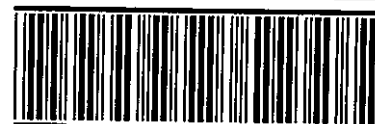


Annual Report 1998

**Manufacturers and distributors of products for use in a wide range
of building and industrial applications**

Expamet International PLC



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COMPANIES HOUSE 28/05/99

Expamet's Strategy

Expamet will continue to concentrate on the manufacture and distribution of a diverse range of products for use in a wide range of building and industrial applications.

The common elements of Expamet's businesses are:

- manufacturing and assembly operations
- serving mature markets
- long product life cycles
- stable technology
- broad customer base
- many small value transactions

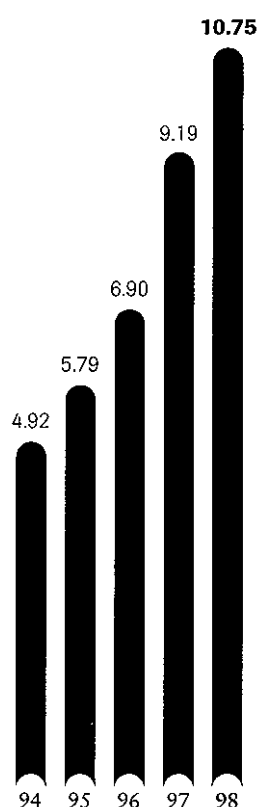
Expamet's prime objective is to increase shareholder value. The strategy to achieve this will be to invest in existing businesses consistent with their key strengths and by acquiring new businesses which match the above criteria, in order that their costs and/or service levels can be enhanced.

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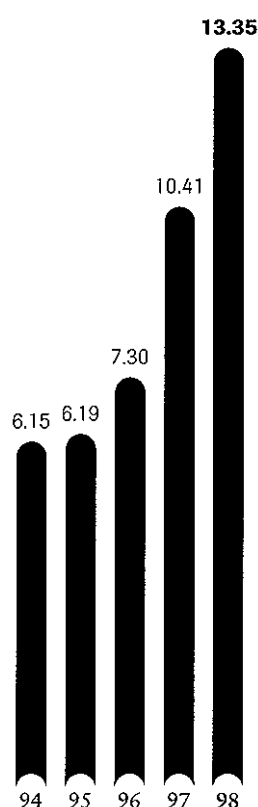
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	Year to 31 Dec 1998	Year to 31 Dec 1997
Turnover	£119.5m	£110.9m
Profit before taxation	£11.8m	£9.7m
Earnings per share	13.35p	10.41p
Total dividend per share	4.50p	3.85p

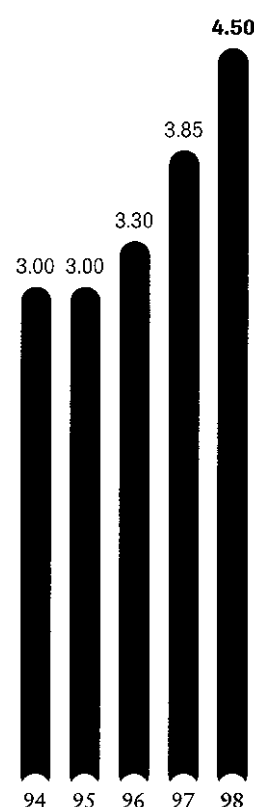
- Profit before tax **up 21%**
- Earnings per share **up 28%**
- Final dividend of 2.55p, making total of 4.50p – **up 17%**



Operating Profit –
Continuing Businesses £m



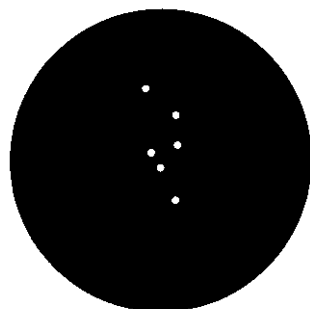
Adjusted Earnings
Per Share pence



Dividend Per Share
pence

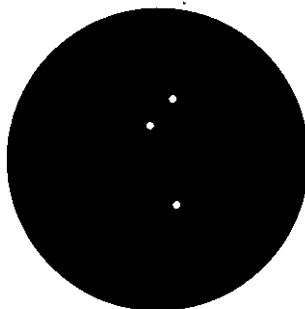
by Geographic Location

UK



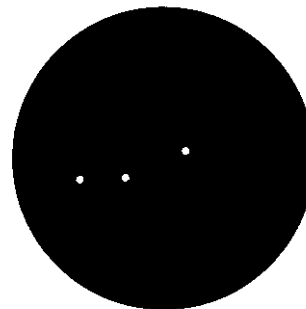
Birmingham
Glasgow
Goole
Hartlepool
London
Sandycroft

France



Lyon
Paris
Wignehies

Nordic



Helsinki Finland
Ski Norway
Stockholm Sweden

by Business Division

Industrial

The Expanded Metal Company Ltd

The Expanded Metal Company Ltd, which is based in Hartlepool, has over 100 years' experience in the production of expanded metal, offering a wide range of standard and bespoke meshes and fabricated mesh products. It is the market leader in the UK and exports its products worldwide.

Sorst Streckmetall GmbH

Sorst Streckmetall GmbH is based in Hannover, Germany, and manufactures a range of expanded metal products predominantly for sale in its domestic market.

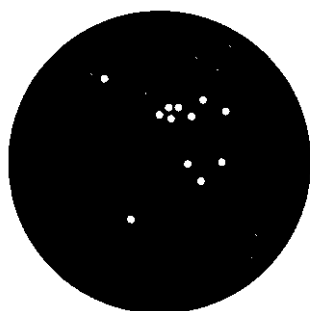
Olaer Industries SA

Olaer Industries SA is the foremost manufacturer of bladder accumulators in Europe. Based in Paris, it provides solutions to customers' hydraulic problems. It also supplies coolers and filters for use in hydraulic systems. Olaer operates in 17 countries worldwide.

Roth SA

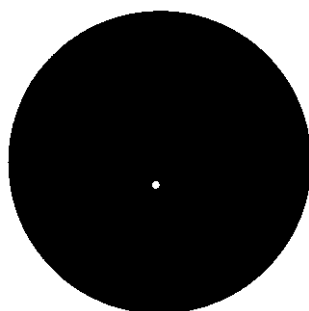
Roth SA is based in Lyon, France, and manufactures hydraulic accumulator shells and bottles for use in applications such as fire extinguishers.

Rest of Europe



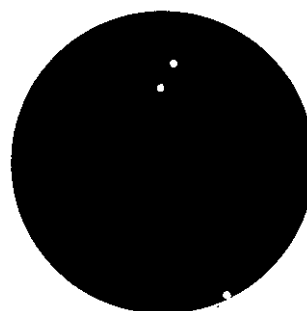
Amsterdam
The Netherlands
Barcelona Spain
Blieskastel Germany
Brno Czechoslovakia
Brussels Belgium
Dublin Rep of Ireland
Düdingen Switzerland
Hannover Germany
Linz Austria
Turin Italy
Warsaw Poland
Wijk-bij-Duurstedt
The Netherlands

USA



Houston Texas

Rest of World



Ningbo China
Seoul Korea
Sydney Australia

Building

Expamet Building Products

Expamet Building Products is the market leader in the UK for its range of bead, lath and fixings used in the construction industry at home and overseas. In addition, other building components are manufactured, including lintels.

Industrial Building Components Ltd

Industrial Building Components Ltd manufactures a wide range of bespoke building products, including fire doors, doorsets and washroom cubicle systems.

Timloc Building Products Ltd

Timloc Building Products Ltd has a strong presence in the new-build housing market, with its range of plastic damp-prevention, ventilation and loft access door products.

Dear Shareholder

I am pleased to report another year of excellent progress. Expamet has again delivered strong profit growth in line with our strategic and operational plans, despite many world-wide markets having exhibited weakening demand.

Group Performance

Profit before tax for the year to 31 December 1998 grew by 21% to £11.8m (1997: £9.7m) on sales up by 8% to £119.5m (1997: £110.9m). Operating profit increased by 17% to £10.7m (1997: £9.2m). Earnings per share were 13.35p (1997: 10.41p) representing 28% growth.

Dividend

The strong performance in 1998 and the prospects for 1999 give the Board the confidence to recommend a final dividend of 2.55p (1997: 2.15p), bringing the total dividend per share for 1998 to 4.50p (1997: 3.85p), a 17% increase. The final dividend is payable on 30 April 1999 to shareholders on the register at the close of business on 6 April 1999.

Sector Performance

The operating profit of the building sector increased by 37% to £4.1m (1997: £3.0m) on sales of £36.5m (1997: £35.3m). This excellent result was achieved against a background

of weak market conditions in the UK construction sector, particularly in the second half of the year. Although overall activity in the UK building market was at a similar level to the previous year, new product sales grew and margins were again enhanced.

The industrial sector improved operating profit to £6.6m (1997: £6.2m), an increase of 7%, on sales of £83.0m (1997: £75.6m). As expected, underlying demand in Continental Europe was strong although activity in the UK and oil related sectors slowed as the year progressed. An increase in the cost of a key component from two significant suppliers contributed to a reduction in Olaer's margin but alternative sources of supply have been identified which will benefit 1999. This, coupled with one-off reorganisation costs of £0.3m, reduced the return on sales of the industrial sector to 8.0% from 8.2% in 1997.

Sorst Streckmetall, which was acquired in December 1997, made a good contribution in its first year being

With new product sales growth, lower material costs, and overhead reductions already implemented across the Group, we expect to continue to increase profits in the coming year.

earnings enhancing as forecast. The planned relocation to new premises was also successfully completed.

Employees

The efforts and commitment of Expamet employees throughout the world have again been outstanding and I would like to express my thanks to all colleagues on behalf of the Board.

Outlook

The UK building market is forecast to be flat in the coming year. Price pressure will continue as the customer base consolidates further and as long as manufacturing capacity exceeds demand. However, with new product sales growth, lower raw material costs and overhead reductions already implemented, our performance should continue to be good.

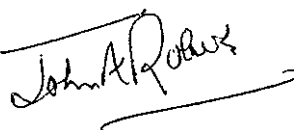
In the industrial sector, the majority of the Group's sales are made in Continental Europe across a wide range of industries and countries. Although more buoyant than the UK, demand

in this market is also expected to slow as the year progresses. However, as stated above, in anticipation of this, overhead reductions have already been implemented, which will give a full year's benefit during 1999 and actions have also been taken to reverse the component cost increase in Olaer. The lower cost base, coupled with continuing growth of new products, gives the opportunity for the industrial sector again to increase its profits in the coming year.

Having successfully integrated Sorst into our industrial sector, we are keen to make further acquisitions which have a strategic fit and offer opportunity. A number of possible acquisition targets were investigated in depth; however, none met our valuation criteria. We continue to search for new and promising acquisitional opportunities in the building and industrial sectors to complement our organic growth.

The actions taken to reduce the cost base and grow new product sales

lead us to expect that profits should increase in 1999.

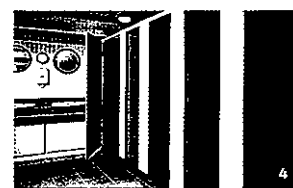


John A Roberts
Chairman





- 1 School property secured by Expanet fencing
- 2 Roth air bottles used by deep sea diver
- 3 Ofaer hydraulic accumulators used in car manufacturing line
- 4 Cubicles manufactured by IBC



Expanet's Strategy and Objectives are defined on the inside front cover of this report. This approach was developed in early 1995 and over the following four years underlying profitability has improved both absolutely and relatively. Indeed, as illustrated on the graphs opposite, over this period our earnings have significantly outperformed the equivalent profit growth of both the 'small cap' and engineering sectors.

Looking forward, we will continue with our strategy, although, increasingly, the emphasis will move towards acquisitions which meet our defined strategic criteria. Given the consolidation in our major markets, I anticipate that acquisition opportunities will arise in both the building and industrial sectors. With our net cash balances (£16.9m at 31 December 1998), we are well placed to take advantage of such opportunities, which should enable profit growth to continue to outperform its peer group.

Building Sector

With overall UK construction volumes only slightly ahead of 1997 levels, the

key issue facing building component manufacturers like Expanet is the consolidation of the customer base, which continued during 1998 and put additional pressure on prices.

Given this background, the 37% increase in operating profit was a creditable achievement, as was the return on sales of 11.1% (1997: 8.4%). These improvements were achieved following an increase in sales of new products, particularly lintels, lower raw material costs and tight control of overheads.

Our largest building subsidiary, Expanet Building Products (EBP) had a good year. In addition to increasing lintel sales in general, EBP also won the contract to supply Jewson with an own brand lintel. This programme was rolled out during the year and will give a more substantial contribution in 1999. Actions were also taken to reduce overheads, which will benefit the coming year.

Timloc continued to increase market share in its chosen sectors. In addition,

the £0.5m investment in injection moulding equipment was completed as planned. This will reduce cost as well as offering the potential to broaden the product range.

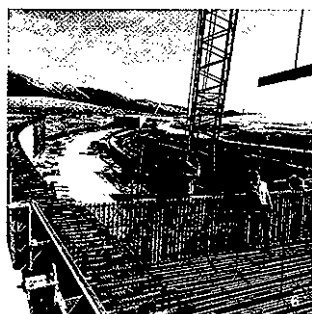
EBP and Timloc will lose some volume in 1999. Both companies were unable to meet the new pricing requirements of some customers and at the same time maintain a consistent pricing policy across the total customer base. This volume loss will be more than compensated for by the gains in other areas and the lower cost base.

IBC successfully continued its strategy of supplying special doors and doorsets to small/medium sized projects. In a very competitive UK market, IBC's focus is centred on reliable service and quality products. With this as a basis, the average selling prices in 1998 were higher than in the previous year. The cubicle range was extended and, with a new steel door recently launched, the prospects for further growth are enhanced.



5 Timloc damp proofing products

6 Civil engineering project makes use of EBP's Hy-Rib



FTSE Small Cap 3.4

Engineering 6.1

Expamet 29.3

Average Annual Growth of Pre-exceptional Profit Before Tax 1995-1998 %

FTSE Small Cap 8.7

Engineering 7.9

Expamet 25.6

Average Annual Pre-exceptional EPS Growth 1995-1998 %

Source for Estimates - Warburg Dillon Read

Bat Continental, our small Dutch subsidiary, had a difficult year, with sales below 1997 levels. Although gross margins were increased, this was not sufficient to compensate for the lower volumes. In the second half of the year, a new flooring product was launched and an investment of £0.2m is under way to reduce costs. The benefits from both of these initiatives will begin in 1999.

Industrial Sector

Although the 1998 operating profit increased by 7%, it was disappointing that the return on sales reduced slightly to 8.0% from 8.2% in 1997. This was entirely due to Olaer, where two suppliers of a key component for coolers increased their prices significantly. With such a technical product, it took several months to identify and approve alternative sources of supply. This has now been done and 1999 will see a reversal of these cost increases.

Olaer increased its sales of accumulators following the trend of



underlying demand, particularly in Continental Europe. Further penetration was also achieved, as expected, in coolers. Olaer supplies a wide range of markets, including the oil industry, where the low price of oil has depressed investment activity. The UK market also declined as the year progressed. In anticipation of slowing demand, a cost reduction programme was initiated in the autumn of last year. This programme is ongoing and, although some actions have already been implemented, I believe we will identify other opportunities to further reduce the cost base whilst maintaining our sales and marketing initiatives.

Roth's principal objective is to supply Olaer's increasing demand for accumulator shells. It also sells small bottles, including fire extinguishers, and these sales increased. The Board has approved, in principle, a significant investment of £3m to upgrade the factory in Northern France which produces the small shells and bottles. This investment will be made over the next 2-3 years and will strengthen

Roth's position as a leading supplier of accumulator shells and steel fire extinguishers.

Expanded Metal maintained its profitability, despite lower demand in the UK and overseas. Further investment in new equipment was made, which enabled costs to be reduced. These lower overheads will benefit 1999.

Sorst Streckmetall, which was acquired in December 1997, had a good first year. Considerable reorganisation of the operations was required to improve capacity and service, including the relocation to new premises. This work was successfully implemented and now the emphasis is on growing the customer base and increasing the size of the expanded metal market in Germany. The early signs are encouraging.



Philip Reeder
Chief Executive

Financial Review

Free Cash Flow Summary

	1998 £000	1997 £000
Cash flow from operating activities	12,771	11,869
Interest received (net)	998	522
Tax paid	(2,614)	(2,607)
Capital expenditure (net)	(3,202)	(1,871)
Free cash flow	7,953	7,913

The Group's strong profit performance continues to be translated into cash generation, net cash balances at the year end having increased from £13.3m to £16.9m.

Cashflow

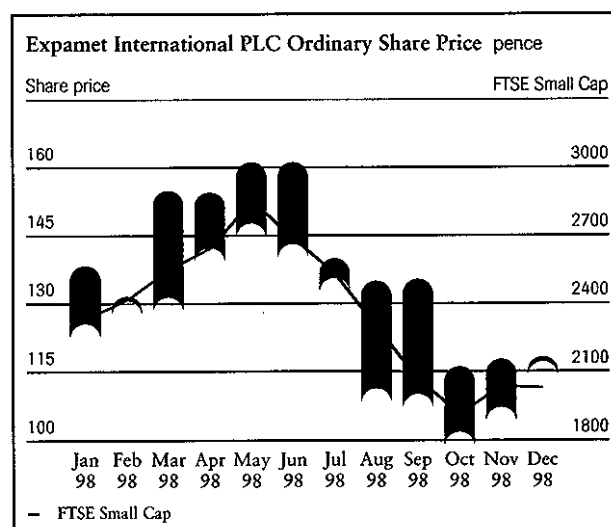
Operating activities generated cash of £12.8m, as the Group continued to focus on controlling working capital. This compares to £11.9m in 1997, which benefited from an unusually large increase in creditors, as explained in the 1997 Financial Review.

Capital expenditure was £3.3m, compared to the abnormally low expenditure of £2.0m in 1997. The major development projects during the year were the £0.5m investment in new injection moulding capacity in Timloc, Sorst's relocation to new premises and improvements to the distribution system in Expamet Building Products.

During the year, £1.4m of deferred consideration and costs were paid in relation to the acquisition of the business and certain assets of the expanded metal division of Ernst Sorst & Co GmbH in December 1997.

Treasury Management

The Group's foreign currency exposures are monitored centrally in accordance with policies approved by the Board, which aim to protect the profits of the subsidiaries and the Group's net assets. The overriding principle of the Group's treasury policy is to minimise risk, not to seek speculative gain.



Upon agreement of their budgets, subsidiaries are required to hedge their major transactional currency exposures into their reporting currency by means of forward contracts. The results of the overseas subsidiaries are translated into sterling at the average exchange rates for the year. It is the Group's policy not to hedge such translation exposure. The currencies which will be of most significance to the Group in 1999 are the Euro, Swedish Krona and US Dollar.

A proportion of the Group's net assets is outside the UK and denominated in currencies other than sterling. Consequently shareholders' funds are exposed to currency fluctuations. These exposures are managed by matching assets and liabilities with borrowings or deposits in the same currency. As a result of this policy, 85% (1997: 89%) of the Group's net assets were denominated in sterling at the year end.

Although the Group had cash balances of £16.9m, this was net of currency borrowings of £14.7m (1997: £13.2m) which, as noted above, primarily hedge the Group's overseas assets. These borrowings are largely drawn under short-term loan, overdraft and bill discounting facilities which carry variable interest rates and are subject to annual review. Most of the Group's cash balances are held in the UK and are deposited for periods of up to 3 months with major banks, as security is the overriding consideration.

Interest

The strong cash generation during 1998 resulted in average cash balances being over £3.0m higher than the

preceding year. This, combined with higher average interest rates received on the Group's sterling deposits, resulted in an increase in net interest receivable to £1.0m (1997: £0.6m).

The latter part of 1998 and early 1999 saw significant reductions in UK interest rates. As the Group's primary interest rate exposure is to sterling, this will impact upon interest income in 1999, with a 1% reduction in the rate reducing interest receivable by £0.2m per annum.

Taxation

The tax rate of 27.8% represents a significant reduction on 1997's 32.2% and is well below the weighted average standard tax rate of 33% for the countries in which the Group operates. As both years benefited from the utilisation of overseas losses brought forward, the decrease in the rate was primarily due to the successful outcome of an overseas taxation audit for which a partial provision had been made. The release of this provision reduced the tax rate by 2.7%. There are still losses available, but these are unlikely to provide a significant benefit to the tax rate beyond 1999, after which time it can be expected to rise towards more normal levels.

Share Price

At 31 December 1998 the share price was 117.5p, compared to 126p at the previous year end. The share price peaked at 161p in June, only to fall during the upheaval in the stock market in subsequent months, to reach a low point of 101.5p in September.

Year 2000

As is well documented, the Year 2000 problem relates to ensuring that dates are correctly handled by electronic systems in the new Millennium. A Group-wide review, co-ordinated centrally, has classified the issues into computer systems, manufacturing systems, facilities and the supply chain.

Electronic systems were identified and internal targets set that required that all business critical systems be made Millennium compliant by 31 December 1998. Although substantial progress has been made, a limited number of applications did not meet this challenging internal deadline. Revised deadlines have been set for those potentially non-compliant systems, all of which are prior to 30 June 1999.

The potential for the disruption of Expamet's supply chain through suppliers and/or customers not being fully prepared is being assessed by contacting key business partners.

However, we cannot be certain of avoiding problems in these areas and, therefore, contingency plans are being developed to minimise the risk of business interruption. The Group is also subject to external risks, particularly in the social and economic infrastructure, over which it has no control.

Year 2000 problems are complex and it is not possible to guarantee that all problems will be identified. However, we believe that the actions being taken and the resources being made available will keep any adverse consequences to a minimum.

As the Group primarily uses standard software packages and is continually upgrading systems, many of the measures necessary to deal with the Year 2000 problem have been implemented as part of routine equipment replacement. Consequently, the incremental costs of Year 2000 compliance in 1998 amounted to only £0.2m, most of which were capitalised in line with the existing accounting policy. The expenditure in 1999, which again will be largely capital in nature, is not expected to exceed £0.3m.

European Monetary Union

The successful introduction of the Euro on 1 January 1999 has implications for the many parts of the Group that operate extensively in Europe. However, the impact to date has been limited, with few customers taking the option of being invoiced in Euros, no significant operational problems having been experienced.

As noted above, the Group primarily uses standard software packages which the suppliers are committed to making Euro compliant. Consequently, the costs associated with the advent of the Euro are not expected to be material.

Accounting Policies

The Group's accounting policies are set out on page 22. A number of new Financial Reporting Standards (FRSs) became effective during the year and have been adopted.

Under FRS9 'Associates and Joint Ventures', the Group's associated undertakings have been reclassified as joint ventures. In addition, disclosure relating to these entities has been increased, although the amounts are immaterial.

FRS10 'Goodwill and Intangible Assets' has resulted in goodwill of £14.9m (1997: £14.9m), previously eliminated against other reserves being eliminated against the profit and loss account. This has no impact on distributable reserves. The prior year figures have been restated accordingly.

FRS14 'Earnings Per Share' requires the disclosure of a diluted earnings per share figure which is after accounting for shares held under option. At 13.21p, this is not materially different from the basic earnings per share of 13.35p.



Martyn Taylor
Finance Director



Directors and Offices

Executive Directors

John Roberts (64) Chairman

Appointed a non-executive director in 1988, he was appointed Chairman in July 1992. Currently also a non-executive director of Hickson International PLC.

Philip Reeder (44) Chief Executive

Joined the Group in 1986 and held a number of senior positions before being appointed to the Board in 1994 and becoming Chief Executive in April 1995.

Richard Baena (55)

Appointed to the Board in January 1996. He is Chief Executive of the Olaer Group, a position he has held since 1985.

Martyn Taylor (38) Finance Director

A Chartered Accountant, he joined the Company in 1993 as Group Financial Controller and was appointed Finance Director in September 1996.

Non-executive Directors

Michel Jacquet* (62)

Joined the Board in 1991. He had twenty-six years in banking, his last position being CEO of Banque Paribas in the USA. He served as Président Directeur Général of French industrial conglomerate Nord Est between 1989 and 1995. He serves on the boards of various European-based companies and is the Associé-Gérant of Ledo Salina, a French consulting company.

Ron Shakesheff* (55)

Joined the Board in February, 1998. He is an executive director of Rexam PLC, responsible for its building and engineering sectors.

Denis Vernon* (68)

After twenty years as a solicitor, and twenty years as Chairman and Chief Executive of Ferguson International Holdings PLC, he was a non-executive director of Barclays Bank Northern Region until 1998. He joined our Board in 1984.

*Member of Audit and Remuneration Committees.

All directors are members of the Nomination Committee.

All the non-executive directors are considered by the Board to be independent of management and free from any business or other relationship which could materially interfere with their independent judgement.

Secretary

John Hewitt

Registration Number

152305

Registered Office

Clifton House
83/89 Uxbridge Road
Ealing
London W5 5TA

Registrar

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Merchant Banker

SBC Warburg Dillon Read
1 Finsbury Avenue
London EC2M 2PP

Solicitor

Herbert Smith
Exchange House
Primrose Street
London EC2A 2HS

Stockbroker

SBC Warburg Dillon Read
1 Finsbury Avenue
London EC2M 2PP

Report of the Directors

The directors of Expamet International PLC have pleasure in submitting their report and the audited financial statements for the year ended 31 December 1998.

Principal Activities and Business Review

The principal activities of the Group continue to be the manufacture and supply of building components, expanded metal, hydraulic bladder accumulators, coolers and filters. The Chairman's Statement, the Chief Executive's Review and the Financial Review report on the Group's activities during the year and on likely future developments.

Results, Dividends and Shares

The Group profit and loss account is set out on page 18.

The final dividend recommended by the directors is 2.55p (1997: 2.15p) per share which, together with the interim dividend of 1.95p paid on 13 November 1998, makes a total dividend for the year of 4.50p (1997: 3.85p). If approved by the shareholders at the Annual General Meeting, the final dividend will be paid on 30 April 1999 to shareholders on the register on 6 April 1999.

Details of shares issued during 1998 and of options outstanding at 31 December 1998 are shown in note 21 to the accounts.

Directors

The directors of the Company are shown on page 10 and details of their interests in the Company's shares and options are shown in note 21 to the accounts.

In accordance with Article 95 of the Company's Articles of Association, John Roberts and Richard Baena retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. Richard Baena has a service contract with Olaer Industries SA, a subsidiary undertaking, which is terminable by six months' notice by either party. John Roberts has a service contract which expires in August 1999.

Substantial Interests

At the date of this report the following substantial interests in the Company's issued share capital have been notified to the Company. Apart from these holdings the directors have not been notified of any material interest of 3% or more or any non-material interest of 10% or more in the issued share capital of the Company.

Shareholder	Number of shares held	Percentage of shares held
Royal & Sun Alliance Insurance Group plc	4,051,915	6.37
Fleming Mercantile Investment Trust PLC	4,030,000	6.34
Britannic Assurance Public Limited Company	3,291,666	5.18
Prudential Corporation plc	2,570,500	4.04
TR Smaller Companies Investment Trust Plc	2,500,000	3.93
Co-operative Insurance Ltd	2,372,220	3.73

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Research and Development

The Group's research and development strategy is to improve production processes and existing products and develop new products with a view to creating opportunities for sustainable competitive advantage.

Employment Policies

The Group operates a non-discriminatory employment policy and makes every reasonable effort to provide disabled people with equal opportunities for employment training and development, having regard to their particular aptitudes and abilities and, if employees become disabled, every effort is made to re-train them having regard to their disability.

Each operating business has continued to communicate and consult with employees on matters relating to business performance, objectives and other issues. The Company's ability to sustain a competitive advantage over the long term will depend in large part on the continuous development of the Group's employees. For this reason, the Company is committed to providing an environment which values continuous learning and which provides learning and development opportunities within business units. Development is a shared responsibility and employees for their part must possess the drive and initiative to take advantage of the available learning and development opportunities.

In the UK, the Company seeks to give its employees a direct stake in the business and to align their interests with those of external shareholders through owning shares in the Company, by operating profit share and savings related share option schemes.

The health and safety of employees, customers and the general public who may be affected by the Group's activities are of primary importance. Regular audits of compliance with safety standards are carried out at each business.

Environment

The Group seeks to conduct its operations in a manner which recognises its responsibilities towards the natural environment within which we live and works to comply with relevant laws and regulations. Two subsidiaries maintain environmental management systems which have earned them certification of compliance with the environmental standard BS EN ISO 14001 and certain other businesses are seeking such accreditation.

Donations

During the year the Company and its subsidiaries in the UK made charitable donations amounting to £nil (1997: £nil). No political donations were made during the year (1997: £nil).

Suppliers' Payment Policy

The Company's policy is to have mutually beneficial relationships with suppliers and to agree terms of payment with suppliers in advance; payment is normally made in accordance with these terms. The Company's and the Group's number of days' creditors at 31 December 1998 were 30 days and 71 days, respectively.

Directors' Responsibilities

A statement of the directors' responsibilities for the preparation of financial statements for the year to 31 December 1998 is given on page 16.

Going Concern

The directors are satisfied that both the Company and the Group have adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the 'going concern' basis for preparing the financial statements.

Special Business to be Considered at the Annual General Meeting

The directors are seeking shareholders' consent to the adoption of new Articles of Association (based on the existing Articles), which reflect changes in company law and the London Stock Exchange listing rules, as well as to comply with recent reports on corporate governance and reflect current best listed companies' practice. In addition, amendments are proposed in order to reflect the Company's participation in the London Stock Exchange's CREST system, which allows for paperless transactions and settlements of dealings in the Company's securities. A summary of the principle changes proposed is set out on page 38.

Auditors

On 27 August 1998 the directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation of Price Waterhouse, following the merger of Price Waterhouse and Coopers & Lybrand.

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution relating to their re-appointment and remuneration will be proposed at the Annual General Meeting.

By Order of the Board

J D K Hewitt
Secretary
9 March 1999

The Committee on Corporate Governance published a new Combined Code in June 1998, a limited number of the new Code provisions being both new and of a continuing nature.

The Board has reviewed its procedures in consequence of the new Combined Code and is satisfied that governance is consistent with the provisions of the Code except in regard to the following:

- Code A.2.1 provides that there should be a recognised senior non-executive director, other than the Chairman, to whom concerns can be conveyed and such senior director should be identified in the Annual Report. The directors do not consider such appointment is necessary as Board meetings are conducted in a manner which encourages discussion and any concerns which a director may have can be openly considered.
- Code A.5.1 provides that the majority of the members of the Nomination Committee should be non-executive directors. In view of the relatively few members comprising the Board, the directors consider that the views of all the directors are valuable when considering new appointments to the Board and thus all members of the Board are members of the Nomination Committee.
- Code A.6.2 provides that the directors should be required to submit themselves for re-election at regular intervals and at least every three years. Although directors have in the past invariably been re-elected at not more than three-yearly intervals, Article 95 of the Company's Articles of Association provides that not more than one third of the directors must retire every year. As there are currently seven directors on the Board, it would technically be possible for a director to be four years in office before being required to stand for re-election. Revised Articles of Association are being submitted for approval at the forthcoming AGM which propose, amongst other matters, the amendment of Article 95 in order that directors be required to retire at least once in every three years.
- Code D.3.1 provides that the Audit Committee shall comprise at least three non-executive directors. Between 1 January 1999 and 13 February 1999 there were only two directors on the Audit Committee. However, as the first meeting of the Committee during 1999 was held on 3 March – by which time Ron Shakesheff had been appointed a non-executive director and member of the Audit Committee – the Code requirement was complied with at all meetings.

Board and Committees

The Board currently comprises the Chairman, three executive and three non-executive directors who meet formally on at least twelve occasions each year. The non-executive directors are of independent judgement and bring considerable knowledge and experience of other areas into the Board's decision-making process. A schedule of matters reserved for decision by the Board has been adopted. All the directors have direct access to the Secretary and procedures have been established whereby directors are able, if necessary, to take independent professional advice at the Company's expense.

The Board has appointed the following committees, each with its own terms of reference:

Audit Committee: Comprised of the non-executive directors and chaired by Michel Jacquet. The Committee meets formally twice a year and seeks to ensure that appropriate accounting systems and financial controls are in operation, and that the Group's financial statements comply with statutory and other requirements. The Committee reviews the scope and results of the audit and meets with the external auditors.

Remuneration Committee: Comprised of the non-executive directors and chaired by Denis Vernon. The Committee meets at least twice a year. The Remuneration Report is set out on pages 15 and 16.

Nomination Committee: All members of the Board are involved in the selection and appointment or replacement of directors and the Committee meets when a vacancy occurs.

The directors' biographies are set out on page 10 and identify the members of the Audit, Remuneration and Nomination Committees.

Internal Controls

The Stock Exchange has advised all UK-listed companies that a working party has been convened by the Institute of Chartered Accountants in England and Wales (ICAEW), which will produce guidance for directors on the scope, extent, nature and review of internal controls to which the Combined Code principle D.2 and provision D.2.1 refer. In the meantime, confirming compliance with provision D.2.1 is limited to the effectiveness of internal financial controls.

Internal financial controls are the procedures established to provide reasonable assurance of:

- (a) the safeguarding of assets against unauthorised use or disposition; and
- (b) the reliability of financial information used within the business or for publication.

The directors have reviewed the effectiveness of the system of financial controls during the year, the key procedures of which are:

- (a) a comprehensive budgeting function with an annual budget and long term business plan, which are prepared by each business and are subject to Board approval;
- (b) monthly reporting of results and cash flows against budgets and the previous year and reporting by businesses on the reasons for any variances, together with actions taken to remedy adverse variances;
- (c) defined procedures for the authorisation of capital expenditure and investments and for hedging currency exposures. The Board also makes use of post-capital investment appraisals in order to identify the actual performance of major investments as compared with the original proposals; and
- (d) managers of businesses are required to confirm annually that they have adequate financial controls in place and to report on all areas of financial risk.

The Board will wish to continue to review its internal controls governance practices in the light of guidance procedures which, as explained above, are in the course of being developed by the ICAEW working party. The objective of the working party is to produce its guidance by the summer of 1999.

Relations with Shareholders

The major institutional holders of the Company's shares are invited to one-to-one presentations of the interim and full-year results, during which the opportunity is taken to discuss the Company's performance and future plans. Direct dialogue with such shareholders also takes place in the event of any significant matter concerning the Company's affairs.

All the institutional and private shareholders are invited to the Company's AGM, which is held in central London in order to provide as an accessible venue as possible, given that virtually all shareholders are UK-resident. At the AGM the opportunity is given to shareholders to ask questions of directors.

Remuneration Report

The Remuneration Committee is an appointed committee of the Board which determines overall policy with regard to all aspects of the remuneration package and terms of employment of the executive directors. The Remuneration Committee draws upon the advice of independent remuneration consultants where appropriate.

The Committee is comprised solely of the non-executive directors and is chaired by Denis Vernon. The non-executive directors have no personal financial interest, other than as shareholders, in matters decided by the Committee, no potential conflict arises from other directorships, nor are they involved in the day-to-day running of the business.

The fees for the Company's non-executive directors are determined by the Board as a whole, with the non-executives exempting themselves from voting, as appropriate.

Remuneration Policy

The policy of the Remuneration Committee continues to be:

- (a) to ensure that individual rewards and incentives are aligned with the performance of the Company and the interests of shareholders;
- (b) to motivate and reward high levels of achievement; and
- (c) to maintain a competitive remuneration package which enables the Company to recruit and retain executives of the requisite calibre.

The policy objectives are achieved by linking a significant part of the executives' remuneration to annual and medium-term bonuses, which are payable depending upon the level of the Company's performance.

Components of the Executive Directors' Remuneration

Salary: Basic salary reflects job responsibilities and the sustained level of individual performance. The Committee sets basic salaries taking into account the market rate for positions of similar responsibility and scope. Salaries are reviewed annually.

Annual Incentive Award: The scheme rewards for improvement in Group operating profit compared to the previous year after deducting a charge for capital employed based on the Company's cost of borrowing. The maximum bonus is capped at 50% of salary, the award in respect of 1998 being 35% of salary for the executive directors, with the exception of Richard Baena.

Richard Baena, whose primary executive function is responsibility for the Olaer Group, including Roth, is rewarded on the basis of the return on capital employed by these businesses. No annual award was made in respect of 1998.

Medium Term Bonus: Under the terms of the scheme, executives will be rewarded on the basis of the improvement in the share price above 85p (or such higher price as prevailed at the date of the appointment of those executive directors who have been appointed since June 1994) after allowing for annual inflation plus 2% each year. This scheme was introduced in 1994 and matures during 1999.

The Remuneration Committee is now considering the terms of a new medium term bonus scheme which will be designed to reward the executives if they deliver performance which is superior to a comparator group. As the Remuneration Committee is considering a number of alternative schemes, having sought advice from external benefit consultants, it has been decided that the appropriate time to seek shareholders' consent to the terms of such a scheme will be at the Annual General Meeting to be held in 2000.

Pension and Other Benefits in Kind: The executive directors in the UK, with the exception of the Chairman, are members of the Expamet International PLC Group Retirement and Life Assurance Scheme, which is a funded, Inland Revenue-approved, final salary, occupational pension scheme.

With the exception of John Roberts, executive directors in the UK, conditional upon commencement date and length of service, are entitled to a maximum pension of two thirds of pensionable salary at age 62. In the event of their death in service, their dependants are also eligible for a lump sum equivalent to three times their basic salary in addition to dependants' pensions. Pensionable salary for executive directors is based on basic salary only. The executive directors pay contributions at the rate of 4% of pensionable salary with the Company paying any balance of cost. No pension arrangement has been established by the Company in respect of John Roberts.

Richard Baena's pension is secured through contributions made to the mandatory State pension scheme in France.

With the exception of the Chairman, executive directors receive other benefits in kind primarily comprising a fully expensed company car and medical benefit insurance. Phil Reeder and Martyn Taylor participate in the Expamet Employee Savings Related Share Option Scheme, which is made available to all UK employees. Details of directors' options are set out in note 21 to the accounts.

The non-executive directors do not participate in any Company-sponsored pension arrangement.

Service Contracts

All the executive directors' services are terminable at not more than twelve months' notice. The Remuneration Committee recognises the duty to mitigate loss and, if it becomes necessary to terminate a service contract on less than the prescribed notice period, the Committee, in calculating compensation, would take that duty into account according to the individual's circumstances.

The non-executive directors do not have service contracts.

Disclosure

Full details of directors' remuneration, fees and benefits are given in note 7 to the accounts.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit of the Group for that year. In preparing the financial statements directors are required:

- (a) to select suitable accounting policies and then apply them consistently;
- (b) to make judgements and estimates that are reasonable and prudent;
- (c) to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- (d) to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that the financial statements appearing on pages 18 to 35 comply with these requirements.

Auditors' Report to the Members of Expamet International PLC

We have audited the financial statements on pages 18 to 35 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on page 22.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report including, as described on page 16, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and 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 or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 13 and 14 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its internal controls.

Basis of Audit 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
9 March 1999

Group Profit and Loss Account

for the year ended 31 December 1998

	Notes	1998 £000	1997 £000
Turnover			
Total Group and share of joint ventures	1	119,864	111,440
Less share of joint ventures		(377)	(511)
Group turnover		119,487	110,929
Operating profit	2	10,745	9,191
Share of operating loss of joint ventures		(7)	(2)
Profit before interest		10,738	9,189
Interest receivable and similar income		1,754	1,287
Interest payable and similar charges	3	(742)	(734)
Profit on ordinary activities before taxation	1 & 3	11,750	9,742
Tax on profit on ordinary activities	17	(3,267)	(3,136)
Profit on ordinary activities after taxation		8,483	6,606
Dividends paid and proposed	4	(2,861)	(2,443)
Transferred to reserves	22	5,622	4,163
Basic earnings per ordinary share	5	13.35p	10.41p
Diluted earnings per ordinary share	5	13.21p	10.30p

Balance Sheets

as at 31 December 1998

	Notes	Group 1998 £000	Group 1997 restated £000	Company 1998 £000	Company 1997 £000
Fixed assets					
Tangible assets	9	15,658	15,069	49	45
Investments in joint ventures – share of gross assets		399	356	–	–
– share of gross liabilities		(164)	(117)	–	–
– share of net assets	11	235	239	–	–
Other investments	11	26	26	22,935	23,216
		15,919	15,334	22,984	23,261
Current assets					
Stock and work in progress	12	14,695	14,150	–	–
Debtors	13	23,667	23,093	12,779	10,189
Short term deposits		26,181	22,518	26,181	22,518
Cash at bank and in hand		5,387	4,003	170	233
		69,930	63,764	39,130	32,940
Creditors: Amounts falling due within one year					
Loans and other borrowings	14	(14,371)	(12,761)	(12,450)	(9,518)
Other creditors	14	(27,438)	(29,305)	(18,493)	(17,894)
Net current assets		28,121	21,698	8,187	5,528
Total assets less current liabilities		44,040	37,032	31,171	28,789
Creditors: Amounts falling due after more than one year					
Loans and other borrowings	15	(336)	(484)	–	–
Other creditors	15	(701)	(493)	–	–
Provisions for liabilities and charges	18	(3,087)	(1,993)	(54)	(60)
		39,916	34,062	31,117	28,729
Capital and reserves					
Called up share capital	21	15,899	15,865	15,899	15,865
Share premium	22	253	93	253	93
Revaluation reserve	22	2,190	2,385	–	–
Capital redemption reserve	22	142	142	142	142
Other reserve	22	4,238	4,238	4,238	4,238
Profit and loss account	22	17,194	11,339	10,585	8,391
Equity shareholders' funds		39,916	34,062	31,117	28,729

The financial statements on pages 18 to 35 were approved by the directors on 9 March 1999 and are signed on their behalf by:


M Taylor
Director

Group Cashflow Statement

for the year ended 31 December 1998

	Notes	1998 £000	1998 £000	1997 £000	1997 £000
Net cash inflow from operating activities	23		12,771		11,869
Returns on investments and servicing of finance					
Interest received		1,722		1,485	
Interest paid		(724)		(963)	
			998		522
Taxation					
UK corporation tax paid		(2,351)		(1,543)	
Overseas tax paid		(263)		(1,064)	
			(2,614)		(2,607)
Capital expenditure					
Purchase of tangible fixed assets		(3,263)		(1,988)	
Proceeds on sale of tangible fixed assets		61		117	
			(3,202)		(1,871)
Acquisitions and disposals					
Purchase of business	26	(1,398)		(1,315)	
Investment in joint venture		—		(147)	
			(1,398)		(1,462)
Equity dividends paid			(2,603)		(2,252)
Cash inflow before use of liquid resources and financing			3,952		4,199
Management of liquid resources					
Increase in short term deposits			(3,666)		(3,784)
Financing					
Ordinary shares issued		156		50	
Loans taken out		2,520		867	
Loans repaid		(199)		(794)	
Increase/(decrease) in bills discounted		214		(321)	
Capital element of finance lease rentals paid		(101)		(96)	
			2,590		(294)
Movement in cash and overdrafts	24		2,876		121

Statement of Group Total Recognised Gains and Losses

for the year ended 31 December 1998

	1998 £000	1997 £000
Profit for the year	8,483	6,606
Currency adjustments on foreign currency net investments	76	(412)
Revaluation of fixed assets	—	(274)
Total recognised gains and losses relating to the year	8,559	5,920

Note of Group Historical Cost Profits and Losses

for the year ended 31 December 1998

	1998 £000	1997 £000
Reported profit on ordinary activities before taxation	11,750	9,742
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amounts	365	388
Historical cost profit on ordinary activities before taxation	12,115	10,130
Historical cost profit for the year after taxation and dividends	5,881	4,487

Reconciliation of Movements in Group Shareholders' Funds

for the year ended 31 December 1998

	1998 £000	1997 £000
Profit for the year	8,483	6,606
Dividends	(2,861)	(2,443)
	5,622	4,163
Other recognised gains and losses relating to the year (net)	76	(686)
New share capital issued	156	50
Goodwill arising on purchase of business	—	(1,221)
Negative goodwill arising on investment in joint venture	—	20
Net increase in shareholders' funds	5,854	2,326
Shareholders' funds at 1 January	34,062	31,736
Shareholders' funds at 31 December	39,916	34,062

Accounting Policies

The accounts are prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with applicable accounting standards.

Change in Basis of Preparation

The accounts have been prepared in accordance with financial reporting standard No. 9 (FRS 9) "Associates and Joint Ventures", FRS 10 "Goodwill and Intangible Assets" and FRS 14 "Earnings Per Share". Prior year figures have been restated accordingly.

Under FRS 9 the associated undertakings are now reclassified as joint ventures.

FRS 10 has resulted in goodwill of £14,912,000 (1997: £14,912,000) previously eliminated against other reserves being eliminated against the profit and loss account. Prior year figures have been restated accordingly, as detailed in note 22.

A diluted earnings per ordinary share has been calculated in accordance with FRS 14.

Group Consolidation

The Group accounts comprise a consolidation of the audited accounts of the Holding Company and its subsidiary undertakings, which have been made up to 31 December. Results of subsidiary undertakings either acquired or sold during the year are accounted for according to the effective dates of acquisition or disposal.

Goodwill

Purchased goodwill arising after 1 January 1998 is capitalised and amortised through the profit and loss account over its estimated useful life of no more than 20 years. Purchased goodwill arising prior to this date has been eliminated against the profit and loss account. On the disposal of a business, any goodwill previously eliminated against reserves is written off to the profit and loss account as part of the profit or loss on disposal.

Foreign Currency Translation

The profits and losses of foreign subsidiary undertakings are translated into sterling at the average rate prevailing during the year. Assets and liabilities of these companies are translated into sterling at rates ruling at the year end, exchange differences being taken directly to reserves.

Other assets and liabilities expressed in foreign currency are translated into sterling at rates ruling at the year end and translation differences are dealt with in the profit and loss account, except for those assets and liabilities covered by forward currency contracts where the contracted rate is used. In the case of foreign currency borrowings used to hedge foreign equity investments, translation differences are taken directly to reserves.

Stock Valuation

Stock and work in progress are stated at the lower of cost and net realisable value and include an appropriate proportion of manufacturing overheads.

Research and Development

Research and development expenditure and product introduction and launch costs incurred prior to commercial sale of new products are charged to profit in the year in which they are incurred.

Depreciation

Depreciation is calculated so as to write off the cost or revalued amount of tangible fixed assets over their expected useful lives. Freehold buildings are depreciated over 50 years, leasehold buildings over the life of the lease, and plant and equipment between 3 and 20 years.

Deferred Taxation

No provision is made for deferred taxation unless a liability is expected with reasonable probability to arise in the foreseeable future.

Turnover

Turnover represents the amounts invoiced by the Group, excluding value added tax, for goods supplied and services provided to external customers.

Leased Assets

Operating lease rentals are charged to the profit and loss account as they fall due. Assets subject to finance leases are capitalised at the present value of the minimum lease payments payable during the lease term, with the corresponding obligation to the lessor shown as a liability. Depreciation on these assets is charged to the profit and loss account using the same rates as for other tangible fixed assets. The finance element of the respective lease payments is accounted for as it falls due.

Pensions and Other Post-retirement Benefits

The Group operates a defined benefit pension scheme for its employees in the UK. The expected cost of providing pensions is charged to profit so as to spread the pension cost over the average expected service lives of employees in the scheme. A separate defined contribution scheme is also operated for certain employees in the UK. In other countries, pensions are provided in accordance with local law and practice.

Certain employees of Olaer Industries SA and its subsidiaries receive statutory lump sum payments on retirement based on length of service. The costs of these payments are charged to the profit and loss account on a straight line basis over the service lives of the employees.

Notes to the Accounts

for the year ended 31 December 1998

1 Segment Information

	Turnover 1998 £000	Turnover 1997 £000	Profit on ordinary activities before taxation 1998 £000	Profit on ordinary activities before taxation 1997 £000	Net assets 1998 £000	Net assets 1997 £000
CLASS OF BUSINESS:						
Building	36,532	35,306	4,071	2,971	7,408	7,177
Industrial	83,332	76,134	6,667	6,218	22,563	21,033
	119,864	111,440	10,738	9,189	29,971	28,210
Less joint ventures	(377)	(511)	—	—	—	—
Interest/net interest bearing assets	—	—	1,012	553	16,861	13,276
Net unallocated liabilities	—	—	—	—	(6,916)	(7,424)
	119,487	110,929	11,750	9,742	39,916	34,062
COUNTRY OF ORIGIN:						
United Kingdom	54,813	53,363	7,262	5,204	13,311	12,843
France	17,930	16,598	896	2,005	7,009	6,028
Nordic	12,816	11,901	810	831	1,902	1,889
Rest of Europe	26,481	20,613	1,327	320	6,199	5,721
USA	5,583	6,280	527	820	1,023	1,009
Rest of World	2,241	2,685	(84)	9	527	720
	119,864	111,440	10,738	9,189	29,971	28,210
Less joint ventures	(377)	(511)	—	—	—	—
Interest/net interest bearing assets	—	—	1,012	553	16,861	13,276
Net unallocated liabilities	—	—	—	—	(6,916)	(7,424)
	119,487	110,929	11,750	9,742	39,916	34,062
GEOGRAPHICAL MARKET:						
United Kingdom	50,205	48,586				
France	15,704	14,359				
Nordic	13,145	12,277				
Rest of Europe	30,782	24,325				
U S A	5,617	6,404				
Rest of World	4,411	5,489				
	119,864	111,440				
Less joint ventures	(377)	(511)				
	119,487	110,929				

Net unallocated liabilities comprise fixed asset investments, dividends payable, corporation tax and deferred tax balances and other assets and liabilities not attributable to individual segments.

Notes to the Accounts

for the year ended 31 December 1998

2 Operating Profit

	1998 £000	1997 £000
Group turnover	119,487	110,929
Cost of sales	(79,051)	(72,049)
Gross profit	40,436	38,880
Distribution costs	(17,823)	(17,687)
Administrative expenses	(11,868)	(12,002)
Operating profit	10,745	9,191

The expanded metal division of Ernst Sorst & Co GmbH was acquired on 31 December 1997 and consequently made no contribution to the results for 1997.

3 Profit on Ordinary Activities before Taxation

	1998 £000	1997 £000
PROFIT ON ORDINARY ACTIVITIES IS STATED AFTER CHARGING/(CREDITING):		
Staff costs:		
Wages and salaries	20,950	20,059
Social security costs	4,198	3,992
Other pension costs	450	356
Loss/(profit) on disposal of fixed assets	9	(35)
Depreciation of tangible fixed assets (including £76,000 in respect of assets acquired under finance leases, 1997: £73,000)	2,906	2,735
Operating lease rentals for plant and machinery	831	727
Other operating lease rentals	1,952	1,836
Auditors' remuneration:		
Statutory audit of the Group (including £27,000 in respect of the Company, 1997: £26,000)	131	130
Other services in the UK	44	55
Interest payable on loans and overdrafts	701	683
Finance lease interest	41	51
Research and development expenditure	217	193

4 Dividends

	1998 £000	1997 £000
Ordinary – interim paid 1.95p (1997: 1.70p)	1,239	1,079
– final proposed 2.55p (1997: 2.15p)	1,622	1,364
	2,861	2,443

Notes to the Accounts

for the year ended 31 December 1998

5 Earnings per Ordinary Share

Earnings per ordinary share are calculated in accordance with Financial Reporting Standard No 14.

Basic earnings per ordinary share are calculated on profit attributable to shareholders of £8,483,000 (1997: £6,606,000) divided by the weighted average shares in issue of 63,546,066 (1997: 63,450,297).

Diluted earnings per ordinary share are calculated using the same profit attributable to shareholders, and a weighted average shares, allowing for exercise of 665,854 outstanding options, of 64,211,920 (1997: 64,136,808).

6 Employees

	1998	1997
THE AVERAGE NUMBER EMPLOYED BY THE GROUP WITHIN EACH CATEGORY OF PERSONS WAS:		
Production staff	553	541
Sales and distribution staff	263	255
Administration staff	163	153
	979	949

7 Directors' Emoluments

	Fee/salary £000	Taxable benefits £000	Annual bonus £000	Medium term bonus accrual £000	1998 Total £000	1997 Total £000
REMUNERATION OF THE DIRECTORS WAS:						
Executive Directors:						
J A Roberts, Chairman	87	—	31	(65)	53	249
P Reeder, Chief Executive	138	13	49	(57)	143	310
M Taylor, Finance Director	86	7	30	(53)	70	193
R T Baena	133	8	—	(33)	108	224
Non-executive Directors:						
M Jacquet	18	—	—	—	18	18
D S Vernon	18	—	—	—	18	18
R M Shakesheff (appointed 13 February 1998)	16	—	—	—	16	—
A G Herron (retired 29 April 1997)	—	—	—	—	—	6
1998 Total	496	28	110	(208)	426	1,018
1997 Total	456	28	184	350	1,018	

J A Roberts, R T Baena and the non-executive directors are not members of the Group's UK pension scheme.

The pension benefits accrued during 1998 in the Group's UK pension scheme in respect of P Reeder and M Taylor were:

	Increase in accrued pension during the year (i) £000 per annum	Transfer value of increase in accrued pension (ii) £000	Accumulated total accrued pension at year end (iii) £000 per annum
P Reeder	4	29	36
M Taylor	2	10	8

(i) The increase in the accrued pension during the year excludes any increase for inflation.

(ii) The transfer value has been calculated on the basis of the actuarial advice in accordance with Actuarial Guidance Note GN11 less directors' contributions paid in 1998.

(iii) The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. In consequence of the Company's pension contribution holiday, no contributions were made to the Group's pension scheme in respect of P Reeder and M Taylor during the year (1997: £nil).

Contributions of £20,000 (1997: £16,000) were made in France to state controlled schemes in respect of R T Baena.

Notes to the Accounts

for the year ended 31 December 1998

8 Pensions and Other Post-retirement Benefits

The principal pension scheme operated by the Group is a defined benefit scheme which is available for all eligible UK employees, including the UK executive directors (except the Chairman). The scheme is financed through a separate trustee-administered fund.

The pension costs relating to the scheme are assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The latest actuarial review of the scheme considered the position as at 31 March 1997. The main financial assumptions for accounting purposes were an investment return of 8.8% per annum, members' salaries increases of 6.5% per annum, pensions in payment increases at the rate of 4.0% per annum and equity dividend increases of 5.0% per annum. At 31 March 1997 the value of the scheme's assets was £35.6m, which was sufficient on the stated assumptions to cover 125% of the accrued benefits based on expected final salary levels. The surplus assets are being spread over the average remaining service lives of current employees for the purpose of determining pension costs. The net pension cost of the UK scheme was £nil (1997: £nil) as a result of this surplus. The actuary advises that the excess of assets over past service liabilities is sufficient to allow the Company's contribution holiday to continue at least until the next valuation which will be carried out as at 31 March 2000.

A separate defined contribution scheme is also available for UK employees (excluding executive directors) whose remuneration includes a significant bonus element, to which the Company contributes 8.0% of the bonus paid.

In other countries pensions and other post-retirement benefits are provided either through government sponsored arrangements, participation in which is a statutory requirement, or by payments to defined contribution schemes.

9 Tangible Assets

	Land and buildings £000	Plant and equipment £000	Group total £000	Company plant and equipment £000
COST OR VALUATION:				
At 1 January 1998	3,388	37,767	41,155	173
Currency translation adjustments	159	610	769	—
Additions	188	3,050	3,238	22
Disposals	—	(736)	(736)	(6)
At 31 December 1998	3,735	40,691	44,426	189
COMPRISING:				
Valuation 1989	—	12,415	12,415	—
Valuation 1992	2,379	—	2,379	—
Cost	1,356	28,276	29,632	189
	3,735	40,691	44,426	189
DEPRECIATION:				
At 1 January 1998	1,063	25,023	26,086	128
Currency translation adjustments	54	388	442	—
Provided in the year	134	2,772	2,906	15
Disposals	—	(666)	(666)	(3)
At 31 December 1998	1,251	27,517	28,768	140
Net book amount at 31 December 1998	2,484	13,174	15,658	49
Net book amount at 31 December 1997	2,325	12,744	15,069	45
LAND AND BUILDINGS – NET BOOK AMOUNT:				
Freehold	1,828			
Short leasehold	656			
	2,484			

Under the historical cost convention land and buildings and plant and equipment at 31 December 1998 would have been included at cost of £2,633,000 (1997: £2,286,000) and £30,779,000 (1997: £27,854,000) respectively and accumulated depreciation of £1,134,000 (1997: £952,000) and £19,266,000 (1997: £17,131,000), respectively.

Included within the net book amount at 31 December 1998 are land and buildings of £1,828,000 (1997: £1,660,000) and plant and equipment of £1,000 (1997: £2,000) acquired under finance leases.

10 Capital Commitments

	1998 £000	1997 £000
GROUP:		
Contracted	324	121

11 Fixed Assets – Investments

	Joint Ventures £000	Unlisted investments £000	Total £000
GROUP:			
Cost at 1 January 1998	194	26	220
Currency translation adjustments	3	—	3
Cost at 31 December 1998	197	26	223
Share of post-acquisition reserves at 1 January 1998	45	—	45
Retained loss for the year	(7)	—	(7)
Share of post-acquisition reserves at 31 December 1998	38	—	38
Net book amount at 31 December 1998	235	26	261
Net book amount at 31 December 1997	239	26	265

Shares in subsidiary undertakings
£000

COMPANY:	
Cost less amounts written off at 31 December 1997	23,216
Movement in provision	(239)
Additions	442
Disposals	(484)
Cost less amounts written off at 31 December 1998	22,935

The net book amount of shares in subsidiary undertakings is stated after deducting provisions for permanent diminution in value of £8,946,000 (1997: £8,707,000).

Details of the principal subsidiaries and joint ventures are given in note 30.

12 Stock and Work in Progress

	1998 £000	1997 £000
GROUP:		
Raw materials and consumables	6,243	5,790
Work in progress	873	1,042
Finished goods	7,579	7,318
	14,695	14,150

Notes to the Accounts

for the year ended 31 December 1998

13 Debtors

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
AMOUNTS FALLING DUE WITHIN ONE YEAR:				
Trade debtors	20,821	20,368	—	—
Amounts owed by Group undertakings	—	—	112	148
Other debtors	611	463	170	324
Corporation tax (including overseas tax)	140	254	—	—
Advance corporation tax recoverable	—	—	651	635
Pension fund prepayment	300	300	—	—
Prepayments and accrued income	1,605	1,415	13	22
	23,477	22,800	946	1,129
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:				
Amounts owed by Group undertakings	—	—	11,833	9,060
Other debtors	190	255	—	—
Corporation tax (including overseas tax)	—	38	—	—
	190	293	11,833	9,060
	23,667	23,093	12,779	10,189

14 Creditors: amounts falling due within one year

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
LOANS AND OTHER BORROWINGS:				
Obligations under finance leases (note 16)	115	101	—	—
Loans (note 16)	9,667	6,883	9,571	6,686
Bills discounted	2,362	2,011	—	—
Overdrafts	2,227	3,766	2,879	2,832
	14,371	12,761	12,450	9,518
OTHER CREDITORS:				
Trade creditors	14,069	14,272	43	58
Amounts owed to Group undertakings	—	—	15,567	14,705
Other creditors	1,476	1,893	—	—
Corporation tax (including overseas tax)	3,438	3,946	769	849
Other taxation and social security	2,157	1,670	48	139
Accruals and deferred income	4,676	6,160	444	779
Proposed dividend	1,622	1,364	1,622	1,364
	27,438	29,305	18,493	17,894
	41,809	42,066	30,943	27,412

Notes to the Accounts

for the year ended 31 December 1998

15 Creditors: amounts falling due after more than one year

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
LOANS AND OTHER BORROWINGS:				
Obligations under finance leases (note 16)	336	422	—	—
Loans (note 16)	—	62	—	—
	336	484	—	—
OTHER CREDITORS	701	493	—	—
	1,037	977	—	—

16 Loans, Obligations Under Finance Leases and Secured Creditors

	Loans 1998 £000	Loans 1997 £000	Finance leases 1998 £000	Finance leases 1997 £000
GROUP:				
<i>Periods when repayments are due:</i>				
Repayable within one year	9,667	6,883	115	101
Repayable between one and two years	—	62	124	107
Repayable between two and five years	—	—	212	315
	—	62	336	422
	9,667	6,945	451	523

At 31 December 1998 loans totalling £9,571,000 (1997: £6,931,000) were secured by fixed charges over certain bank deposits of the Group and the fixed assets of a subsidiary undertaking.

17 Tax on Profit on Ordinary Activities

	1998 £000	1997 £000
TAX ON PROFIT ON ORDINARY ACTIVITIES COMPRISES:		
UK corporation tax at 31% (1997: 31.5%)		
current year	2,859	2,470
prior year	(97)	(9)
Deferred taxation		
current year	82	123
prior year	99	5
Overseas taxation	324	547
	3,267	3,136

18 Provisions for Liabilities and Charges

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Deferred taxation (note 19)	1,751	664	—	—
Other provisions (note 20)	1,336	1,329	54	60
	3,087	1,993	54	60

Notes to the Accounts

for the year ended 31 December 1998

19 Deferred Taxation

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
(i) MOVEMENT IN THE YEAR:				
At 1 January	664	577	—	37
Currency translation adjustments	2	(24)	—	—
Charge/(credit) for the year	82	123	—	(37)
Under-provision in previous year	99	5	—	—
Recoverable advance corporation tax	—	(17)	—	—
Advance corporation tax offset during the year	904	—	—	—
At 31 December	1,751	664	—	—
(ii) PROVISIONS AT YEAR END:				
<i>Deferred taxation provided in the accounts, which comprises the full potential liability, is as follows:</i>				
Accelerated tax depreciation	1,802	1,700	—	—
Other timing differences	(51)	(132)	—	—
Deferred relief for advance corporation tax	—	(904)	—	—
	1,751	664	—	—

Deferred taxation is not provided in respect of liabilities which may arise on the distribution of reserves of overseas subsidiary and joint ventures.

20 Other Provisions

	Onerous lease provisions £000	Post retirement benefits £000	Group total £000	Company post retirement benefits £000
At 1 January 1998	675	654	1,329	60
Currency translation adjustments	(3)	39	36	—
Charged to profit and loss account	46	64	110	—
Utilised in the year	(128)	(11)	(139)	(6)
At 31 December 1998	590	746	1,336	54

Post-retirement benefits represent statutory lump sums payable to certain employees of Olaer Industries SA and its subsidiaries on retirement and a provision for health care costs of former employees of the Group.

Notes to the Accounts

for the year ended 31 December 1998

21 Share Capital

	1998 £000	1997 £000
AUTHORISED:		
85,600,000 ordinary shares of 25p each (1997: 85,600,000)	21,400	21,400
ALLOTTED AND FULLY PAID:		
63,597,058 ordinary shares of 25p each (1997: 63,460,339)	15,899	15,865

During the year 77,989 shares have been allotted and credited as fully paid to the trustees of the Company's Employee Profit Share Scheme for a consideration of 149.93p each.

1,331 shares were allotted for a consideration of 69.95p each and 2,661 shares were allotted for a consideration of 64.7p each, as fully paid to individuals exercising options under the rules of the Expamet Savings Related Share Option Scheme.

52,692 shares were allotted for a consideration of 137.5p each and 2,046 shares were allotted for a consideration of 136.5p each, to Expamet Employee Trustees Limited in order that the trustee could service exercises under the Expamet Savings Related Share Option Scheme.

As at 31 December 1998, the Company had outstanding options granted under the Expamet Savings Related Share Option Scheme as follows:

Date granted	Number	Price	Date exercisable
June 1993	26,255	67.43p	June 2000
June 1994	55,015	69.95p	June 1999 and June 2001
June 1995	211,773	64.70p	June 2000 and June 2002
May 1996	132,622	78.40p	May 2001 and May 2003
May 1997	168,535	90.11p	May 2002 and May 2004
May 1998	122,836	128.80p	May 2003 and May 2005

Included in the above scheme are the following options granted to directors:

Date granted	May 1996	June 1995
P Reeder	—	30,139
M Taylor	8,801	15,996

The disclosed interests of the directors in the shares of the Company are set out below. These amounts include family interests, all of which are beneficial. There have been no changes in the holdings since the year end.

	31 December 1998 Ordinary shares	31 December 1998 Options over Ordinary shares	1 January 1998 Ordinary shares	1 January 1998 (or date of appointment) Options over Ordinary shares
J A Roberts, Chairman	654,843	—	654,843	—
P Reeder, Chief Executive	26,840	30,139	26,507	30,139
M Taylor, Finance Director	16,138	24,797	10,805	24,797
R T Baena	—	—	—	—
M Jacquet, non-executive director	30,000	—	20,000	—
R M Shakesheff, non-executive director	8,821	—	—	—
D S Vernon, non-executive director	43,750	—	38,750	—

The market price of the shares at the close of business on 31 December 1998 was 117.5p (1997: 126p) and the range during the year ended 31 December 1998 was 101.5p to 161p. During the year no options were exercised by the directors.

Notes to the Accounts

for the year ended 31 December 1998

22 Reserves

	Share premium £000	Revaluation reserve £000	Capital redemption reserve £000	Other reserve £000	Profit and loss £000	Total £000
GROUP:						
At 1 January 1998 – As originally stated	93	2,385	142	(10,674)	26,251	18,197
Prior year adjustment: Purchased goodwill written off to profit and loss account	—	—	—	14,912	(14,912)	—
At 1 January 1998 – Restated	93	2,385	142	4,238	11,339	18,197
Arising on shares issued in the year *	160	—	—	—	(38)	122
Transferred to reserves during the year	—	—	—	—	5,622	5,622
Currency translation adjustments	—	64	—	—	12	76
Realised on revalued tangible assets	—	(259)	—	—	259	—
At 31 December 1998	253	2,190	142	4,238	17,194	24,017
COMPANY:						
At 1 January 1998	93	—	142	4,238	8,391	12,864
Arising on shares issued in the year *	160	—	—	—	(38)	122
Transferred to reserves during the year	—	—	—	—	2,232	2,232
At 31 December 1998	253	—	142	4,238	10,585	15,218

The Company has not presented its own profit and loss account as permitted by Section 230(1) of the Companies Act 1985. The profit for the financial year dealt with in the accounts of the Holding Company is £5,093,000 (1997: £3,658,000).

* Includes £38,000 transferred from the profit and loss account in respect of shares issued to the Company's qualifying employee share ownership trust.

Currency translation adjustments in the Group profit and loss account include losses of £325,000 (1997: profit £561,000) relating to foreign currency borrowings used to finance overseas investments.

The Company had no recognised gains and losses other than those shown in the profit and loss account. There is no difference between reported and historical cost profits.

The share premium account was cancelled with effect from 15 February 1996 and the entire balance transferred to the profit and loss account. The effect of the undertaking given to the High Court on the cancellation of the share premium account is that the Group's distributable reserves at 31 December 1995, adjusted for any unrealised profits on the fixed assets in the Company on that date which may subsequently be realised, are not available for the purpose of paying dividends to shareholders until such time as the Company's creditors at the effective date of the cancellation of the share premium account have been satisfied. At 31 December 1998, £9,154,000 (1997: £6,389,000) of the Group's and £2,335,000 (1997: £1,133,000) of the Company's distributable reserves are not subject to this undertaking. On 11 January 1999, the distributable reserves of the Group and the Company not subject to this undertaking were reduced by £1,045,000 on the cancellation of a dividend guarantee provided by Lloyds Bank in order to secure the final dividend paid in respect of the year ended 31 December 1995.

23 Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	1998 £000	1997 £000
Operating profit	10,745	9,191
Loss/(profit) on sale of fixed assets	9	(35)
Depreciation of tangible assets	2,906	2,735
Increase in stock and work in progress	(172)	(386)
Decrease/(increase) in debtors	590	(1,798)
(Decrease)/increase in creditors	(1,152)	2,527
Property costs associated with disposal or closure of businesses	(128)	(159)
Other	(27)	(206)
	12,771	11,869

Notes to the Accounts

for the year ended 31 December 1998

24 Reconciliation of Net Cash Flow to Movement in Net Funds

	1998 £000	1997 £000
Movement in cash and overdrafts	2,876	121
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	(2,434)	344
Cash outflow from increase in liquid resources	3,666	3,784
Movement in net funds resulting from cash flows	4,108	4,249
Currency translation adjustments	(523)	1,197
Movement in net funds resulting in the period	3,585	5,446
Net funds at 1 January	13,276	7,830
Net funds at 31 December	16,861	13,276

25 Analysis of Changes in Net Funds

	At 1 Jan 1998 £000	Cash flow £000	Other non-cash changes £000	Currency translation adjustments £000	At 31 Dec 1998 £000
Cash at bank and in hand	4,003	1,292	—	92	5,387
Overdrafts	(3,766)	1,584	—	(45)	(2,227)
		2,876			
Bills discounted	(2,011)	(214)	—	(137)	(2,362)
Loans due within one year	(6,883)	(2,321)	(62)	(401)	(9,667)
Loans due after one year	(62)	—	62	—	—
Finance leases	(523)	101	—	(29)	(451)
		(2,434)			
Short term deposits	22,518	3,666	—	(3)	26,181
Total	13,276	4,108	—	(523)	16,861

26 Acquisition of Business

The cash flow for the period represents the payment of deferred consideration and acquisition costs on the purchase of the trade, fixed assets and stock of the expanded metal division of Ernst Sors & Co GmbH on 31 December 1997.

	1998 Total £000	1997 Total £000
NET ASSETS ACQUIRED:		
Tangible fixed assets	—	1,078
Stock	—	448
	—	1,526
Goodwill	—	1,221
	—	2,747
Satisfied by:		
Cash	—	1,307
Deferred consideration	—	943
Contingent consideration	—	247
Costs of acquisition	—	250
	—	2,747

Notes to the Accounts

for the year ended 31 December 1998

26 Acquisition of Business continued

	1998 Total £000	1997 Total £000
ANALYSIS OF OUTFLOW IN NET CASH IN RESPECT OF THE ACQUISITION OF BUSINESS:		
Cash consideration	1,204	1,307
Costs of acquisition	194	8
Net cash outflow	1,398	1,315

The fixed assets acquired are valued at depreciated replacement cost. The original book value of these assets is not available. The stock is valued at the lower of replacement cost and net realisable value. No fair value adjustment to the stock valuation was required.

The deferred consideration related to the agreement of the final stock valuation and the delivery of bank guarantees by the vendor. The contingent consideration was payable if certain sales conditions were fulfilled. These conditions were met and payment was made during 1998.

27 Lease Commitments

The minimum annual rental commitments at 31 December 1998 in respect of non-cancellable operating leases expiring in the following years, for which provision has not been made, were:

	Property 1998 £000	Equipment 1998 £000	Property 1997 £000	Equipment 1997 £000
GROUP:				
Within one year	250	211	141	149
Between one and five years	322	565	383	475
After five years	1,299	—	1,299	—
COMPANY:				
Within one year	—	4	—	9
Between one and five years	—	14	—	17
After five years	42	—	42	—

28 Contingent Liabilities

At 31 December 1998 there were contingent liabilities in the normal course of business for the Group of £382,000 (1997: £535,000) in respect of which no losses are expected.

The Company has guaranteed certain borrowings of subsidiary undertakings. The amount outstanding under these guarantees at 31 December 1998 amounted to £73,000 (1997: £3,346,000). The maximum potential liability under these guarantees is £2,025,000 (1997: £6,479,000). The Company has also given guarantees in respect of the contractual performance of a subsidiary undertaking amounting to £370,000 (1997: £372,000).

29 Related Party Transactions

During 1998 one director and a senior employee of Oiltech AB, a Group company, held shares totalling 60% in a supplier, Holmbo Production AB. During 1998 Oiltech purchased goods from Holmbo amounting to £1,766,000 (1997: £1,723,000) and paid £28,000 (1997: £30,000) rental for warehousing. At 31 December 1998 Oiltech owed Holmbo £222,000 (1997: £176,000).

Notes to the Accounts

for the year ended 31 December 1998

30 Principal Subsidiaries and Joint Ventures

	Principal activities	Country of incorporation
SUBSIDIARY UNDERTAKINGS		
The Expanded Metal Company Ltd*(comprising Expamet Building Products and Expamet Industrial)	(a) (b)	United Kingdom
<i>The Olaer Group</i>		
Olaer Industries SA (99% owned)	(a)	France
Fawcett Christie Hydraulics Ltd*	(a)	United Kingdom
Fawcett Christie Hydraulics Pty Ltd	(a)	Australia
Oil Air Hydraulics Inc	(a)	United States of America
Oiltech AB	(a)	Sweden
Oiltech AS	(a)	Norway
Oiltech Hydraulics Oy	(a)	Finland
Olaer Asia Pacific Ltd	(a)	Hong Kong
Olaer Benelux SA	(a)	Belgium
Olaer CZ sro	(a)	Czech Republic
Olaer Industries GmbH	(a)	Germany
Olaer Italiana SpA	(a)	Italy
Olaer Nederland NV	(a)	The Netherlands
Olaer Oiltech Iberica SA	(a)	Spain
Olaer Speicher Technik GmbH	(a)	Austria
Olaer Suisse SA	(a)	Switzerland
Roth SA	(a)	France
Bat Continental BV	(b)	The Netherlands
Bat Products Belgium NV	(b)	Belgium
Industrial Building Components Ltd*	(b)	United Kingdom
Sorst Streckmetall GmbH	(a)	Germany
Timloc Building Products Ltd*	(b)	United Kingdom
JOINT VENTURES		
Fawcett Christie Korea Ltd (49% owned)	(a)	South Korea
Fenghua Olaer Hydraulics Limited Liability Company (24% owned)	(a)	The People's Republic of China

* shares marked thus are directly owned by Expamet International PLC and the remainder are held through subsidiary undertakings.

The principal activity is designated as follows:

- (a) Industrial products
- (b) Building products

All companies operate principally in the country of incorporation.

Five Year Financial Summary

	1998 £000	1997 £000	1996 £000	1995 £000	1994 £000
Group turnover					
Continuing businesses	119,487	110,929	113,308	110,232	93,770
Discontinued businesses	—	—	2,356	33,694	36,615
	119,487	110,929	115,664	143,926	130,385
Profit before interest and exceptional items					
Continuing businesses	10,738	9,189	6,896	5,788	4,924
Discontinued businesses	—	—	(69)	1,424	2,541
	10,738	9,189	6,827	7,212	7,465
Profit/(loss) on disposal of businesses	—	—	9,465	(36,755)	—
	10,738	9,189	16,292	(29,543)	7,465
Net interest receivable/(payable)	1,012	553	(213)	(1,731)	(1,635)
Profit/(loss) before taxation	11,750	9,742	16,079	(31,274)	5,830
Taxation	(3,267)	(3,136)	(3,495)	(2,213)	(1,946)
Profit/(loss) after taxation	8,483	6,606	12,584	(33,487)	3,884
Dividends	(2,861)	(2,443)	(2,093)	(1,900)	(1,896)
Retained profit/(loss)	5,622	4,163	10,491	(35,387)	1,988
Earnings/(loss) per share	13.35p	10.41p	19.85p	(52.90)p	6.15p
Adjusted earnings per share (Note 1)	13.35p	10.41p	7.30p	6.19p	6.15p
Dividend per share	4.50p	3.85p	3.30p	3.00p	3.00p
Cash flow					
Operating activities	12,771	11,869	7,585	7,190	9,135
Interest received/(paid)	998	522	(291)	(1,723)	(1,668)
Tax paid	(2,614)	(2,607)	(2,477)	(1,335)	(959)
Capital expenditure (net)	(3,202)	(1,871)	(4,297)	(3,549)	(1,903)
Free cash flow	7,953	7,913	520	583	4,605
(Acquisitions)/disposals	(1,398)	(1,462)	21,165	(47)	41
Dividends paid	(2,603)	(2,252)	(2,820)	(1,043)	(1,642)
Cash flow before management of liquid resources and financing	3,952	4,199	18,865	(507)	3,004
Balance sheet					
Fixed assets	15,919	15,334	15,868	16,572	16,072
Other assets less liabilities	7,136	5,452	8,038	11,899	9,755
	23,055	20,786	23,906	28,471	25,827
Net cash/(debt)	16,861	13,276	7,830	(12,771)	(11,218)
Net assets	39,916	34,062	31,736	15,700	14,609

Note 1: Adjusted earnings per share exclude items of a non-recurring nature.

Notice is hereby given that the Annual General Meeting of Expamet International PLC will be held at Painters' Hall, 9 Little Trinity Lane, London EC4V 2AD, on 29 April 1999, at 11.00 am for the following purposes:

- 1 To receive the Report and Accounts for the year ended 31 December 1998.
- 2 To declare a final dividend.

To re-elect the following directors:

- 3 J A Roberts.
- 4 R T Baena.

To consider the following resolution, special notice having been received of the intention to propose the resolution as an ordinary resolution:

- 5 THAT PricewaterhouseCoopers be re-appointed auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Price Waterhouse), to hold office until the conclusion of the next general meeting at which accounts are laid before the Company, and that their remuneration be fixed by the directors.

As Special Business to consider, and if thought fit, pass the following resolution, which will be proposed as a special resolution:

- 6 THAT the regulations contained in the document produced to the Meeting, and for the purposes of identification signed by the Chairman thereof, be and are hereby adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association of the Company.

By Order of the Board

J D K Hewitt
Secretary
9 March 1999

A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and to vote in his/her stead. A proxy need not be a member of the Company. A form of proxy for use at the above meeting is enclosed and, if used, should be lodged with the Secretary of the Company not less than 48 hours before the time of holding the meeting. Submission of a form of proxy will not preclude a member from attending and voting in person.

Resolution 1: Report and Accounts

The directors are required by law to present to shareholders at the Annual General Meeting the Report of the Directors and the Accounts of the Company for the financial year ended 31 December 1998.

Resolution 2: Declaration of Final Dividend

A final dividend can only be paid after it has been approved by the shareholders at a general meeting. The amount must not exceed the amount recommended by the directors. A final dividend of 2.55p per ordinary share is recommended by the directors to be payable on 30 April 1999 to shareholders who are on the register at the close of business on 6 April 1999.

Resolutions 3 and 4: Re-election of Directors

The Company's Articles of Association require a proportion of the directors to retire at each annual general meeting. At this year's meeting, John Roberts and Richard Baena retire by rotation and resolutions 3 and 4 propose their re-election. Biographical details of both directors appear on page 10.

Resolution 5: Re-appointment and Remuneration of Auditors

Following the merger of Price Waterhouse and Coopers & Lybrand with effect from 1 July 1998, Price Waterhouse resigned as auditors. The directors appointed the new firm, PricewaterhouseCoopers to fill the casual vacancy created by the resignation. Resolution 5 proposes the re-appointment of PricewaterhouseCoopers as auditors of the Company until the next Annual General Meeting and authorises the directors to fix their remuneration.

Resolution 6: New Articles of Association

Shareholders are being asked to vote on the adoption of new Articles of Association. (This will be proposed as a Special Resolution, which requires the approval of three-quarters of the votes cast at the Meeting.) It is some years since the Company's Articles were revised and updated as a whole and it is now considered appropriate to adopt new Articles (based on the existing Articles) to reflect changes in company law and practice and the London Stock Exchange Listing Rules – as well as to make administrative changes. A number of amendments are made in order to deal with matters relating to the transfer of shares through the CREST system.

A summary of the principal differences between the existing Articles and the proposed new Articles is contained on page 38. A copy of the proposed new Articles will be available for inspection (together with the existing Articles) at the Company's registered office, at Clifton House, 83/89 Uxbridge Road, Ealing, London W5 5TA, and at the offices of Herbert Smith, Exchange House, Primrose Street, London EC2A 2HS, during normal business hours from 26 March 1999 to the date of the Annual General Meeting, and at the place of the Meeting for fifteen minutes prior to and until the conclusion of the Meeting.

The directors unanimously recommend that shareholders vote in favour of these resolutions.

New Articles of Association

The principal substantive differences between the proposed new Articles of Association and the Company's existing Articles are explained below. Changes which are only of a minor, technical or drafting nature have been left out of these explanations.

Each Article number quoted corresponds with that in the proposed new Articles. Copies of both the new and the current Articles will be available for inspection before and during the Annual General Meeting.

CREST – Uncertificated Shares

A number of amendments to the existing Articles of Association are proposed to make the Articles expressly consistent with the shares of the Company being held and traded in the CREST system. This computerised system for settling sales and purchases of shares on the London Stock Exchange became operational in July 1996 and the Company's ordinary shares entered into CREST in January 1997. The system enables title to shares and certain other securities to be held in electronic form instead of the traditional paper certificate, and to be transferred electronically rather than by a written instrument of transfer. Shareholders who wish to continue to hold shares in paper certificate form, rather than electronic form, can continue to do so and, accordingly, the new Articles take account of shares being held in either form.

Articles 32 and 33 – Directors' Refusal to Register Transfers

Currently, the directors can refuse to register the transfer of a partly-paid share. To comply with the London Stock Exchange's listing rules ("the Listing Rules"), the proposed amendment to existing Article 31 provides that the directors cannot decline to register a transfer if to do so would prevent dealings from taking place on an open and proper basis. New Article 32(2) provides that if the directors refuse to register a transfer of a share, they shall, within two months after the date on which the transfer was lodged with the Company, send to the transferee notice of the refusal. New Article 33(3) similarly provides in respect of uncertificated shares.

Article 43 – Power of Sales of Shares Held by Untraced Shareholders

To reflect the Listing Rules accurately, advertisements in respect of untraced shareholdings will be placed in a national daily newspaper and a newspaper circulating in the area in which the last known address of the shareholder or the address at which service of notices may be effected is located, rather than in two national daily newspapers as stated in the current Article 42.

Article 70 – Notice of a Poll

The proposed new Article 70 provides that no notice need be given of a poll not taken forthwith if the time and place at which it is to be taken are announced at the meeting in respect of which it is demanded. In any other case, at least seven days' clear notice shall be given, specifying the time and place at which the poll is to be taken. The current Article 70 provides that no notice need be given of a poll not taken immediately.

Article 82 – Instruments of Proxy

In order to clarify the situation should an instrument of proxy inadvertently not be sent to a shareholder, it is proposed that current Article 82 is extended to provide that the accidental omission to send an instrument of proxy or the non-receipt thereof by a shareholder shall not invalidate the proceedings at the meeting.

Article 86 – Directors' Fees

The current Article 86 states that the directors are entitled to fees which shall not, in aggregate, exceed £100,000 per annum. This limit has been in place for many years and it is proposed that it be increased to £200,000 per annum. This limit will not apply to the salaries of executive directors who have service contracts with members of the Group.

Article 91F – Directors' Voting

The circumstances in which a director may vote on a matter despite having a personal interest are extended to include:

- (i) any resolution relating to the purchase or maintenance of any director or directors of insurance against any liability;
- (ii) any resolution relating to an arrangement for the benefit of the employees of the Company or any of its subsidiaries, including but without being limited to, an employees' share scheme, which does not accord to any director as such any privilege or advantage not generally accorded to the employees to whom the arrangement relates.

Article 95 – Rotation of Directors

It is proposed to alter the provisions relating to the retirement of directors by rotation, so that each director submits himself for re-election at intervals not exceeding three years. This amendment is in line with the relevant recommendation contained in the report of the Hampel Committee on Corporate Governance.

Article 114 – Notice of Directors' Meetings

The proposed Article permits directors who are outside the United Kingdom to specify a facsimile number or e-mail address for the giving of the notice of a meeting.

Article 135 – Payment of Dividends

To reflect recent developments in banking practice, the proposed revised Article permits payment of dividends by direct debit, bank transfer or any other method which the directors consider appropriate.

In line with the Listing Rules, the Company can cease sending dividend cheques or warrants to a shareholder if dividend cheques or warrants have been returned undelivered or left uncashed on two or more consecutive occasions, or if a cheque or warrant has been returned undelivered or left uncashed and reasonable enquiries have failed to establish any new address for the shareholder.

Article 152 – Notice to Shareholders

The proposed new Article 152 provides that notices to shareholders may be given by reference to the Company's Register of Members as it stands at any time not more than fifteen days before the notice is given and that no change in the Register after that time will invalidate the notice. The directors consider this a desirable provision as it is not practicable for registrars to post notices by reference to the Register as it stands on dates of posting.

The directors unanimously recommend that shareholders vote in favour of the proposed changes to the Articles of Association which, in the directors' opinion, are in the best interests of the shareholders as a whole.

Shareholders' Diary

Annual General Meeting

29 April 1999

Final Dividend for 1998 Payable

30 April 1999

Preliminary Announcement of the Results for the Half Year to June 1999

September 1999