January 2014 |
| IAS 32 <i>Financial Instruments: Presentation (Amendments)</i> | 1 January 2014 |
| IAS 36 <i>Impairment of assets (Amendments)</i> | 1 January 2014 |
| IAS 38 <i>Intangible assets (Improvements)</i> | 1 July 2014 |
| IAS 39 <i>Financial Instruments: Recognition and Measurement</i> | 1 January 2014 |
| IAS 40 <i>Investment Property</i> | 1 July 2014 |
| IFRIC 21 <i>Levies</i> | 1 January 2014 |

The following standard is considered to have a material impact on the Group's consolidated financial position or performance:

IFRS 9 Financial Instruments (effective 1 January 2015)

The standard has been introduced to replace the requirements of IAS 39 and will affect the initial recognition and subsequent measurement of all financial assets and liabilities and introduces a more principles-based approach to hedge accounting. For entities applying IFRS on or after 1 January 2013 modified disclosures will be required and there will be no need to restate prior periods.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are included in the Consolidated financial statements from the date that control commences until the date that control ceases.

Acquisitions are accounted for by the purchase method. The cost of an acquisition is measured as the fair value at the date of exchange of the consideration provided. Identifiable assets and liabilities of the acquired business that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the date of acquisition. To the extent that the cost of an acquisition exceeds the fair value of the net assets acquired, the difference is recorded as goodwill and, where the fair value of the net assets exceeds the cost of acquisition, the difference is recorded as negative goodwill.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (*continued*)

1 Accounting policies (*continued*)

Basis of consolidation (continued)

Transactions between, and balances with, Group companies are eliminated together with unrealised gains on inter-company transactions. Accounting policies of acquired companies are changed where necessary to be consistent with those of the Group.

Business combinations

The Consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Comprehensive Income from the date on which control is obtained. They are deconsolidated from the date control ceases.

Associates

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the Consolidated Statement of Financial Position at cost. The Group's share of post-acquisition profits and losses is recognised in the Consolidated Statement of Comprehensive Income, except that the losses in excess of the Group's investment in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investors' share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Revenue

Revenue is recognised when performance has occurred and a right to consideration has been obtained. This is normally when goods have been delivered or services provided to the customer, title and risk of loss have been transferred and collection of related receivables is probable. Revenue excludes value added and other sales taxes, trade discounts and intra-Group sales.

Long-term contracts are assessed on a contract-by-contract basis. When the outcome of a contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a long-term contract cannot be measured reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

The Group uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

Research and development

Expenditure on applied research and development is charged to profit or loss in the year in which it is incurred, unless such costs should be capitalised under the requirements of the applicable standard. No development projects met the criteria for capitalisation.

Dividends

The final dividend is only recognised at the point it is declared and approved by the shareholders at the Annual General Meeting. Interim dividends are recognised on payment.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of a business combination over, in the case of business combinations completed prior to 1 January 2010, the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired and, in the case of business combinations completed on or after 1 January 2010, the total fair value of the identifiable assets, liabilities and contingent liabilities acquired as at the acquisition date.

For business combinations completed prior to 1 January 2010, cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition. Changes in the estimated value of contingent consideration arising on business combinations completed by this date are treated as an adjustment to cost and, in consequence, result in a change in the carrying value of goodwill.

For business combinations completed on or after 1 January 2010, cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus the amount of any non-controlling interests in the acquired entity.

Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, it is re-measured subsequently through profit or loss. For combinations completed on or after 1 January 2010, direct costs of acquisition are taken immediately as an expense.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the Consolidated Statement of Comprehensive Income. Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration paid, the excess is credited in full to profit or loss.

Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently where there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

Goodwill (continued)

Goodwill arising on acquisitions before the date of transition to IFRSs (1 January 2007) has been retained at the previous UK GAAP amounts subject to being tested for impairment as noted. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangible assets are arrived at by using appropriate valuation techniques (see section related to critical estimates and judgements).

Brands are amortised over their useful economic lives of 7 years. The valuation method uses estimated discounted cash flows to determine the cost of brands acquired.

Property, plant and equipment

Property, plant and equipment is held at cost less accumulated depreciation, although some assets are carried at deemed cost, being the carrying value of freehold land and buildings as at 31 December 1999. All additions since this date are stated at cost.

Depreciation is provided on property, plant and equipment, other than freehold land and plant in the course of construction, at rates calculated to write off the cost or deemed cost, less estimated residual value of each asset, evenly over its expected useful life as follows:

| | | |
|------------------------------|---|--------------------|
| Freehold buildings | - | 45 years |
| Long leasehold buildings | - | Over term of lease |
| Plant, vehicles and fixtures | - | 3 to 10 years |
| Computer equipment | - | 2 to 5 years |

Impairment tests on the carrying value of property, plant and equipment are undertaken at the end of each year if events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments available for sale

Investments available for sale are recorded at fair value. Unrealised gains and losses arising on the re-measurement are recorded in equity. On disposal or impairment of the investments, cumulative gains and losses previously recognised in other comprehensive income are transferred to profit or loss.

Non-contract assets - other receivables

Where a long-term receivable arises as a result of a disposal, there is an annual estimation of the factors that affect this deferred consideration, and a re-evaluation made if required.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (*continued*)

1 Accounting policies (*continued*)

Inventories

Inventories are valued at the lower of cost on a first-in, first-out basis, and net realisable value. Costs incurred in bringing each product to its present location and condition comprise:

- Raw materials - cost of purchase on a first-in, first-out basis.
- Work in progress and finished goods - cost of raw materials and labour plus attributable overheads based on the normal level of activity.

Net realisable value is based on estimated selling price less further costs to completion and disposal. Provision is made for obsolete and slow moving items.

Trade receivables

Trade receivables are stated initially at fair value, then measured at amortised cost less allowances for provisions.

Provisions for impairment are recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in profit or loss. On confirmation that the trade receivable will not be collectible, the gross carrying value of the asset is written off against the associated provision.

Trade payables

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Leased assets

Assets held under leasing agreements and hire purchase contracts, where the Group has substantially all the risks and rewards of ownership ("finance leases"), are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as borrowings. Depreciation over the shorter of the assets' useful life and the lease term on the relevant assets is charged to profit or loss.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amount payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight-line basis over the term of the lease.

Provisions

Provision is made for onerous contracts, product warranty claims and for dilapidations when the Group has a present obligation as a result of past events, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated. Provisions are discounted to present value where the impact is significant, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (*continued*)

1 Accounting policies (*continued*)

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits at call with banks, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are considered to be subject to insignificant risk of changes in value. Bank overdrafts are shown within Borrowings as current liabilities, but included within Cash and cash equivalents in the Cash Flow Statement.

Foreign currency translation

Functional currency

The Consolidated financial statements are presented in Sterling, which is the Company's functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Transactions and balances

Transactions in foreign currencies are translated into the functional currency of the transacting entity at the foreign exchange rate ruling at the date of the transaction. Foreign exchange differences arising are recognised in profit or loss. Foreign currency monetary assets and liabilities are translated at the exchange rates ruling at the year-end date.

Group companies

The results of foreign operations are translated into Sterling at the average rate of exchange in the accounting period, and the assets and liabilities are translated into Sterling at the closing rate at the year-end date. On consolidation the effect of variances in exchange rates between the beginning and end of the financial year on the opening net investment in foreign undertakings is recorded in other comprehensive income and is shown in the foreign exchange reserve, as are any exchange differences arising through the translation of results using the average monthly exchange rate. Where long-term Group loans exist that arise as a result of acquisition, the movement on the loans that arises through fluctuations in the exchange rate is taken to the foreign exchange reserve. On disposal of the foreign operation, the amounts reflected in the Foreign Exchange Reserve are recycled to profit or loss.

Borrowings

Borrowings are recognised initially at their fair value, net of the associated finance costs, and thereafter at amortised cost. The associated finance costs are amortised to profit or loss over the life of the borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the year-end date.

Current and deferred taxation

The tax expense represents the sum of the tax currently payable on the profit for the year, and the deferred tax. Provision for taxation is made using tax rates that have been enacted or substantively enacted at the year-end date.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (*continued*)

1 Accounting policies (*continued*)

Current and deferred taxation (continued)

Deferred tax is provided in full in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the Consolidated financial statements except for differences arising on:

- The initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- Investments in subsidiaries and jointly controlled entities where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxation is calculated using tax rates that are expected to apply when the related deferred taxation asset is realised or the related deferred taxation liability is settled.

The carrying amount of deferred tax assets is reviewed at each year-end date and reduced to the extent that it is no longer probable that sufficient taxable profits are available to allow all or part of the asset to be recovered.

Employee benefit costs

Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each year-end date so that ultimately the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied.

Pensions

Contributions to the Group's defined contribution scheme and to State-managed retirement benefit schemes are charged to profit or loss in the year in which they become payable.

Employee Benefit Trust (EBT)

As the Company is deemed to have control of its EBT, it is treated as a subsidiary and consolidated for the purposes of the Consolidated financial statements. The EBT's assets (other than investments in the Company's shares), liabilities, income and expenses are included on a line-by-line basis in the Consolidated Financial Statements. The EBT's investment in the Company's shares is deducted from equity in the Consolidated Statement of Financial Position as if they were treasury shares.

Critical accounting estimates and judgements

In applying the Group's accounting policies set out above management is required to make certain estimates and judgements concerning the future. These judgements are regularly reviewed and updated as necessary. The estimates and judgements that have the most significant effect on the amounts included in these Consolidated financial statements are as follows:

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (*continued*)

1 Accounting policies (*continued*)

Critical accounting estimates and judgements (continued)

Intangible assets and impairment

The Group is required to test whether goodwill and brands have suffered any impairment. The recoverable amounts of cash generating units connected to the recorded goodwill and brands have been determined based on value-in-use estimations.

The value-in-use calculation requires the entity to estimate future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value.

Determination of fair values of intangible assets acquired in business combinations

The fair value of brands acquired in a business combination is based on the discounted estimated royalty payments that would be receivable if the company were to allow others to trade under this brand.

Inventory provisions

Group inventory levels are constantly reviewed and, should there be an indication of impairment or obsolescence, the inventory is written down to its assessed net realisable value.

Revenue recognition – long-term contracts

In applying the Group's accounting policy set out above, if the outcome of a long-term contract can be estimated reliably, contract revenue is recognised by reference to the stage of completion of the contract activity. The stage of completion is regularly reviewed and updated: the actual result could vary from the value used in profit or loss. However, as these are reviewed on a monthly basis any difference is not expected to be significant.

Deferred consideration payable

Included within liabilities is an amount of £150,000 (2012 - £711,000) payable in respect of the acquisition of one of the subsidiary companies. The deferred consideration is calculated based on an estimate of future profits of the subsidiary, and therefore cannot be estimated with certainty. The amount recognised in the financial statements is based on the discounted value of future estimated profits.

Available for sale financial asset

Included within assets is an amount of £435,000 (2012 - £546,000) receivable in respect of the disposal of a business in prior years. This consideration receivable has been calculated as the total of the expected annual amounts receivable from the purchaser discounted at an appropriate rate. The expected annual amounts receivable are based on a percentage of the sales of the purchaser. There is no set termination date for this agreement.

The calculation of the amount will be reviewed in following years if there is a change in circumstances indicating that the underlying value of the asset has changed to a significant extent. Changes in the expected annual amounts receivable or the appropriate discount rate could change the value of the recorded asset.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

2 Revenue

| | 2013 £'000 | 2012 £'000 |
|-----------------------|---------------|---------------|
| Revenue arises from: | | |
| Sale of goods | 17,811 | 20,866 |
| Rendering of services | 27,033 | 13,790 |
| | <u>44,844</u> | <u>34,656</u> |

3 Profit from operations before exceptional items

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| Profit from operations before exceptional items is stated after charging and (crediting) the following: | | |
| Amortisation of intangible assets (included in administration expenses) | 147 | - |
| Depreciation of property, plant and equipment | 1,306 | 728 |
| Profit on disposal of property, plant and equipment | (35) | (3) |
| Cost of inventories recognised as an expense | 15,666 | 13,569 |
| Research | 323 | 57 |
| Operating lease rentals: | | |
| - plant and machinery | 511 | 282 |
| - properties | 713 | 318 |
| Foreign exchange losses | 293 | 77 |
| Employee benefit expenses (note 5) | 16,143 | 11,253 |
| | <u>217</u> | <u>224</u> |
| Auditors' remuneration: | | |
| Fees payable to the Company's auditors for the audit of the Company's annual accounts | 10 | 10 |
| Fees payable to the Company's auditors for other services: | | |
| - The audit of the Company's subsidiaries, pursuant to legislation | 79 | 60 |
| - Taxation services | 29 | 39 |
| - Other | 99 | 115 |
| | <u>217</u> | <u>224</u> |

4 Exceptional items

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| Exceptional costs comprise: | | |
| Acquisition costs | - | 746 |
| Directors' bonuses specifically relating to the disposal of an associated undertaking | - | 570 |
| Closure costs relating to the disposal of certain subsidiaries | 520 | - |
| Reassessment of deferred consideration payable | (317) | - |
| | <u>203</u> | <u>1,316</u> |

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

5 Staff costs

| | 2013 £'000 | 2012 £'000 |
|--|---------------|---------------|
| Staff costs (including Directors) consist of: | | |
| Wages and salaries | 13,906 | 9,675 |
| Social security costs | 1,593 | 1,029 |
| Other pension costs | 644 | 549 |
| | <u>16,143</u> | <u>11,253</u> |
| The average monthly number of persons employed by the Group (including Directors) during the year was: | Number | Number |
| Manufacturing | 219 | 183 |
| Office and management | 255 | 147 |
| | <u>474</u> | <u>330</u> |

6 Directors' remuneration

| | 2013 £'000 | 2012 £'000 |
|--|---------------|---------------|
| <i>Directors' remuneration and key management compensation</i> | | |
| Directors' remuneration consists of: | | |
| Aggregate emoluments | 632 | 649 |
| Pension contributions | 105 | 155 |
| Fees | 32 | 79 |
| Compensation for loss of office | - | 30 |
| | <u>769</u> | <u>913</u> |
| Bonuses in relation to the disposal of associates | - | 500 |

The Group contributed towards the personal pension plans of 4 Directors (2012 - 3) during the year.

The highest paid Director had a salary of £198,000 (2012 - £476,000) including performance related pay and benefits in kind, and had a pension contribution of £32,000 (2012 - £51,000).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Those persons are considered to be the Directors of the Company.

In 2011 the company introduced a long-term incentive scheme for the Norman Hay senior team. Its purpose is to create a long-term bonus pool to reward the achievement of sustained growth in post-tax annual profits. £235,000 (2012 - £275,000) has been accrued under the scheme during the year. The total amount accrued under the long-term incentive scheme at 31 December 2013 was £748,000 (2012 - £513,000).

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (*continued*)

| | | |
|---------------------------------------|--------------|--------------|
| 7 Finance income | 2013 | 2012 |
| | £'000 | £'000 |
| Interest on bank deposits | 9 | 52 |
| | <hr/> | <hr/> |
| 8 Finance expenses | 2013 | 2012 |
| | £'000 | £'000 |
| Interest on bank loans and overdrafts | 162 | 9 |
| Hire purchase interest | - | 7 |
| | <hr/> | <hr/> |
| | 162 | 16 |
| | <hr/> | <hr/> |

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

9 Taxation

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| <i>Corporation tax charge</i> | | |
| Charge for the year | 581 | 257 |
| Adjustment in respect of previous periods | 152 | (85) |
| Current tax on foreign income for the year | 497 | 234 |
| | <u>1,230</u> | <u>406</u> |
| <i>Deferred tax</i> | | |
| Origination and reversal of timing differences | (102) | (62) |
| Adjustment in respect of previous periods | (69) | 3 |
| Changes in tax rates | (63) | (19) |
| | <u>996</u> | <u>328</u> |
| <i>Factors affecting the tax charge for the period:</i> | | |
| <i>Tax reconciliation</i> | | |
| Profit on ordinary activities before taxation | 2,415 | 4,379 |
| Profit on ordinary activities multiplied by standard rate of 23% (2012 - 24%) | 555 | 1,051 |
| Adjustment in respect of previous periods: | | |
| - corporation tax | 152 | (85) |
| - deferred tax | (69) | 3 |
| Expenditure not tax deductible | 483 | - |
| Net income not taxable | (38) | (605) |
| Unrelieved tax losses | - | 21 |
| Effect of different tax rates of subsidiaries in other jurisdictions | 71 | (27) |
| Current year deferred tax movements | (102) | (27) |
| Impact of change in tax rates | (56) | 7 |
| Other consolidation adjustments | - | (10) |
| | <u>996</u> | <u>328</u> |

The change in applicable tax rate applied in the above tax reconciliation is due to a change in UK corporation tax rates.

The Budget on 20 March 2013 announced that the main rate of UK corporation tax will reduce to 21% for financial periods beginning 1 April 2014 and to 20% from 1 April 2015. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2013 has been calculated at 20% being the rate substantively enacted at this date.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (*continued*)

10 Dividends

| | 2013 £'000 | 2012 £'000 |
|--|-----------------------------|-----------------------------|
| Final dividend paid of 3.2p (2012 - 2.9p) per share | 441 | 420 |
| Interim dividend paid of 2.8p (2012 - 2.8p) per share | 387 | 406 |
| | <hr/> | <hr/> |
| | 828 | 826 |
| | <hr/> | <hr/> |
| Dividends declared after the balance sheet date but before approval of financial statements of 3.2p (2012 - 3.2p) per share | 442 | 442 |
| | <hr/> | <hr/> |

Dividends are recognised in the financial statements when they are paid and not declared. The 2013 financial statements recognised the interim dividend that was both paid and declared in 2013, and also the final dividend that was paid in 2013 but declared in the prior year financial statements for the year ended 31 December 2012.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (*continued*)

11 Intangible assets

| Group | Brands £'000 | Goodwill restated £'000 | Total restated £'000 |
|--|------------------------|---|--|
| <i>Cost or valuation</i> | | | |
| At 1 January 2012 | - | 1,455 | 1,455 |
| Acquired through business combinations | 1,032 | 3,121 | 4,153 |
| Foreign exchange differences | - | (5) | (5) |
| Fair value adjustment (note 36) | - | 429 | 429 |
| | <hr/> | <hr/> | <hr/> |
| At 1 January 2013 | 1,032 | 5,000 | 6,032 |
| Acquired through business combinations | - | 1,630 | 1,630 |
| Foreign exchange differences | - | (16) | (16) |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2013 | 1,032 | 6,614 | 7,646 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| <i>Amortisation</i> | | | |
| At 1 January 2012 and 1 January 2013 | - | 71 | 71 |
| Provided for the year | 147 | - | 147 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2013 | 147 | 71 | 218 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| <i>Net book value</i> | | | |
| At 31 December 2013 | 885 | 6,543 | 7,428 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| At 31 December 2012 | 1,032 | 4,929 | 5,961 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| At 1 January 2012 | - | 1,384 | 1,384 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

11 Intangible assets (continued)

The carrying amount of goodwill is allocated to the cash generating units (CGUs) as follows:

| | 2013 Discount rate | 2013 £'000 | 2012 Discount rate | 2012 £'000 |
|-----------------------------|-----------------------|---------------|-----------------------|---------------|
| Applied Surface Concepts | 14% | 2,262 | 14% | 2,262 |
| Advanced Coating Initiative | 14% | 1,288 | 14% | 1,288 |
| MX Systems International | 14% | 475 | 14% | 475 |
| Applied Precision Coatings | 14% | 315 | 14% | 315 |
| Hi-Tech Coatings | 14% | 510 | 14% | 510 |
| Sterr and Eder | 14% | 1,630 | 14% | - |
| Others | 14% | 63 | 14% | 79 |
| | | 6,543 | | 4,929 |
| | | 6,543 | | 4,929 |

Impairment of goodwill

The recoverable amount of each Cash Generating Unit (CGU) connected to the intangible asset's value has been determined from value-in-use calculations based on cash flow assumptions for a five year period to 31 December 2018, extrapolated with no growth to 31 December 2023.

Operating margins have been based on past experience and future expectations in the light of anticipated economic and market conditions. Discount rates are based on the Group's current conservative assessment of specific risks related to the CGU.

The recoverable amount of CGUs that hold a significant proportion of the Group's overall goodwill balance include:

| | 2013 £'000 | 2012 £'000 |
|-----------------------------|---------------|---------------|
| Applied Surface Concepts | 5,284 | 6,786 |
| Advanced Coating Initiative | 1,565 | 2,390 |
| Sterr and Eder | 1,768 | - |
| | 8,617 | 9,176 |

If any one of the following changes were made to the above key assumptions, the carrying amount and recoverable amount would be equal.

| | Discount rate | Operating margin |
|-----------------------------|-----------------|------------------|
| Applied Surface Concepts | increase of 29% | decrease 56% |
| Advanced Coating Initiative | increase of 6% | decrease 4% |
| Sterr and Eder | increase of 2% | decrease 8% |

The Directors do not believe that there is a material difference between the recoverable amounts and the carrying value of goodwill; as a result there has been no provision for impairment. All assumptions in the current and prior year remain the same.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

12 Property, plant and equipment

| | Freehold land and buildings restated £'000 | Long leasehold land and buildings £'000 | Plant, vehicles and fixtures restated £'000 | Computer equipment £'000 | Total restated £'000 |
|---------------------------------|--|---|--|--------------------------------|----------------------------|
| <i>Cost</i> | | | | | |
| At 1 January 2012 | 3,222 | 691 | 4,632 | 523 | 9,068 |
| Additions | 35 | 9 | 724 | 104 | 872 |
| Disposals | - | (4) | (109) | - | (113) |
| Exchange differences | - | - | (29) | (1) | (30) |
| Acquisition of subsidiary | 865 | 64 | 938 | 20 | 1,887 |
| Fair value adjustment (note 36) | (241) | - | (52) | - | (293) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2012 | 3,881 | 760 | 6,104 | 646 | 11,391 |
| Additions | 289 | 174 | 1,334 | 60 | 1,857 |
| Disposals | - | (92) | (413) | (32) | (537) |
| Exchange differences | (57) | (21) | (222) | (6) | (306) |
| Acquisition of subsidiary | - | - | 478 | - | 478 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2013 | 4,113 | 821 | 7,281 | 668 | 12,883 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| <i>Accumulated depreciation</i> | | | | | |
| At 1 January 2012 | 634 | 194 | 2,877 | 341 | 4,046 |
| Provided during the year | 56 | 49 | 545 | 78 | 728 |
| Disposals | - | - | (83) | - | (83) |
| Exchange differences | - | (2) | (14) | - | (16) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2012 | 690 | 241 | 3,325 | 419 | 4,675 |
| Provided during the year | 95 | 93 | 984 | 134 | 1,306 |
| Disposals | - | (44) | (369) | (31) | (444) |
| Exchange differences | (35) | (6) | (115) | (5) | (161) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2013 | 750 | 284 | 3,825 | 517 | 5,376 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| <i>Net book value</i> | | | | | |
| At 31 December 2013 | 3,363 | 537 | 3,456 | 151 | 7,507 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2012 | 3,191 | 519 | 2,779 | 227 | 6,716 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At 1 January 2012 | 2,588 | 497 | 1,755 | 182 | 5,022 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

The net book value of plant, vehicles and fixtures includes £11,000 (2012 - £15,000) in respect of assets held under finance leases and hire purchase contracts. Depreciation charged on these assets amounted to £4,000 (2012 - £2,000).

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

| | |
|--|--------------|
| 13 Investments | £'000 |
| <i>Cost</i> | |
| At 1 January 2013 and 31 December 2013 | 26 |

The investment relates to Ultraseal India (PVT) Limited. There is no material difference between the cost of the investment and the carrying amount adjusted to recognise the Group's share of the profit or loss of the investee after the date of acquisition.

| | | |
|--|--------------|--------------|
| 14 Financial assets | 2013 | 2012 |
| | £'000 | £'000 |
| Amounts receivable from sale of an operation | 324 | 430 |

The accounting treatment for the above asset is covered in note 1. An amount of £111,000 (2012 - £116,000) in respect of this disposal is due in less than one year and is included in other receivables.

The difference between the book and fair value of the asset is not considered material.

| | | |
|-------------------------------|--------------|-----------------|
| 15 Inventories | 2013 | 2012 |
| | £'000 | restated |
| | | £'000 |
| Raw materials and consumables | 1,229 | 1,303 |
| Work in progress | 570 | 82 |
| Finished goods | 953 | 948 |
| | 2,752 | 2,333 |

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

16 Trade and other receivables

| | 2013 | 2012 |
|--------------------------------------|---------------|---------------------------|
| | £'000 | restated £'000 |
| Amounts receivable for sale of goods | 9,177 | 10,344 |
| Allowance for doubtful debts | (163) | (79) |
| | <hr/> | <hr/> |
| Trade receivables | 9,014 | 10,265 |
| Amounts due from contract customers | 1,696 | 1,179 |
| Other receivables | 339 | 583 |
| Prepayments and accrued income | 1,113 | 731 |
| Corporation tax | - | 11 |
| | <hr/> | <hr/> |
| Current assets | 12,162 | 12,769 |
| | <hr/> <hr/> | <hr/> <hr/> |

The carrying values of the Group's trade and other receivables (including long term receivables), classified as loans and receivables approximates fair value, and are denominated in the following currencies:

| | 2013 | 2012 |
|--------------------|---------------|--------------|
| | £'000 | £'000 |
| Sterling | 8,403 | 9,137 |
| Euros | 663 | 747 |
| US Dollars | 1,101 | 948 |
| Australian Dollars | 375 | 318 |
| Chinese RMB | 1,166 | 933 |
| Other currencies | 778 | 1,116 |
| | <hr/> | <hr/> |
| | 12,486 | 13,199 |
| | <hr/> <hr/> | <hr/> <hr/> |

At 31 December 2013 trade and contract receivables of £566,000 (2012 - £244,000) were past due but not impaired. The ageing of these receivables from invoice date is as follows:

| | 2013 | 2012 |
|----------------|--------------|--------------|
| | £'000 | £'000 |
| Up to 3 months | 276 | 158 |
| 3 to 6 months | 286 | 70 |
| 6 to 12 months | 4 | 16 |
| | <hr/> | <hr/> |
| | 566 | 244 |
| | <hr/> <hr/> | <hr/> <hr/> |

At 31 December 2013 trade receivables of £163,000 (2012 - £79,000) were past due and impaired. The basis for these impairments was default on repayments, financial difficulties of customers and specific invoices under dispute. All other trade receivables are considered recoverable; no objective evidence has arisen post year-end to indicate otherwise.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

16 Trade and other receivables (continued)

The receivables relate to various trading activities of the Group. The ageing of these receivables is as follows:

| | 2013 £'000 | 2012 £'000 |
|----------------|---------------|---------------|
| Up to 3 months | 123 | 79 |
| 3 to 6 months | 22 | - |
| 6 to 12 months | 18 | - |
| | <u>163</u> | <u>79</u> |

The Group records impairment losses on its trade receivables separately from gross receivables. The movements on this allowance account during the year are as follows:

| | 2013 £'000 | 2012 £'000 |
|-------------------------------------|---------------|---------------|
| Opening balance | 79 | 38 |
| Increase / (decrease) in provisions | 83 | (8) |
| Amounts utilised | (5) | - |
| Amounts recovered | 6 | (2) |
| Subsidiaries acquired | - | 51 |
| | <u>163</u> | <u>79</u> |

17 Cash and cash equivalents

| | 2013 £'000 | 2012 restated £'000 |
|------|---------------|---------------------------|
| Cash | 3,572 | 4,287 |

Within the Consolidated Cash Flow Statement, the Cash and cash equivalents line includes bank overdrafts of £1,603,000 (2012 - £Nil). The currency distribution of Cash and cash equivalents at 31 December was as follows:

| | 2013 £'000 | 2012 £'000 |
|--------------------|---------------|---------------|
| Sterling | 74 | 2,066 |
| Euros | 905 | 234 |
| US Dollars | 664 | 467 |
| Australian Dollars | 182 | 296 |
| Chinese RMB | 1,446 | 1,055 |
| Other currencies | 301 | 169 |
| | <u>3,572</u> | <u>4,287</u> |

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

18 Current other financial liabilities

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| Bank overdraft (secured) | 1,556 | - |
| Bank loans (secured) | 752 | 725 |
| Finance leases and hire purchase agreements (secured) | 3 | 8 |
| | <u>2,311</u> | <u>733</u> |

The bank overdraft and loans are secured over certain of the Group's assets and undertakings and are denominated in Sterling and Swedish Krona (2012 - Sterling).

The finance leases and hire purchase agreements are secured on the assets to which they relate.

The currency distribution of current financial liabilities at 31 December was as follows:

| | 2013 £'000 | 2012 £'000 |
|--------------------|---------------|---------------|
| Sterling | 2,261 | 725 |
| Australian Dollars | 3 | 8 |
| Swedish Krona | 47 | - |
| | <u>2,311</u> | <u>733</u> |

19 Current trade and other payables

| | 2013 £'000 | 2012 restated £'000 |
|--|---------------|---------------------------|
| Trade payables | 2,558 | 3,020 |
| Other taxation and social security costs | 1,159 | 901 |
| Other payables | 1,022 | 467 |
| Accruals and deferred income | 3,061 | 4,416 |
| Payments on account | 1,590 | 604 |
| | <u>9,390</u> | <u>9,408</u> |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

20 Provisions

| | Warranty £'000 | Dilapidations £'000 | Total £'000 |
|--|-------------------|------------------------|----------------|
| At 1 January 2012 | 159 | - | 159 |
| Additional provision in the year | 48 | - | 48 |
| Release of provision in the year | (36) | - | (36) |
| Utilisation of provision | (15) | - | (15) |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2012 and 1 January 2013 | 156 | - | 156 |
| Additional provision in the year | 29 | 200 | 229 |
| Release of provision in the year | (81) | - | (81) |
| Utilisation of provision | (37) | - | (37) |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2013 | 67 | 200 | 267 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

The warranty provisions relate to the Chemical Process Plant Manufacturing operation. Standard warranty terms are one to two years.

The dilapidation provision relates to the expected costs to be incurred to repair premises at the termination of certain leases.

21 Current tax liabilities

| | 2013 £'000 | 2012 £'000 |
|--------------------|---------------|---------------|
| UK corporation tax | 497 | 19 |
| Foreign tax | 119 | 87 |
| | <hr/> | <hr/> |
| | 616 | 106 |
| | <hr/> <hr/> | <hr/> <hr/> |

22 Non-current other financial liabilities

| | 2013 £'000 | 2012 £'000 |
|----------------------|---------------|---------------|
| Bank loans (secured) | 3,264 | 3,691 |
| Other loans | 90 | 92 |
| | <hr/> | <hr/> |
| | 3,354 | 3,783 |
| | <hr/> <hr/> | <hr/> <hr/> |

The bank overdraft and loans are secured over certain of the Group's assets and undertakings and are denominated in Sterling and Swedish Krona (2012 - Sterling).

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

22 Non-current other financial liabilities (continued)

The currency distribution of non-current financial liabilities at 31 December was as follows:

| | 2013 £'000 | 2012 £'000 |
|---------------|---------------|---------------|
| Sterling | 3,032 | 3,691 |
| Swedish Krona | 232 | |
| US Dollars | 90 | 92 |
| | <u>3,354</u> | <u>3,783</u> |

Maturity of debts

| | Loans and overdrafts | | Finance leases | |
|---|----------------------|---------------|----------------|---------------|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| In one year or less | 2,308 | 725 | 3 | 8 |
| In more than one year but not more than two years | 759 | 725 | - | - |
| In more than two years but not more than five years | 2,461 | 2,966 | - | - |
| In more than five years | 134 | 92 | - | - |
| | <u>5,662</u> | <u>4,508</u> | <u>3</u> | <u>8</u> |

There are currently 4 bank loans outstanding. At 31 December 2013 the balance on Loan A was £1,597,000 (2012 - £1,750,000) and is repayable by 15 equal quarterly instalments plus one final payment, with a floating interest rate of 1.75% above LIBOR. At 31 December 2013 the balance on Loan B was £608,000 (2012 - £750,000) and it is repayable by 16 equal quarterly instalments, with a fixed interest rate of 2.82%. At 31 December 2013 the balance on Loan C was £1,600,000 (2012 - £2,000,000) and is repayable by 16 equal quarterly instalments, with a floating interest rate of 1.75% above LIBOR. Loans A, B & C are denominated in Sterling. Loan D is denominated in Swedish Krona and the balance as at 31 December 2013 was £279,000 (2012 - £nil). The loan is payable in equal quarterly instalments over a 20 year term and attracts interest at 2.95%.

23 Non-current other payables

| | 2013 £'000 | 2012 £'000 |
|-----------------------------------|---------------|---------------|
| Deferred contingent consideration | 125 | 467 |
| | <u>125</u> | <u>467</u> |

Deferred contingent consideration was recognised on the acquisition of Advanced Coating Initiative Limited.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (*continued*)

24 Non-current tax liabilities

The amount of deferred taxation provided, which relates to accumulated depreciation being lower than accumulated capital allowances and other temporary differences, is as follows:

| | Accelerated capital allowances £'000 | Temporary differences restated £'000 | Total restated £'000 |
|---------------------------------|---|---|-------------------------------------|
| At 1 January 2013 | 365 | 270 | 635 |
| Debit to profit or loss | (227) | (7) | (234) |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2013 | 138 | 263 | 401 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| | Accelerated capital allowances £'000 | Temporary differences £'000 | Total £'000 |
| At 1 January 2012 | 427 | (60) | 367 |
| Debit to profit or loss | (62) | (16) | (78) |
| Business combination | - | 324 | 324 |
| Fair value adjustment (note 36) | - | 22 | 22 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2012 | 365 | 270 | 635 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Deferred tax assets have been recognised in respect of all such tax losses and other temporary differences giving rise to deferred tax assets where the Directors believe it is probable that the assets will be recovered.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

25 Obligations under finance leases

Amounts payable under finance leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|------------------------|---------------|--|---------------|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| Within one year | 3 | 8 | 3 | 8 |
| Present value of lease obligations | 3 | 8 | 3 | 8 |
| Less amount due for settlement within 12 months (shown under current liabilities) | | | (3) | (8) |
| Amount due for settlement after 12 months | | | - | - |

26 Total commitments under operating leases

| | Land and buildings | | Plant and machinery | |
|------------------------------|--------------------|---------------|---------------------|---------------|
| | 2013 £'000 | 2012 £'000 | 2013 £'000 | 2012 £'000 |
| Payable in one year | 713 | 547 | 274 | 281 |
| Payable in two to five years | 1,632 | 1,153 | 511 | 429 |
| Payable after five years | 1,775 | 1,836 | 119 | 55 |
| | 4,120 | 3,536 | 904 | 765 |

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Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

27 Share capital

| | 2013 Number '000 | 2013 Value £'000 | 2012 Number '000 | 2012 Value £'000 |
|---|------------------------|------------------------|------------------------|------------------------|
| Authorised - ordinary shares of 10p each | 18,000 | 1,800 | 18,000 | 1,800 |
| Allotted and fully paid - ordinary shares of 10p each | 14,812 | 1,482 | 14,812 | 1,482 |

1,011,510 shares were held by the Norman Hay plc Employee Benefit Trust at 31 December 2013 (2012 - 584,589).

At 31 December 2013 the following options were outstanding, including those relating to Directors, as detailed in the Report of the Directors:

- a) On 64,000 ordinary shares, these approved options are exercisable between 1 December 2012 and 30 November 2019 at 62.5p per share.
- b) On 976,150 ordinary shares, these unapproved share options are exercisable between 1 December 2010 and 30 November 2019 at 62.5p per share upon the share price achieving 150p or a change in control.
- c) On 125,000 ordinary shares, these approved options are exercisable between 12 January 2012 and 11 January 2019 at 79.5p per share.

28 Pension costs

The Group operates a number of defined contribution pension schemes. The assets of these schemes are held separately from those of the Group, in independently administered funds. A pension charge of £644,000 (2012 - £549,000) represents the contribution payable by the Group to those schemes. The amount of pension contributions outstanding at the year-end was £Nil (2012 - £Nil).

29 Related party transactions

The remuneration of key management personnel is included in note 6.

TAM Holding AG and TAM International Group Holdings Limited were associated entities during the prior year until their disposal on 8 June 2012. Normet UK Limited, Normet Hong Kong Limited, Normet Taiwan Co Limited and Normet Singapore Pte Limited are subsidiaries of TAM International AG. During 2012, loans totalling £3,603,000 were repaid to these companies.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

30 Share-based payments

Norman Hay plc operates two equity-settled share-based remuneration schemes for employees: a long term incentive scheme and an unapproved scheme for Executive Directors and senior management. All UK employees are eligible to participate in the long term incentive scheme, the only vesting condition is that the employee remains an employee of the Group over the service period.

Under the unapproved scheme, the shares are only exercisable at a share price of 150p or a change in control.

| | 2013 Weighted average exercise (pence) | 2013 Number | 2012 Weighted average exercise (pence) | 2012 Number |
|--|--|----------------|--|----------------|
| Outstanding at the beginning and end of the year | 64 | 1,165,150 | 64 | 1,165,150 |

The weighted average exercise price of options outstanding at the end of the year was 64p (2012 - 64p).

At the year-end 189,000 options (2012 - 189,000 options) were exercisable.

The Group did not enter into any share-based payment transactions with parties other than employees during the current or previous period.

Details of all outstanding share options are disclosed in Note 27 of the Financial Statements, including periods during which they are exercisable.

There was no share options charge during the year. The impact of not recognising a provision is considered to be immaterial.

31 Financial instruments - Risk Management

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing these risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing the risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

31 Financial instruments - Risk Management (continued)

Principal Financial Instruments

For all financial assets and liabilities the book value is an approximation of fair value.

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

Financial assets

Loans and receivables - these comprise trade and other receivables, and positive cash balances held at financial institutions.

| | Loans and receivables | |
|-----------------------------|-----------------------|---------------|
| | 2013 | 2012 |
| | £'000 | £'000 |
| Cash and cash equivalents | 3,572 | 4,287 |
| Trade and other receivables | 11,049 | 12,027 |
| Long term receivables | 324 | 430 |
| | <hr/> | <hr/> |
| | 14,945 | 16,744 |
| | <hr/> <hr/> | <hr/> <hr/> |

Financial Liabilities

| | Loans and payables | |
|--|--------------------|---------------|
| | 2013 | 2012 |
| | £'000 | £'000 |
| Trade and other payables | 9,782 | 10,031 |
| Bank borrowings and other loans | 5,662 | 4,508 |
| Finance leases and hire purchase contracts | 3 | 8 |
| | <hr/> | <hr/> |
| | 15,447 | 14,547 |
| | <hr/> <hr/> | <hr/> <hr/> |

All financial instruments have been valued with reference to level two of the fair value hierarchy as set out in IFRS 7: Financial Instruments: Disclosures. Fair values are determined based on prices that are observable for the asset or liability, either directly or indirectly.

The Group is exposed through its operations to the following financial risks:

- Foreign exchange risk
- Credit risk
- Liquidity risk
- Cash flow interest rate risk
- Market price risk

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (*continued*)

31 Financial instruments - Risk Management (*continued*)

General Objectives, Policies and Procedures

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's management team. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out on the following pages.

Foreign exchange risk

Foreign exchange risk arises because the Group has operations located in various parts of the world whose functional currency is not the same as the Group's functional currency. Although its global market penetration reduces the Group's operational risk in that it has diversified into several markets, the Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains or losses on retranslation into Sterling. Foreign exchange risk also arises when individual Group entities enter into transactions denominated in a currency other than their functional currency.

The Group's policy is to ensure that all inter-Group current accounts are settled within 30 days of a sale occurring, thus minimising the effects of currency fluctuations.

The effect of a strengthening of 10% in the rate of exchange in the currencies against Sterling at the year-end date would have resulted in an estimated net decrease in pre-tax profit and a decrease in net assets of £47,000 (2012 - decrease £265,000), and the effect of a weakening of 10% in the rate of exchange in the currencies against Sterling at the year-end date would have resulted in an estimated net increase in pre-tax profit and an increase in net assets of approximately £51,000 (2012 - increase £180,000).

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering into contracts, by obtaining reports from external credit agencies. These credit ratings are taken into account by the Group.

The management of each operating business has established credit policies under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Their review includes external ratings, when available and, in some cases, bank references. Purchase limits are established for each customer, which represent the maximum open amount permitted without requiring approval from senior management or the Group Chief Executive if appropriate. These limits are reviewed regularly and customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. All such deposits are made with reputable banks. Quantitative disclosures of the credit risk exposure in relation to trade and other receivables are disclosed in Note 16.

The maximum exposure to credit risk at 31 December 2013 is £14,282,000 (2012 - £15,731,000).

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

31 Financial instruments - Risk Management (continued)

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

At 31 December 2013 the Group had unused working capital facilities of £1,840,000 (2012 - £3,000,000).

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it reviews its forward cash requirement on a monthly basis for a minimum of three months ahead.

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the year-end date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances. The liquidity risk of each Group entity is managed centrally by the Group treasury function. Each operation has a facility with Group treasury, the amount of the facility being based on budgets. The budgets are set locally and agreed by the Board in advance, enabling the Group's cash requirement to be anticipated. Where facilities of Group entities need to be increased, approval must be sought from the Group Chief Executive and where the amount of the facility is above a certain level, agreement of the Board is needed.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities:

| Liquidity risk | Up to 3 months £'000 | Between 3 to 12 months £'000 | Between 1 and 2 years £'000 | Between 2 and 5 years £'000 | Over 5 years £'000 |
|----------------------------|----------------------------|---------------------------------------|--------------------------------------|--------------------------------------|--------------------------|
| At 31 December 2013 | | | | | |
| Trade and other payables | 9,365 | 292 | 125 | - | - |
| Loans and borrowings | 1,779 | 669 | 872 | 2,528 | 67 |
| Finance leases | - | 3 | - | - | - |
| Total | 11,144 | 964 | 997 | 2,528 | 67 |
| At 31 December 2012 | | | | | |
| Trade and other payables | 9,408 | 156 | 467 | - | - |
| Loans and borrowings | 191 | 632 | 811 | 3,099 | 92 |
| Finance leases | - | 8 | - | - | - |
| Total | 9,599 | 796 | 1,278 | 3,099 | 92 |

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

31 Financial instruments - Risk Management (continued)

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk from long-term borrowings at variable rates. Local operations are not permitted to borrow long-term from external sources without permission from the Group. During 2013 and 2012, the Group's borrowings at a variable rate were denominated in Sterling. On the Sterling borrowings interest is payable at 1.75% above LIBOR.

At 31 December 2013, if interest rates on the Group's borrowings had been 100 basis points higher with all other variables held constant, the effect on profit before taxation would have been an increase in the charge of £56,000 (2012 - £1,000).

Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Capital Management

The Group considers its capital to comprise its ordinary share capital, share premium and accumulated retained earnings. In managing its capital the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions.

In order to achieve this objective, the Group monitors its gearing to balance risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new shares issues, the reduction of debt, and the management of loans between Group companies, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

| Capital management | 2013 £'000 | 2012 £'000 |
|---------------------------------|---------------|---------------|
| Loans and borrowings | 5,665 | 4,516 |
| Less: cash and cash equivalents | (3,572) | (4,287) |
| Net debt | 2,093 | 229 |
| Total equity | 17,307 | 17,234 |
| Total debt to equity | 12.1% | 1.3% |

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

32 Notes supporting the consolidated cash flow statement

Cash and cash equivalents for purposes of the Consolidated Cash Flow Statement comprise:

| | 2013 | 2012 |
|--|--------------|-------------------|
| | £'000 | restated £'000 |
| Cash available on demand | 3,572 | 4,287 |
| Overdrafts | (1,603) | - |
| | <u>1,969</u> | <u>4,287</u> |
| <i>Significant non-cash transactions are as follows:</i> | | |
| Investing activities | | |
| Profit on disposal of investment in equity accounted-for associate | - | 2,901 |
| Deferred consideration for acquisition of subsidiary | (317) | 711 |
| | <u>-</u> | <u>3,612</u> |

33 Subsequent events

Since the year end the group has ceased operations at two of its subsidiaries, Advanced Coating Initiative FZE, based in Dubai, and Armourcote Malaysia Sdn Bhd, based in Malaysia. Closure costs have been incurred in 2013 as per note 4.

34 Capital commitments

| | 2013 | 2012 |
|---------------------------------|----------|-----------|
| | £'000 | £'000 |
| Contracted but not provided for | - | 75 |
| | <u>-</u> | <u>75</u> |

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

35 Acquisitions during the year

Sterr & Eder Industrieservice GmbH

On 8 January 2013, Norman Hay plc acquired the entire issued share capital of Sterr & Eder Industrieservice GMBH together with the fixed assets of Sterr & Eder Handelsgesellschaft OHG for a combined consideration of £2.49m, paid in full and in cash on the acquisition date.

Sterr & Eder Industrieservice GMBH is an impregnation and metal processing specialist based near Munich in Germany. The company was previously a customer of one of the Group's divisions, and the acquisition gives the Group a footprint in Germany, and offers the opportunity to expand other product and service areas into this market and also to exploit the synergies of an integrated product offering.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

| | Book and fair value £'000 |
|--|--|
| Property, plant and equipment | 478 |
| Inventory | 81 |
| Receivables | 328 |
| Cash | 1,409 |
| Payables | (1,436) |
| | <hr/> |
| Total net assets | 860 |
| | <hr/> |
| <i>Fair value of consideration paid</i> | £'000 |
| Cash | 2,490 |
| | <hr/> |
| Total consideration | 2,490 |
| | <hr/> |
| Goodwill (note 11) | 1,630 |
| | <hr/> |

Goodwill is considered primarily to relate to the employees of the Sterr & Eder Industrieservice GmbH business and as such the Directors consider that there are no further material intangible fixed assets that qualify for separate recognition.

The goodwill arising on the acquisition of Sterr & Eder Industrieservice GmbH is not deductible for tax purposes.

Acquisition related costs on the purchase of Sterr & Eder Industrieservice GmbH totalling £183,000 have been expensed to administrative expenses in the Statement of Comprehensive Income during 2012.

The results of Sterr & Eder Industrieservice GmbH led to an increase in Group revenues of £2,546,000 and Group profit after tax of £241,000. There would have been no material difference to Group revenue or Group profit as set out on page 10 if the acquisition had occurred on 1 January 2013.

Norman Hay plc

Notes to the Consolidated Financial Statements for the year ended 31 December 2013 (continued)

36 Acquisitions during the prior period

On 10 December 2012, the Group acquired 100% of the entire issued share capital of the following entities, through a newly incorporated holding company, Applied Surface Concepts Holdings Limited "ASC":

SIFCO Applied Surface Concepts (UK) Limited
SIFCO Applied Surface Concepts Sweden AB
SIFCO Applied Surface Concepts SARL
SIFCO Applied Surface Concepts LLC

These subsidiaries operate different plating techniques to those previously offered within the Group, and the geographical spread of ASC gives the existing Group opportunities to sell to new markets.

As at 31 December 2012 the accounting for the acquisition was not finalised as certain items of information were still outstanding, and therefore a provisional amount of goodwill was recognised in the 2012 Annual Report. Following the receipt of new information, goodwill has been restated in accordance with the table below:

| | Provisional fair value 2012 £'000 | Adjustment 2012 £'000 | Fair value 2012 £'000 |
|---|--|-----------------------------|-----------------------------|
| Property, plant and equipment | 1,558 | (293) | 1,265 |
| Brands | 1,032 | - | 1,032 |
| Other assets | 27 | - | 27 |
| Inventories | 758 | (103) | 655 |
| Receivables | 1,474 | (33) | 1,441 |
| Cash | 223 | 43 | 266 |
| Payables | (721) | (21) | (742) |
| Deferred tax liability | (324) | (22) | (346) |
| | <hr/> | <hr/> | <hr/> |
| | 4,027 | (429) | 3,598 |
| | <hr/> | <hr/> | <hr/> |
| Fair value of consideration paid | £'000 | | £'000 |
| Total cash consideration | 5,860 | | 5,860 |
| | <hr/> | | <hr/> |
| Goodwill (note 11) | 1,833 | | 2,262 |
| | <hr/> <hr/> | | <hr/> <hr/> |

Acquisition-related costs on the purchase of ASC totalling £428,000 were expensed to exceptional costs in the Consolidated Statement of Comprehensive Income in 2012.

The main factor leading to the recognition of goodwill was the presence of certain intangible assets such as the assembled work force of the acquired entity, which does not qualify for separate recognition and the SIFCO brand value which does.

The goodwill arising on the ASC acquisition is not deductible for tax purposes.

The 2012 comparatives have been restated in these financial statements to include the effect of the adjustments noted above. Under paragraph 10(f) of IAS 1 presentation of financial statements, this restatement would ordinarily require the presentation of a third consolidated statement of financial position as at 1 January 2012. However, as the restatement of the provisional fair values would have no effect on the statement of financial position as at that date, the Directors do not consider that this would provide useful additional information and, in consequence, have not presented a third consolidated statement of financial position due to prior period business combinations.

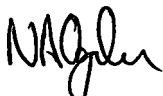
Norman Hay plc

Parent Company Balance Sheet for the year ended 31 December 2013

Prepared in accordance with UK GAAP

| <i>Company no: 00405025</i> | Note | 2013 £'000 | 2013 £'000 | 2012 £'000 | 2012 £'000 |
|--|------|---------------|---------------|---------------|---------------|
| Fixed assets | | | | | |
| Tangible assets | 5 | 2,561 | | 2,617 | |
| Investments | 6 | 15,633 | | 13,279 | |
| | | | 18,194 | | 15,896 |
| Current assets | | | | | |
| Debtors | 7 | 8,693 | | 7,328 | |
| Cash at bank and in hand | | - | | 1,337 | |
| | | 8,693 | | 8,665 | |
| Creditors due within one year | 8 | 7,397 | | 3,112 | |
| Net current assets | | | 1,296 | | 5,553 |
| Total assets less current liabilities | | | 19,490 | | 21,449 |
| Creditors due after one year | 9 | 11,282 | | 12,502 | |
| | | | 11,282 | | 12,502 |
| Net assets | | | 8,208 | | 8,947 |
| Capital and reserves | | | | | |
| Equity share capital | 10 | | 1,482 | | 1,482 |
| Share premium account | 11 | | 1,265 | | 1,265 |
| Revaluation reserve | 11 | | 487 | | 495 |
| Capital redemption reserve | 11 | | 94 | | 94 |
| Share scheme reserve | 11 | | 43 | | 43 |
| EBT share scheme reserve | 11 | | (841) | | (500) |
| Profit and loss account | 11 | | 5,678 | | 6,068 |
| Shareholders' funds | | | 8,208 | | 8,947 |

The financial statements were approved and authorised for issue by the Board of Directors on 19 May 2014.



N A Ogden
Director

The notes shown on pages 51 to 60 form part of these financial statements.

Norman Hay plc

Notes to the Parent Company Financial Statements for the year ended 31 December 2013

1 Accounting policies

Basis of preparation

The accounts are prepared under the historical cost convention, as modified to include the revaluation of certain assets, and in accordance with applicable United Kingdom Accounting Standards and the Companies Act 2006.

Cash flow statement

The Company has taken the exemption from the requirement to prepare a cash flow statement on the basis that its cash flows are included in the Consolidated Cash Flow Statement (Page 14).

Land and buildings

The Company has continued to follow the transitional arrangements of FRS 15 'Tangible Fixed Assets' to retain the carrying value of freehold land and buildings as at 31 December 1999 as deemed cost. All additions since this date are stated at cost. Where an asset that was previously revalued is disposed of, its book value is eliminated and an appropriate transfer made from the revaluation reserve to the profit and loss reserve.

Depreciation and amortisation

Depreciation and amortisation are provided at rates calculated to write off the cost or valuation, less the estimated residual value of each asset, except for freehold land, evenly over its expected useful life as follows:

| | | |
|------------------------------|---|---------------|
| Freehold buildings | - | 45 years |
| Plant, vehicles and fixtures | - | 3 to 10 years |
| Computer equipment | - | 2 to 5 years |

Investments

Investments held as fixed assets are stated at cost less any provision for impairment.

Foreign currency translation

Where transactions are entered into by an operation, in a currency other than the operation's functional currency, the transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the Balance Sheet date. Any differences are taken to the profit and loss account for the year.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the Group has entered into a binding sale agreement and is not proposing to take advantage of rollover relief;
- the recognition of deferred tax assets is limited to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Financial Instruments

Financial Instruments are measured initially and subsequently at cost.

Norman Hay plc

Notes to the Parent Company Financial Statements for the year ended 31 December 2013 (continued)

1 Accounting policies (continued)

Employee benefit trust (EBT)

The cost of the company's shares held by the EBT is deducted from shareholders' funds in the company balance sheet. Any cash received by the EBT on disposal of the shares it holds is also recognised directly in shareholders' funds. Other assets and liabilities of the EBT are recognised as assets and liabilities of the company.

Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Balance Sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

2 Directors' emoluments

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| Directors' remuneration consists of: | | |
| Aggregate emoluments | 632 | 649 |
| Pension contributions | 105 | 155 |
| Fees | 32 | 79 |
| Compensation for loss of office | - | 30 |
| | <u>769</u> | <u>913</u> |
| Bonuses in relation to the disposal of associates | - | 500 |

The highest paid Director had a salary of £198,000 (2012 - £476,000) including performance related pay and benefits in kind, and had a pension contribution of £32,000 (2012 - £51,000).

The Company contributed towards the personal pension plans of 4 Directors (2012 - 3) during the year.

In 2011 the company introduced a long-term incentive scheme for the Norman Hay senior team. Its purpose is to create a long-term bonus pool to reward the achievement of sustained growth in post-tax annual profits. £235,000 (2012 - £275,000) has been accrued under the scheme during the year. The total amounts accrued under the long term incentive scheme at 31 December 2013 were £748,000 (2012 - £513,000).

Norman Hay plc

Notes to the Parent Company Financial Statements for the year ended 31 December 2013 (*continued*)

3 Dividends

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| Final dividend paid of 3.2p (2012 - 2.9p) per share | 441 | 420 |
| Interim dividend paid of 2.8p (2012 - 2.8p) per share | 387 | 406 |
| | <u>828</u> | <u>826</u> |
| Dividends declared after the balance sheet date but before approval of financial statements of 3.2p (2012 - 3.2p) per share | <u>442</u> | <u>442</u> |

Dividends are recognised in the financial statements when they are paid and not declared. The 2013 financial statements recognised the interim dividend that was both paid and declared in 2013, and also the final dividend that was paid in 2013 but declared in the prior year financial statements for the year ended 31 December 2012.

4 Company profit for the financial year

The Company has taken advantage of the exemption allowed under Section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The Group profit for the period includes a profit after tax of £430,000 (2012 - £1,295,000) which is dealt with in the financial statements of the parent Company.

5 Tangible assets

| | Freehold land and buildings £'000 | Plant, vehicles and fixtures £'000 | Computers £'000 | Total £'000 |
|-----------------------------------|--|---|--------------------|-------------------|
| <i>Cost</i> | | | | |
| At 1 January and 31 December 2013 | 3,105 | 23 | 64 | 3,192 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| <i>Depreciation</i> | | | | |
| At 1 January 2013 | 528 | 10 | 37 | 575 |
| Provided during the year | 37 | 8 | 11 | 56 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2013 | 565 | 18 | 48 | 631 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| <i>Net book value</i> | | | | |
| At 31 December 2013 | 2,540 | 5 | 16 | 2,561 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| At 31 December 2012 | 2,577 | 13 | 27 | 2,617 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

No assets are held under finance leases or hire purchase contracts.

Norman Hay plc

Notes to the Parent Company Financial Statements for the year ended 31 December 2013 (continued)

| 5 Tangible assets (continued) | 2103 £'000 | 2012 £'000 |
|--|---------------|---------------|
| Freehold land and buildings included at: | | |
| Open market value at 16 November 1992 | 2,850 | 2,850 |
| Cost | 255 | 255 |
| | <hr/> | <hr/> |
| | 3,105 | 3,105 |
| | <hr/> | <hr/> |
| The historical balances of freehold land and buildings are: | | |
| Cost | 2,435 | 2,435 |
| Accumulated depreciation | (487) | (450) |
| | <hr/> | <hr/> |
| | 1,948 | 1,985 |
| | <hr/> | <hr/> |
| 6 Investments | | £'000 |
| Cost | | |
| At 1 January 2013 | | 13,279 |
| Additions | | 2,671 |
| Adjustments in respect of acquisitions in prior year (note 9) | | (317) |
| | | <hr/> |
| At 31 December 2013 | | 15,633 |
| | | <hr/> |

On 9 January 2013, Norman Hay plc acquired the entire issued share capital of Sterr & Eder Industrieservice GmbH together with the fixed assets of Sterr & Eder Handelsgesellschaft OHG for a combined consideration of £2,490,000, exclusive of professional fees.

In the opinion of the Directors, the aggregate value of the Company's investment in its remaining subsidiary undertakings is not less than the amount included in the Balance Sheet.

Norman Hay plc

Notes to the Parent Company Financial Statements for the year ended 31 December 2013 (continued)

6 Investments (continued)

Subsidiary undertakings, associated undertakings and other investments

The principal undertakings in which the Company's interest at the period end is 20% or more are as follows:

| Subsidiary undertaking | Location | Proportion of ordinary share capital held | Nature of business |
|--|-----------|---|--|
| Surface Technology plc | England | 100% | Surface engineering, impregnation and finishing of metals. Supply of impregnation equipment and chemicals and NDT equipment. |
| Ultraseal USA Inc | USA | 100% | Distributors of impregnation equipment and chemicals. |
| Lancy Technology Ltd | England | 75% | Effluent treatment systems. |
| Ultraseal Asia Ltd* | BVI | 75% | Holding company for Ultraseal Shanghai Ltd. |
| Ultraseal Shanghai Ltd* | China | 75% | Processing and distribution centre for impregnation chemicals and equipment. |
| Ultraseal India Pvt Ltd* | India | 30% | Processing and distribution centre for impregnation chemicals and equipment. |
| Surface Technology (Australia) Pty Limited * | Australia | 100% | Surface engineering and finishing of metals. |
| MX Systems International Ltd | England | 100% | Supply of impregnation equipment and chemistry. |
| Advanced Surface Treatments Limited* | England | 100% | Surface engineering and finishing of metals. |
| Armourcote Malaysia Sdn Bhd* | Malaysia | 100% | Surface engineering and finishing of metals. |
| ASTECH Technologies (Dalian) Co Ltd* | China | 100% | Surface engineering and finishing of metals. |
| Advanced Coating Initiative Ltd | Scotland | 100% | Specialised coating and surface engineering. |
| Applied Surface Concepts Holdings Ltd | England | 100% | Holding company for the ASC Group. |
| SIFCO Applied Surface Concepts (UK) Ltd* | England | 100% | Surface engineering and finishing of metals. |
| SIFCO Applied Surface Concepts Sweden AB* | Sweden | 100% | Surface engineering and finishing of metals. |
| SIFCO Applied Surface Concepts SARL* | France | 100% | Surface engineering and finishing of metals. |
| SIFCO Applied Surface Concepts LLC* | USA | 100% | Impregnation and finishing of metals. |
| Sterr & Eder Industrieservice GmbH | Germany | 100% | Surface engineering and finishing of metals. |
| Advanced Coating Initiative F.Z.E * | Dubai | 100% | Specialised coating and surface engineering. |

For all undertakings listed above, the country of operation is the same as the country of incorporation or registration.

* These undertakings are indirectly held by Norman Hay plc.

Norman Hay plc

Notes to the Parent Company Financial Statements for the year ended 31 December 2013 (continued)

7 Debtors

| | 2013 £'000 | 2012 £'000 |
|--------------------------------|---------------|---------------|
| Amounts owed by subsidiaries | 8,512 | 6,966 |
| Other debtors | 18 | 234 |
| Prepayments and accrued income | 37 | 26 |
| Deferred tax | 126 | 23 |
| Corporation tax | - | 79 |
| | <u>8,693</u> | <u>7,328</u> |

Deferred tax:

The deferred tax asset movement is as follows:

| | £'000 |
|-------------------------------------|------------|
| At 1 January 2013 | 23 |
| Credited to profit and loss account | 103 |
| | <u>126</u> |
| At 31 December 2013 | <u>126</u> |

The deferred tax asset relates to other timing differences of £154,000 less a deferred tax liability of £28,000 in respect of accumulated depreciation being lower than accumulated capital allowances.

8 Creditors due within one year

| | 2013 £'000 | 2012 £'000 |
|-------------------------------------|---------------|---------------|
| Bank loans and overdrafts (secured) | 5,701 | 725 |
| Trade creditors | 86 | 189 |
| Amounts owed to subsidiaries | 583 | 74 |
| Taxation and social security costs | 70 | 30 |
| Accruals and deferred income | 894 | 1,850 |
| Corporation tax | 38 | - |
| Other creditors | 25 | 244 |
| | <u>7,397</u> | <u>3,112</u> |

The bank loans and overdrafts are secured over certain of the Group's assets and undertakings.

Norman Hay plc

Notes to the Parent Company Financial Statements for the year ended 31 December 2013 (continued)

9 Creditors due after one year

| | 2013 £'000 | 2012 £'000 |
|------------------------------|---------------|---------------|
| Bank loans (secured) | 3,102 | 3,775 |
| Amounts owed to subsidiaries | 8,055 | 8,260 |
| Other creditors | 125 | 467 |
| | <u>11,282</u> | <u>12,502</u> |

The other creditor is in respect of deferred consideration payable relating to acquisitions in the prior year. The decrease in the year is due to a reassessment of the amount payable.

Loans and overdrafts are repayable as follows:

| | 2013 £'000 | 2012 £'000 |
|---|---------------|---------------|
| In one year or less | 5,701 | 725 |
| In more than one year but not more than two years | 703 | 725 |
| In more than two years but not more than five years | 2,399 | 3,050 |
| | <u>8,803</u> | <u>4,500</u> |

The bank loans and overdrafts are secured over certain of the Group's assets and undertakings.

10 Share capital

| | 2013 Number '000 | 2013 Value £'000 | 2012 Number '000 | 2012 Value £'000 |
|---|------------------------|------------------------|------------------------|------------------------|
| Authorised - ordinary shares of 10p each | <u>18,000</u> | <u>1,800</u> | 18,000 | 1,800 |
| Allotted and fully paid - ordinary shares of 10p each | <u>14,812</u> | <u>1,482</u> | 14,812 | 1,482 |

Details of movement in share capital can be found in Note 27 to the Group Financial Statements.

Norman Hay plc

Notes to the Parent Company Financial Statements for the year ended 31 December 2013 (continued)

11 Reserves

| | Share capital £'000 | Share premium account £'000 | Revaluation reserve £'000 | Capital redemption reserve £'000 | Share scheme reserve £'000 | EBT share scheme reserve £'000 | Profit and loss account £'000 | Total £'000 |
|----------------------------|---------------------------|--------------------------------------|---------------------------------|---|-------------------------------------|--|--|----------------|
| At 1 January 2013 | 1,482 | 1,265 | 495 | 94 | 43 | (500) | 6,068 | 8,947 |
| Retained profit | - | - | - | - | - | - | 430 | 430 |
| Movement in reserves | - | - | (8) | - | - | - | 8 | - |
| Purchase of shares by EBT | - | - | - | - | - | (341) | - | (341) |
| Dividends paid in year | - | - | - | - | - | - | (828) | (828) |
| At 31 December 2013 | 1,482 | 1,265 | 487 | 94 | 43 | (841) | 5,678 | 8,208 |

The Company has recognised an Employee Benefit Trust (EBT) share scheme reserve on the balance sheet which represents the Trust's holding in the Company's own shares. The Company has accounted for the share ownership as a deduction from its own equity as required under UITF 38.

Norman Hay plc

Notes to the Parent Company Financial Statements for the year ended 31 December 2013 *(continued)*

12 Related party transactions

The Company is exempt under the terms of Financial Reporting Standard 8 'Related party disclosures' from disclosing related party transactions with wholly owned subsidiaries.

TAM Holding AG and TAM International Group Holdings Limited were associated entities during the prior year until disposal on 8 June 2012. Normet UK Limited, Normet Hong Kong Limited, Normet Taiwan Co Limited and Normet Singapore Pte Limited are subsidiaries of TAM International AG. During 2012, loans totalling £3,622,000 were repaid to these companies.

The following table summarises the transactions with other related parties during the year:

| 2013 | At 1 January 2013 £'000 | Loan repayments £'000 | At 31 December 2013 £'000 |
|----------------------|--|--------------------------------------|--|
| Lancy Technology Ltd | 21 | (76) | (55) |
| | 21 | (76) | (55) |
| | 21 | (76) | (55) |
| 2012 | At 1 January 2012 £'000 | Loan repayments £'000 | At 31 December 2012 £'000 |
| Lancy Technology Ltd | 21 | - | 21 |
| | 21 | - | 21 |
| | 21 | - | 21 |

13 Contingent liabilities

There are cross-guarantees in respect of bank borrowings of other Group companies. At 31 December 2013 the amount of bank loans and overdrafts outstanding in respect thereof was £72,000 (2012 - £467,000).

The Company is part of a VAT Group. At December the VAT liability of other companies in that VAT Group was £254,000 (2012 - £382,000).

Norman Hay plc

Notes to the Parent Company Financial Statements for the year ended 31 December 2013 (continued)

14 Share-based payment

Norman Hay plc operates two equity-settled share-based remuneration schemes for employees: a long term incentive scheme and an unapproved scheme for Executive Directors and senior management. All UK employees are eligible to participate in the long term incentive scheme, the only vesting condition is that the employee remains an employee of the Group over the service period.

Under the unapproved scheme, the shares are only exercisable at a share price of 150p or a change in control.

| | 2013 Weighted average exercise (pence) | 2013 Number | 2012 Weighted average exercise (pence) | 2012 Number |
|--|--|----------------|--|----------------|
| Outstanding at the beginning and end of the year | 64 | 1,165,150 | 64 | 1,165,150 |

The weighted average exercise price of options outstanding at the end of the year was 64p (2012 - 64p).

At the year-end 189,000 options (2012 - 189,000 options) were exercisable.

The Group did not enter into any share-based payment transactions with parties other than employees during the current or previous period.

Details of all outstanding share options are disclosed in Note 27 of the Group Financial Statements, including periods during which they are exercisable.

There was no share options charge during the year. The impact of not recognising a provision is considered to be immaterial.

15 EBT share scheme

The Employee Benefit Trust (EBT) was established in 2007 to provide for the future obligations of the company for shares awarded under the company share schemes. At 31 December 2013, shares held by the EBT under option to employees are as follows:

| | 2013 | 2012 |
|--------------------------------------|-----------|---------|
| Number of Norman Hay plc shares held | 1,011,510 | 584,589 |

Notice of Meeting

Notice is hereby given that the sixty-eighth Annual General Meeting of the Company will be held at the Royal Holloway College University of London, Egham, Surrey, TW20 OEX on 19 June 2014 at 11 am for the following purposes:

- 1 To receive and adopt the audited financial statements for the year ended 31 December 2013, together with the Reports of the Directors and the Auditors thereon.
- 2 To re-elect as a Director Mr. Nicholas Ogden, who retires by rotation, in accordance with Article 21.1 of the Articles of Association of the Company.
- 3 To re-appoint BDO LLP as auditors to the Company, to hold office until the conclusion of the next General Meeting at which accounts are laid before the Company, and to authorise the Directors to determine their remuneration.
- 4 To declare a final dividend for the year ended 31 December 2013 of 3.2p per ordinary share, to be paid on 17 July 2014 to members whose names appear on the register of members as at the close of business on 17 June 2014.
- 5 To consider and, if thought fit, approve as an Ordinary Resolution:

That, subject to and in accordance with Article 5.1 of the Articles of Association of the Company, the Directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the Act) (in substitution for any existing authority to allot shares) to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £494,000 provided that such authority shall expire on the conclusion of the next Annual General Meeting to be held in 2015 or 15 months whichever comes first after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require such shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry, and the Board may allot shares and grant rights to subscribe or convert securities into shares in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.

- 6 To consider and, if thought fit, approve as a Special Resolution:

That, subject to the passing of resolution 5 above, the Directors be and are hereby empowered pursuant to Section 570 of the Act to allot equity securities (as defined in that Act) for cash pursuant to the general authority confirmed by resolution 5 as set out in the notice of this meeting as if the provisions of Section 561 (1) of the Act did not apply to any such allotment until the conclusion of the Annual General Meeting to be held in 2015 or 15 months, whichever comes first, provided that this power shall be limited to allotments of equity securities in respect of:

- i) allotments in connection with rights issues (subject only to such exclusions as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical requirements of a recognised a regulatory body in any territory); and
- ii) the allotment for cash (otherwise than pursuant to (i)) of equity securities up to any aggregate nominal amount of £74,000.

Registered office:
Godiva Place
Coventry
CV15PN

By order of the board
N A Ogden
19 May 2014

Notice of Meeting

Notes

- 1 A member entitled to attend and vote at this Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company, but must attend the meeting. A form of proxy is attached for use at the Meeting. Members should complete, sign and return this so as to reach the office of the Company's Registrars not less than 48 hours (excluding any part of a non-working day) before the time appointed for the holding of the Meeting. By so doing they will not be precluded from attending and voting at the Meeting in person should they be able to do so.
- 2 A register of Directors' interests and those of their families in the shares of the Company and copies of relevant Directors' service contracts will be available for inspection at Norman Hay plc, Godiva Place, Coventry from the date of this notice until the close of the Meeting.
- 3 The right of the members to vote at the Meeting is determined by reference to the register of members. Shareholders must be enrolled on the Company's register of members at 6pm on 17 June 2014 or, in the event that the Meeting is adjourned, on the register of members as at 6pm two days prior to the time of any adjourned meeting (provided such time is not more than 48 hours prior to the time of any adjourned meeting), in order to be entitled to attend and/or vote at the Meeting in respect of the number of shares registered in their name at such time. Changes to entries on the register of members after that time will be disregarded in determining the rights of any person to attend and/or vote at the Meeting.