The Bronx Engineering Company Limited

Directors' report and financial statements

Year ended 31 October 1998
Registered number 1119794

Directors' report and financial statements

Contents

Directors' report

The directors submit their annual report together with the audited financial statements of the company for the year ended 31 October 1998.

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 £15,984,000 *(31 October 1997: £17,513,000)* and the loss on ordinary activities before taxation for the financial year was £4,565,000 *(31 October 1997: profit of £305,000).*

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 and 1997	**Ordinary shares of 10p each**	
	34.5p options	**31 October 1998**	31 October 1997
AN Brown	10,000	-	-
TJ Brown	25,000	-	-
WB Hughes	10,000	-	-
AR Partridge	-	-	-
M Fairbrother	130,000	**300,000**	300,000

Options are exercisable at any time prior to 26 April 1999 at a price of 34.5p per share so long as the company is a member of MetalTech International plc. No options were granted or lapsed during the year. The options lapsed on 26 April 1999.

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

Messrs Fairbrother and TJ Brown resigned on 30 April 1999 and 7 September 1999 respectively.

Directors' report *(continued)*

Post balance sheet event review

On 7 September 1999, the manufacturing activity and related assets of the company were sold to a management buy out team for consideration of £1,400,000 which was paid on completion. The company's traditional business of the last 60 years has been designing and selling metal working machinery. The design and sale of the machinery will continue to be undertaken by the company which has entered into a supply agreement for the manufacturer of machinery with the purchaser.

Year 2000

A Group wide programme to address the impact of the Year 2000 problem is well under way.

An analysis of significant risks has been performed to determine the impact of the issue on all activities. From this, prioritised actions plans have been developed which are designed to address the key risks in advance of critical dates and without disruption to the underlying business processes. Priority is being given to those systems which could cause a significant financial or legal impact on the company's business if they were to fail, with the aim that by December 1999, all computer systems and facilities with microchips will be fully Year 2000 compliant.

The risk analysis also considers the impact on the company of Year 2000 related failures by significant suppliers and customers. In appropriate cases, we have initiated formal communication with these other parties.

Whilst it is not possible to fully quantify costs of the programme, it is not anticipated that this will have a material impact on the financial statements.

While management believe that the group will be compliant for the Year 2000, it must be recognised that with a problem as large and complex as this, it is not possible to give any guarantees that no unforeseen problems will arise.

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

B. Robinson

B Robinson
Secretary

Dudley Road
Lye
West Midlands
DY9 8DS

19 October 1999

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

Report of the auditors to the members of The Bronx Engineering Company Limited

We have audited the financial statements on pages 5 to 17.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes 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 the proposed 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 1998 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 Auditor

19 October 1999

Profit and loss account

for the year ended 31 October 1998

	Note	**Year ended 31 October 1998 £'000**	Year ended 31 October 1997 £'000
Turnover	*3*	**15,984**	17,513
Cost of sales (after including exceptional costs of £2,126,000 - see note 6)		**(16,827)**	(14,770)
Gross loss		**(843)**	2,743
Other operating expenses	*4*	**(2,504)**	(1,456)
Operating profit		**(3,347)**	1,287
Net interest payable and similar charges	*5*	**(1,218)**	(982)
(Loss)/profit on ordinary activities before and after taxation being retained (loss)/profit for the financial year	*6*	**(4,565)**	305

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 1998

	Note	**31 October 1998**		31 October 1997	
		£'000	**£'000**	£'000	£'000
Fixed assets					
Tangible assets	*10*		**1,830**		4,191
Current assets					
Stocks	*11*	**1,383**		361	
Debtors	*12*	**8,234**		8,657	
Cash at bank and in hand		**2**		-	
		9,619		9,018	
Creditors: amounts falling due within one year	*13*	**(24,466)**		(21,627)	
Net current liabilities			**(14,847)**		(12,609)
Total assets less current liabilities			**(13,017)**		(8,418)
Creditors: Amounts falling due after more than one year	*14*		**(3)**		-
Provision for liabilities and charges	*15*		**(95)**		(132)
Net liabilities			**(13,115)**		(8,550)
Capital and reserves					
Called up share capital	*16*		**100**		100
Revaluation reserve	*17*		**-**		806
Profit and loss account	*17*		**(13,215)**		(9,456)
Equity shareholders' funds	*18*		**(13,115)**		(8,550)

These financial statements were approved by the board of directors on 19 October 1999 and were signed on its behalf by:

M Roberts
Director

Note of historical costs profits and losses

	Year ended 31 October 1998 £'000	Year ended 31 October 1997 £'000
Reported (loss)/profit on ordinary activities before taxation	**(4,565)**	305
Realisation of revaluation gains of previous years	**806**	-
Historical cost (loss)/profit on ordinary activities before taxation	**(3,759)**	305
Historical cost (loss)/profit retained for year	**(3,759)**	305

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.

Notes *(continued)*

1 Accounting policies *(continued)*

***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.

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 the group currently meets its day to day working capital requirements through overdraft facilities which are repayable on demand. As a result of continuing trading losses, an increasingly weak financial position, and following notification from the group's principal banker that they will seek 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, currently amounting to approximately £46.3 million, excluding £2 million contingent liability to the bank under a bonding facility relating to contract performance.

Notes *(continued)*

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

The bank have offered, subject to shareholder approval, 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 £18 million 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;
- overdraft and other facilities of £8 million which are repayable on demand and subject to periodic review;
- a bonding facility of up to £2.5 million and other ancillary facilities.

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

On the basis of the offer of new banking facilities, and subject to shareholder approval, the board consider that the group can operate within the new facilities to be 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.

If shareholders do not approve the financial restructuring or if for any other reason banking facilities are withdrawn then the going concern basis may not be appropriate. The financial statements do not include any adjustments that may be necessary in this instance 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 1998 £'000	Year ended 31 October 1997 £'000
United Kingdom	**2,621**	4,307
Other European countries	**1,606**	4,748
North America	**4,821**	4,951
Africa	**6,231**	1,069
Far East	**306**	2,027
Other	**399**	411
	15,984	17,513

Notes *(continued)*

4 Other operating expenses

	Year ended 31 October 1998 £'000	Year ended 31 October 1997 £'000
Selling, administration, marketing and distribution costs	**2,442**	1,682
Group management charge (net)	**59**	(226)
Other (including exchange gains and losses)	**3**	-
	2,504	1,456

5 Net interest payable

	Year ended 31 October 1998 £'000	Year ended 31 October 1997 £'000
Interest payable and similar charges:		
On bank overdraft	**1,127**	821
On loan from ultimate holding company	**187**	167
On finance leases and hire purchase contracts	**2**	2
Exchange loss on foreign currency borrowings less deposits	**91**	-
	1,407	990
Interest receivable and similar income:		
Bank interest	**(127)**	-
Exchange gain on foreign currency borrowings less deposits	**(62)**	(8)
	(189)	(8)
Net interest payable	**1,218**	982

Notes *(continued)*

6 (Loss)/profit for the financial year

	Year ended 31 October 1998 £'000	Year ended 31 October 1997 £'000
(Loss)/profit 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	**285**	277
Held under finance leases and hire purchase contracts	**41**	42
Hire of plant and machinery under operating leases	**189**	181
Auditors' remuneration:		
Audit services	**25**	25
Other services	**5**	5

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 1998	Year ended 31 October 1997
Design and manufacturing	**104**	111
Management and administration	**45**	46
Sales and marketing	**25**	22
	174	179

Employee costs during the year amounted to:

	£'000	£'000
Wages and salaries	**3,730**	3,462
Social security costs	**297**	277
Other pension costs	**12**	9
	4,039	3,748

Notes *(continued)*

8 Directors' emoluments

	Year ended 31 October 1998 £'000	Year ended 31 October 1997 £'000
Directors' emoluments	**419**	342
Company contributions to money purchase Pension schemes	**12**	9
	431	351

The aggregate emoluments of the highest paid director was £123,000 (1997: £100,000), and company pension contributions of £12,000 (1997: £Nil) 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 are accruing to 6 directors (1997: 6).

9 Taxation

No tax charge arose in 1997 due to the availability of losses brought forward (see note 14).

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	4,386	310	8,179
Additions	-	97	-	97
Disposals	-	(15)	-	(15)
At end of year	3,483	4,468	310	8,261
Depreciation				
At beginning of year	662	3,145	181	3,988
Charge for the year	74	232	20	326
Impairment provision	1,426	700	-	2,126
Disposals	-	(9)	-	(9)
At end of year	2,162	4,068	201	6,431
Net book value				
At 31 October 1998	**1,321**	**400**	**109**	**1,830**
At 31 October 1997	2,821	1,241	129	4,191

Notes *(continued)*

10 Tangible fixed assets *(continued)*

Included in plant and machinery are leased assets with a net book value of £155,000 *(1997: £196,000)*. Depreciation charged in the year relating to these assets amounted to £41,000.

Freehold land amounting to £300,000 *(1997: £300,000)* included above has not been depreciated.

Design archives are included at cost.

Certain items of land and buildings and plant and machinery were professionally valued in 1989.

Original cost and aggregate depreciation based on cost of land and buildings:

	31 October 1998 £'000	31 October 1997 £'000
Original cost	**2,553**	2,553
Depreciation based on cost	**(2,219)**	(759)
	334	1,794

11 Stocks

	31 October 1998 £'000	31 October 1997 £'000
Work in progress	**1,373**	223
Raw materials and spare parts	**10**	138
	1,383	361

12 Debtors

	31 October 1998 £'000	31 October 1997 £'000
Trade debtors	**3,791**	1,921
Amounts recoverable on contracts	**286**	1,366
Amounts owed by other group undertakings	**3,805**	4,576
Other debtors	**36**	546
VAT	**190**	119
Prepayments and accrued income	**126**	129
	8,234	8,657

Notes *(continued)*

13 Creditors: amounts falling due within one year

	31 October 1998 £'000	31 October 1997 £'000
Bank overdraft	**9,031**	9,634
Finance lease creditor	**-**	8
Payments received on account	**2,576**	1,422
Trade creditors	**2,075**	1,554
Contract completion reserves	**1,189**	868
Amounts owed to other group undertakings	**9,114**	7,515
Other creditors:		
Social security and PAYE	**97**	94
Accruals and deferred income	**384**	532
	24,466	21,627

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 1998 £'000	31 October 1997 £'000
Obligations under hire purchase and finance lease contracts	**3**	-

15 Provisions for liabilities and charges

	Deferred Tax £'000	Repairs under Warranty £'000	Total £'000
Beginning of year	-	132	132
Expenditure in year	-	(57)	(57)
Charged to profit and loss account in year	-	20	20
End of period	-	**95**	**95**

The company has approximately £12 million of taxable losses available to offset future trading profits. No credit for these losses has been taken within these financial statements.

Notes *(continued)*

16 Called up share capital

	31 October 1998 £'000	31 October 1997 £'000
Authorised, allotted, called up and fully paid:		
100,000 ordinary shares of £1 each	**100**	100

17 Reserves

	Revaluation reserve £'000	Profit and loss account £'000
Beginning of year	806	(9,456)
Retained profit for the year	-	(4,565)
Transfers	(806)	806
At end of year	-	**(13,215)**

18 Reconciliation of movements in shareholders' funds

	31 October 1998 £'000	31 October 1997 £'000
(Loss)/profit for the financial year	**(4,565)**	305
Shareholders' funds at beginning of year	**(8,550)**	(8,855)
Shareholders' funds at end of year	**(13,115)**	(8,550)

19 Commitments

a. The group had annual commitments at 31 October 1998 in respect of non-cancellable plant and machinery operating leases analysed as follows:

	31 October 1998 £'000	31 October 1997 £'000
Operating leases which expire:		
Within one year	**30**	30
In the second to fifth years inclusive	**95**	147
	125	177

b. At 31 October 1998, authorised capital commitments for which no provision has been made in the financial statements amounted to £Nil *(1997: £Nil)*.

Notes *(continued)*

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 1998 was £30,640,000 *(1997: £31,561,000)*.

The company has given guarantees in respect of advance payments and performance bonds totalling £2,248,000 *(1997: £3,959,000)*.

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 1996. 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, 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.

24 Post balance sheet events

On 7 September 1999, the company completed the sale of the manufacturing activity and related assets of the company to a management buy out team for £1,400,000 which was paid on completion.