The Bronx Engineering Company Limited

Directors' report and financial statements

Registered number 1119794

Year ended 31 October 1999

Contents

Directors' report

The directors submit their annual report together with the audited financial statements of the company for the year ended 31 October 1999.

Principal activities and business review

The principal activities of the company continue to be the manufacture, supply and installation of heavy machinery lines for use in the steel, construction and metal forming industries.

Results and dividends

The company's results for the year are shown on page 5 of the financial statements. Turnover for the year was £15,350,000 *(31 October 1998: £15,984,000)* and the loss on ordinary activities before taxation for the financial year was £2,255,000 *(31 October 1998: loss of £4,565,000).*

No dividend has been paid or is proposed.

Directors and their interests

Mr RI Eyres, Mr JM Henderson and Mr M Roberts are directors of the ultimate parent undertaking and their interests in the share capital of MetalTech International plc are shown in the financial statements of that company.

Other directors who held office during the year, together with their interests in the ordinary share capital of MetalTech International plc, were as follows:

	Number of options held at 31 October 1998 34.5p options	Options lapsed 34.5p options	**Number of options held at 31 October 1999 34.5p options**	Number of ordinary shares of 10p each at 31 October 1998	**Number of ordinary shares of 10p each at 31 October 1999**
AN Brown (resigned 1 December 1999)	10,000	10,000	-	-	-
TJ Brown (resigned 7 September 1999)	25,000	25,000	-	-	-
WB Hughes (resigned 1 December 1999)	10,000	10,000	-	-	-
AR Partridge	-	-	-	-	-
M Fairbrother (resigned 30 April 1999)	130,000	130,000	-	300,000	-

No options were granted in the year. No specific performance criteria were prescribed for the exercise of options. On 26 April 1999, all outstanding options lapsed and the scheme terminated.

No director has any interest in the share capital of the company.

Messrs JM Henderson and M Roberts resigned on 31 January 2000 and 31 March 2000 respectively.

Mr RI Eyres resigned on 31 May 2000.

Messrs PW Callaghan and JHC Brebner were appointed as directors on 15 November 1999 and 14 March 2000 respectively.

Millennium issues

The group conducted a risk-based review of its computer systems and processes to identify those which could be affected and developed an implementation plan to test and remedy any faults. In accordance with group accounting policies, all remedial costs which were not considered to be significant to the group were written off as incurred.

No problems have arisen to date but it must be recognised that, with an issue as large and complex as this, it is not possible to give any guarantees that no unforeseen problems will arise in the coming months.

Directors' report *(continued)*

Auditors

In accordance with Section 384 of the Companies Act 1985 a resolution for the re-appointment of KPMG Audit Plc will be proposed at the forthcoming annual general meeting.

By order of the Board

JHC Brebner
Secretary

Dudley Road
Lye
West Midlands
DY9 8DS

5 July 2000

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Auditors' report to the members of The Bronx Engineering Company Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Going concern

In forming our opinion we have considered the adequacy of the disclosures made in note 2 of the financial statements concerning the uncertainty as to the ability of the Company and MetalTech International plc and subsidiary undertakings to operate within their bank facilities. In view of the significance of these uncertainties we consider that they should be drawn to your attention but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 October 1999 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditors

5 July 2000

Profit and loss account
for the year ended 31 October 1999

	Note	**Year ended 31 October 1999 £000**	Year ended 31 October 1998 £000
Turnover	*3*	**15,350**	15,984
Cost of sales		**(14,319)**	(16,827)
Gross profit/(loss)		**1,031**	(843)
Other operating expenses	*4*	**(2,548)**	(2,504)
Operating loss		**(1,517)**	(3,347)
Loss on disposal of assets		**(115)**	-
Net interest payable and similar charges	*5*	**(623)**	(1,218)
Loss on ordinary activities before and after taxation being retained loss for the financial year	*6*	**(2,255)**	(4,565)

There were no recognised gains or losses in either the current or preceding periods other than those disclosed in the profit and loss account.

Balance sheet
at 31 October 1999

	Note	31 October 1999		31 October 1998	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	*10*		88		1,830
Current assets					
Stocks	*11*	171		1,383	
Debtors	*12*	8,173		8,234	
Cash at bank and in hand		-		2	
		8,344		9,619	
Creditors: amounts falling due within one year	*13*			(24,466)	
Borrowings		(7,415)			
Other		(16,296)			
		(23,711)		-	
Net current liabilities			(15,367)		(14,847)
Total assets less current liabilities			(15,279)		(13,017)
Creditors: Amounts falling due after more than one year	*14*		-		(3)
Provision for liabilities and charges	*15*		(91)		(95)
Net liabilities			(15,370)		(13,115)
Capital and reserves					
Called up share capital	*16*		100		100
Profit and loss account	*17*		(15,470)		(13,215)
Equity shareholders' funds	*18*		(15,370)		(13,115)

These financial statements were approved by the board of directors on 5 July 2000 and were signed on its behalf by:

JHC Brebner
Director

PW Callaghan
Director

Note of historical costs profits and losses

	Year ended 31 October 1999 £000	Year ended 31 October 1998 £000
Reported loss on ordinary activities before taxation	**(2,255)**	(4,565)
Realisation of revaluation gains of previous years	-	806
Historical cost loss on ordinary activities before taxation	**(2,255)**	(3,759)
Historical cost loss retained for year	**(2,255)**	(3,759)

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain tangible fixed assets, and on the going concern basis as detailed in note 2. The financial statements have been prepared in accordance with applicable Accounting Standards.

Cash flow statement

The company is a wholly owned subsidiary of MetalTech International plc which is established under the law of a member state of the European Community. MetalTech International plc publishes consolidated financial statements including a consolidated cash flow statement which includes the results the company, accordingly no cash flow statement is included in these financial statements.

Turnover

Turnover, other than that related to long term contracts as described below, represents invoiced sales of goods and services excluding value added tax.

Depreciation and amortisation

Depreciation is provided on tangible fixed assets at rates calculated to write off the gross book value, less estimated residual value, on a straight line basis of each asset over its estimated useful life as follows:

Land and buildings	-	40 years
Plant and equipment	-	between 5 and 20 years
Design archives	-	15 years

Stocks and long term contracts

In the case of long term contracts, turnover represents the estimated contract revenues on work performed during the year. Contract revenues and profits are computed on the percentage of completion method, primarily by reference to labour hours, profits being determined after making reserves against all anticipated costs including possible warranty claims.

Long term contract balances included in stocks comprise costs incurred on long term contracts, net of amounts transferred to cost of sales, after deducting foreseeable losses and related payments on account. Costs include direct material and labour costs incurred in bringing a contract to its state of completion at the year end, including an appropriate proportion of indirect expenses. Provisions for estimated losses on contracts are made in the periods in which such losses are foreseen.

Amounts recoverable on contracts, being the amount by which recorded turnover is in excess of payments on account, is classified under debtors. The excess of payments received over amounts recorded as turnover is classified under creditors due within one year.

***Stocks and long term contracts** (continued)*

Other stocks are stated at the lower of cost and net realisable value and provision is made for obsolete, slow moving or defective items when appropriate.

Notes *(continued)*

1 Accounting policies *(continued)*

Leases

Assets held under finance leases and hire purchase agreements are initially reported at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease or hire purchase term and its useful economic life. The interest element of payments is allocated to the profit and loss account over the period of the lease on a straight line basis.

Rentals under operating leases are charged on a straight line basis over the lease term.

Taxation

The charge or credit for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions during the year are dealt with at the rates ruling at the date of the transaction or the relevant forward contract rate. All exchange differences on transactions are taken to the profit and loss account.

Pensions

Pension costs are charged to the profit and loss account so as to spread the costs of providing such benefits over employees working lives with the company. Variations to regular costs are spread over employee working lives with the company.

2 Basis of preparation of the financial statements

The company is a subsidiary of MetalTech International plc and as a result of continuing trading losses, an increasingly weak financial position, and following notification from the group's principal banker that they would be seeking recourse of US $10 million from the company in respect of the preferred capital interest in Eastbay Investors & Co LLC, the board have concluded negotiations with the group's principal bankers in order to restructure the bank indebtedness.

Full details of the financial restructuring proposals were set out in the circular to shareholders dated 19 October 1999.

The bank offered, and shareholders approved on 11 November 1999, the following terms:

- conversion of £25 million of debt into £10 million of Preference Shares and £15 million of New Ordinary Shares representing 29.9% of the enlarged ordinary share capital;
- conversion of the remaining debt into term loans of £9 million and US $15 million repayable in full in November 2002 or earlier in certain defined circumstances;
- an overdraft facility of £8 million which is repayable on demand and subject to periodic review;
- a bonding facility of up to £2.5 million together with other ancillary facilities.

The overdraft and banking facilities are due for renewal on 16 November 2000 and the directors are aware of no reason why these facilities will not be renewed.

On the basis of the above new banking facilities, the board consider that the group can operate within the new facilities made available to it and that the going concern basis can be adopted when preparing the financial statements. However the nature of the group's businesses is such that there can be considerable variations in the timing of cash flows and thus there can be no certainty in this matter. To the extent that the group is unable to continue to operate within its facilities and the associated banking covenants, it would need to seek further support of its bank.

Notes *(continued)*

2 Basis of preparation of the financial statements *(continued)*

The financial statements do not include any adjustments that would result from a withdrawal of the overdraft facilities by the group's bankers, such as the revision of the carrying values of assets, the requirement for further provisions for additional liabilities that may arise and the reclassification of fixed assets and long term liabilities.

3 Segmental analysis

All turnover and operating profits and losses arose from the company's principal activities, which are carried out wholly in the United Kingdom.

Turnover by geographical destination were as follows:

	Year ended 31 October 1999 £000	Year ended 31 October 1998 £000
United Kingdom	**2,701**	2,621
Other European countries	**2,186**	1,606
North America	**3,846**	4,821
Africa	**2,341**	6,231
Far East	**607**	306
Australia	**7**	-
Other	**3,662**	399
	15,350	15,984

4 Other operating expenses

	Year ended 31 October 1999 £000	Year ended 31 October 1998 £000
Selling, administration, marketing and distribution costs	**1,964**	2,442
Group management charge (net)	**59**	59
Other (including exchange gains and losses)	**-**	3
Redundancy	**525**	-
	2,548	2,504

Notes *(continued)*

5 Net interest payable

	Year ended 31 October 1999 £000	Year ended 31 October 1998 £000
Interest payable and similar charges:		
On bank overdraft	**415**	1,127
On loan from ultimate holding company	**136**	187
On finance leases and hire purchase contracts	**1**	2
Exchange loss on foreign currency borrowings less deposits	**78**	91
	630	1,407
Interest receivable and similar income:		
Bank interest	**(7)**	(127)
Exchange gain on foreign currency borrowings less deposits	**-**	(62)
	(7)	(189)
Net interest payable	**623**	1,218

6 Loss for the financial year

	Year ended 31 October 1999 £000	Year ended 31 October 1998 £000
Loss for the financial year is stated		
after charging		
Depreciation and other amounts written off tangible fixed assets:		
Owned		
- Impairment in fixed assets - exceptional	**-**	2,126
- Charge for year	**278**	285
Held under finance leases and hire purchase contracts	**-**	41
Hire of plant and machinery under operating leases	**21**	189
Auditors' remuneration:		
Audit services	**30**	25
Other services	**-**	5

Notes *(continued)*

7 Staff numbers and costs

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

	Number of employees	
	Year ended 31 October 1999	Year ended 31 October 1998
Design and manufacturing	**106**	104
Management and administration	**37**	45
Sales and marketing	**25**	25
	168	174

Employee costs during the year amounted to:

	£000	£000
Wages and salaries	**3,260**	3,730
Social security costs	**280**	297
Other pension costs	**12**	12
	3,552	4,039

8 Directors' emoluments

	Year ended 31 October 1999 £000	Year ended 31 October 1998 £000
Directors' emoluments	**301**	419
Compensation for loss of office	**175**	-
Company contributions to money purchase pension schemes	**12**	12
	488	431

The aggregate emoluments of the highest paid director was £114,000 *(1998: £123,000)*, and company pension contributions of £12,000 *(1998: £12,000)* were made to a small self administered money purchase scheme on his behalf. He is a member of a defined benefit scheme under which the accrued pension to which he would be entitled from his normal retirement date if he were to retire at the year end was £31,461 per annum.

Retirement benefits under defined benefit schemes accruing to directors total 4*(1998: 6)*.

9 Taxation

No tax charge arose in 1999 due to the availability of losses brought forward (see note 14).

Notes *(continued)*

10 Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Design archives £000	Total £000
Cost or valuation				
At beginning of year	3,483	4,468	310	8,261
Additions	-	20	-	20
Disposals	(3,483)	(4,488)	-	(7,971)
At end of year	-	-	310	310
Depreciation				
At beginning of year	2,162	4,068	201	6,431
Charge for the year	66	191	21	278
Disposals	(2,228)	(4,259)	-	(6,487)
At end of year	-	-	222	222
Net book value				
At 31 October 1999	**-**	**-**	**88**	**88**
At 31 October 1998	1,321	400	109	1,830

Included in plant and machinery are leased assets with a net book value of £Nil *(1998: £155,000).* Depreciation charged in the year relating to these assets amounted to £Nil *(1998: £41,000).*

Freehold land amounting to £Nil *(1998: £300,000)* included above has not been depreciated.

11 Stocks

	31 October 1999 £000	31 October 1998 £000
Work in progress	**154**	1,373
Raw materials and spare parts	**17**	10
	171	1,383

Notes *(continued)*

12 Debtors

	31 October 1999 £000	31 October 1998 £000
Trade debtors	3,645	3,791
Amounts recoverable on contracts	295	286
Amounts owed by other group undertakings	3,705	3,805
Other debtors	-	36
VAT	416	190
Prepayments and accrued income	112	126
	8,173	8,234

13 Creditors: amounts falling due within one year

	31 October 1999 £000	31 October 1998 £000
Bank overdraft	7,415	9,031
Payments received on account	1,728	2,576
Trade creditors	1,702	2,075
Contract completion reserves	2,186	1,189
Amounts owed to other group undertakings	9,968	9,114
Other creditors:		
Social security and PAYE	52	97
Accruals and deferred income	660	384
	23,711	24,466

The bank overdraft is secured by fixed and floating charges over all the assets of the company and is supported by cross-guarantees from group undertakings.

14 Creditors: Amounts falling due after more than one year

	31 October 1999 £000	31 October 1998 £000
Obligations under hire purchase and finance lease contracts	-	3

Notes *(continued)*

15 Provisions for liabilities and charges

	Repairs under Warranty £000
Beginning of year	95
Expenditure in year	-
Charged to profit and loss account in year	-
Other movements	(4)
End of period	**91**

The company has approximately £14 million of taxable losses available to offset future trading profits. No credit for these losses has been taken within these financial statements.

16 Called up share capital

	31 October 1999 £000	31 October 1998 £000
Authorised, allotted, called up and fully paid:		
100,000 ordinary shares of £1 each	**100**	100

17 Reserves

	Profit and loss account £000
Beginning of year	**(13,215)**
Retained loss for the year	**(2,255)**
Transfers	-
At end of year	**(15,470)**

18 Reconciliation of movements in shareholders' funds

	31 October 1999 £000	31 October 1998 £000
Loss for the financial year	**(2,255)**	(4,565)
Shareholders' funds at beginning of year	**(13,115)**	(8,550)
Shareholders' funds at end of year	**(15,370)**	(13,115)

Notes *(continued)*

19 Commitments

a The company had annual commitments at 31 October 1999 in respect of non-cancellable property, plant and machinery operating leases analysed as follows:

	31 October 1999 £000	31 October 1998 £000
Operating leases which expire:		
Within one year	**-**	30
In the second to fifth years inclusive	**21**	95
After five years (property)	**60**	-
	81	125

b At 31 October 1999, authorised capital commitments for which no provision has been made in the financial statements amounted to £Nil *(1998: £Nil)*.

20 Contingent liabilities

The company is liable under an interlocking guarantee in respect of the groups UK bankers in favour of its parent and fellow subsidiary undertakings. The company's contingent liability under the interlocking guarantee at 31 October 1999 was £33,473,000 *(1998: £30,640,000)*.

The company has given guarantees in respect of advance payments and performance bonds totalling £1,623,000 *(1998: £2,248,000)*.

21 Pensions

The company participates in the MetalTech International Group Pension Fund, a funded defined benefit scheme. Contributions payable to the scheme are determined by a qualified actuary on the basis of periodic valuations. The most recent valuation of the MetalTech International Group Pension Fund was carried out on 6 April 1999. Details of the scheme are set out in the MetalTech International plc financial statements.

22 Ultimate parent undertaking

The immediate and ultimate parent undertaking is MetalTech International plc, whose registered office is at Dudley Road, Lye, West Midlands, DY9 8DS. MetalTech International plc produces financial statements into which the company's results are consolidated, which are available from the same address.

23 Related party transactions

By virtue of the company being a wholly owned subsidiary included in the consolidated financial statements of a larger EU group, the company is exempt under Financial Reporting Standard 8 from disclosing transactions or balances with entities which are part of the group that qualify as related parties.