

Ajax Magnethermic Europe Limited

Report and Accounts

16 September 1998



Ajax Magnethermic Europe Limited

Registered No. 280453

DIRECTORS

F L Spalla (Chairman)
C G Claisse
D N Henderson

SECRETARY

P A Goad

AUDITORS

Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

REGISTERED OFFICE

Holland Road
Hurst Green
Oxted
Surrey RH8 9BA

The directors present their report and accounts for the period ended 16 September 1998.

RESULTS AND DIVIDENDS

The profit for the period before taxation amounted to £600,486 (year ended 31 December 1997 - £1,094,756). No interim dividends (year ended 31 December 1997 - £2,681,000) have been paid during the period and the directors do not propose to pay a further dividend (year ended 31 December 1997 - £nil).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The activities of the company during the period were the manufacture and marketing of induction melting and heating equipment. On 16 September 1998 the company's ultimate parent undertaking and controlling party changed from BBA Group Plc to Citicorp Venture Capital Ltd.

FUTURE DEVELOPMENTS

The directors aim to maintain the management policies which have resulted in the company's substantial growth in recent years. They consider that the forthcoming years will show a growth in sales.

YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and some possible commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in event that there is a failure by other parties to remedy their own year 2000 compliance.

The company is well advanced in the phase of addressing the risks to our business resulting from the date change to the year 2000. Much of the cost of implementing corrective action will be subsumed into the recurring activities of the departments involved, as a result of continuing modifications to our computer hardware and software.

EVENTS SINCE THE BALANCE SHEET DATE

Changes in employee pension arrangements since the balance sheet date can be found in note 17 to the accounts.

DIRECTORS AND THEIR INTERESTS

The directors who served the company during the period were as follows. They had no beneficial interests in the ordinary shares of the company.

F L Spalla (Chairman)

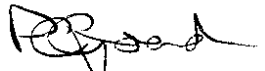
C G Claisse

D N Henderson

AUDITORS

Ernst & Young were appointed as auditors during the period and a resolution to reappoint them will be put to the members at the Annual General Meeting.

By order of the board



P A Goad
Secretary

14 July 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS

to the members of Ajax Magnethermic Europe Limited

We have audited the accounts on pages 6 to 17, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and on the basis of the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 16 September 1998 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

15 July 1999

Ajax Magnethermic Europe Limited

PROFIT AND LOSS ACCOUNT

for the period ended 16 September 1998

		<i>Period ended 16 September 1998</i>	<i>Year ended 31 December 1997</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
TURNOVER	2	5,351,477	9,126,706
Cost of sales		4,004,499	6,953,079
Gross profit		1,346,978	2,173,627
Other operating expenses	3	827,293	1,273,255
OPERATING PROFIT	4	519,685	900,372
Bank interest receivable		89,221	194,384
Bank interest payable		(8,420)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		600,486	1,094,756
Taxation	6	27,150	-
PROFIT FOR THE FINANCIAL PERIOD		573,336	1,094,756
Dividends paid	7	-	2,681,000
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL PERIOD		573,336	(1,586,244)

There are no recognised gains or losses other than as shown above

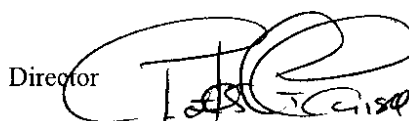
Ajax Magnethermic Europe Limited

BALANCE SHEET

at 16 September 1998

		16 September 1998	31 December 1997
	Notes	£	£
FIXED ASSETS			
Tangible assets	8	1,882,087	1,875,258
CURRENT ASSETS			
Stocks	9	301,419	629,143
Debtors	10	3,611,691	4,191,677
Cash at bank and in hand		179,485	1,312,409
		4,092,595	6,133,229
CREDITORS: amounts falling due within one year	11	2,592,042	4,975,475
NET CURRENT ASSETS		1,500,553	1,157,754
TOTAL ASSETS LESS CURRENT LIABILITIES		3,382,640	3,033,012
PROVISIONS FOR LIABILITIES AND CHARGES	12	489,825	713,533
		2,892,815	2,319,479
CAPITAL AND RESERVES			
Called up share capital	13	51,000	51,000
Share premium account	14	207,000	207,000
Revaluation reserve	14	1,380,000	1,380,000
Profit and loss account	14	1,254,815	681,479
EQUITY SHAREHOLDERS' FUNDS		2,892,815	2,319,479

Director



14 July 1999

Ajax Magnethermic Europe Limited

STATEMENT OF CASH FLOWS

for the period ended 16 September 1998

		<i>Period ended 16 September 1998</i>	<i>Year ended 31 December 1997</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	15(a)	350,213	(980,916)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	15(b)	80,801	194,384
TAXATION		(27,150)	-
CAPITAL EXPENDITURE	15(b)	(46,788)	(64,371)
EQUITY DIVIDENDS PAID		-	(2,681,000)
FINANCING	15(b)	(1,490,000)	-
DECREASE IN CASH		<u>(1,132,924)</u>	<u>(3,531,903)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET (DEBT)/FUNDS

	<i>16 September 1998</i>	<i>31 December 1997</i>
	<i>£</i>	<i>£</i>
DECREASE IN CASH	(1,132,924)	(3,531,903)
Loan repayments	1,490,000	-
Change in net debt resulting from cash flows	<u>357,076</u>	<u>(3,531,903)</u>
MOVEMENT IN NET FUNDS/(DEBT) IN THE YEAR	<u>357,076</u>	<u>(3,531,903)</u>
NET FUNDS AT 1 JANUARY	(997,347)	2,534,556
NET DEBT AT 31 DECEMBER (NOTE 15 (c))	<u>(640,271)</u>	<u>(997,347)</u>

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention modified to include the revaluation of certain fixed assets and in accordance with applicable accounting standards.

Turnover

Turnover comprises the invoiced value of goods and services provided net of valued added tax and amounts recoverable on long-term contracts.

Depreciation

Freehold land is not depreciated. Freehold buildings are depreciated evenly over a ten year period.

Following the revaluation of tangible fixed assets on 1 January 1989 all other revalued tangible fixed assets are depreciated at rates calculated to write off the cost or revalued amount of each asset evenly over its expected useful life of between 1 and 23 years, as indicated by the revaluation.

Assets acquired since the revaluation are depreciated at the following rates on a straight line basis:

Plant and equipment - 10% to 20% per annum.

Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value. The cost of raw materials and stores is calculated at average cost. Work in progress includes workshop and engineering labour overheads.

Long-term contracts

Revenue is recognised under a long-term contract when the job is completed, unless specified thresholds for sales value and stage of completion are met. If these thresholds are met, the accumulated costs under the contract and a rateable portion of its sales value are included in the profit and loss account.

Work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Taxation

Provision for UK corporation tax on the profits of the company has been made in the accounts of the former ultimate parent company. Also, the former ultimate parent company has made provision for the company under the liability method for deferred taxation arising from accelerated capital allowances on capital expenditure and other timing differences to the extent that it was probable that a liability would crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the forward contract rate, if applicable.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 16 September 1998

1. ACCOUNTING POLICIES (continued)

Leasing commitments

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

Pensions

The company operates a defined benefit pension scheme. Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives within the company. The contribution levels are determined by valuations undertaken by independent qualified actuaries.

Guaranteed Maintenance

Provision is made for the estimated cost of future guaranteed maintenance in respect of completed contracts.

Contract contingency provision

Provision is made, on a contract by contract basis, for estimated rectification costs resulting from unforeseen events during the course of completion of contracts.

Revaluation Reserve

Surpluses/deficits arising on the revaluation of individual fixed assets are credited/debited to a non-distributable reserve known as the revaluation reserve. Revaluation deficits in excess of the amount of prior revaluation surpluses on the same asset are charged to the profit and loss account. Where depreciation charges are increased following a revaluation, an amount equal to such increases is transferred annually from this reserve to the profit and loss account below the profit for the financial year. On the disposal of a revalued fixed asset any remaining revaluation surplus corresponding to that item is also transferred to the profit and loss account as a movement on reserves.

2. TURNOVER

It is the opinion of the directors that disclosure of the geographical analysis of turnover would be seriously prejudicial to the interests of the company. This information has not therefore been disclosed in accordance with the provisions of the Companies Act 1985 section 4 part III 55.5. All the turnover is in respect of continuing activities.

3. OTHER OPERATING EXPENSES

	<i>Period ended 16 September 1998 £</i>	<i>Year ended 31 December 1997 £</i>
Distribution costs	293,291	423,367
Administration costs	534,002	849,888
	<u>827,293</u>	<u>1,273,255</u>

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 16 September 1998

4. OPERATING PROFIT

This is stated after charging/(crediting):

	<i>Period ended 16 September 1998 £</i>	<i>Year ended 31 December 1997 £</i>
Auditors' remuneration	20,500	22,330
Depreciation	39,959	63,397
Other operating lease rentals	61,787	93,369
Exchange gains	(79,418)	(4,887)

5. DIRECTORS AND EMPLOYEES

The average number of persons, including directors, employed by the company during the period was:

	<i>Period ended 16 September 1998 No.</i>	<i>Year ended 31 December 1997 No.</i>
Management	5	5
Production	35	37
Other	18	15
	<u>58</u>	<u>57</u>

Staff costs for the above persons:

	<i>Period ended 16 September 1998 £</i>	<i>Year ended 31 December 1997 £</i>
Wages and salaries	905,664	1,188,260
Social security costs	75,094	105,870
Other pension costs	71,473	115,376
	<u>1,052,231</u>	<u>1,409,506</u>

Directors' remuneration

	<i>Period ended 16 September 1998 £</i>	<i>Year ended 31 December 1997 £</i>
Remuneration - emoluments	102,773	130,241
Number of directors in defined benefit schemes	<u>2</u>	<u>2</u>

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 16 September 1998

6. TAXATION

The tax charge for the period represents Belgian Corporation tax.

Following the adoption of an agreement between the company and the former ultimate parent company, the latter will meet all UK corporation tax liabilities relating to the profits of the company, while the company remained a subsidiary undertaking of BBA Group plc. The tax that would have been payable, less any ACT offsets is as follows:

	<i>Period ended 16 September 1998 £</i>	<i>Year ended 31 December 1997 £</i>
Gross corporation tax	152,000	452,000
ACT surrendered by ultimate parent company	(98,000)	(287,000)
	<u>54,000</u>	<u>165,000</u>

There is a contingent liability to deferred taxation at 16 September 1998 of £182,000 (31 December 1997 - £182,000) representing the excess of capital allowances over depreciation. This has not been provided in the company's or ultimate parent company's accounts as, in the opinion of the directors, the liability is not likely to crystallise in the foreseeable future.

No provision has been made in the accounts for the full potential deferred tax liability that would arise at 16 September 1998 of £74,000 (31 December 1997 - £74,000) in the event of disposal of acquired land and buildings at their carrying value, as the directors have no current intentions to dispose of the assets.

7. DIVIDENDS

	<i>Period ended 16 September 1998 £</i>	<i>Year ended 31 December 1997 £</i>
Ordinary		
First interim paid of £nil (31 December 1997 - £43.31) per share	-	2,209,000
Second interim paid of £nil (31 December 1997 - £9.25) per share	-	472,000
	<u>-</u>	<u>2,681,000</u>

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 16 September 1998

8. TANGIBLE FIXED ASSETS

	<i>Freehold land and buildings £</i>	<i>Plant and equipment £</i>	<i>Total £</i>
Cost or valuation:			
At 1 January 1998	1,814,920	435,515	2,250,435
Additions	5,281	41,507	46,788
Disposals	-	(10,456)	(10,456)
At 16 September 1998	<u>1,820,201</u>	<u>466,566</u>	<u>2,286,767</u>
Depreciation:			
At 1 January 1998	64,648	310,529	375,177
Charge for period	21,642	18,317	39,959
Disposals	-	(10,456)	(10,456)
At 16 September 1998	<u>86,290</u>	<u>318,390</u>	<u>404,680</u>
Net book value:			
At 16 September 1998	<u>1,733,911</u>	<u>148,176</u>	<u>1,882,087</u>
At 1 January 1998	<u>1,750,272</u>	<u>124,986</u>	<u>1,875,258</u>

On 1 January 1989 the tangible fixed assets of the company were revalued by Fuller Peiser, Chartered Surveyors, at the open market value for those assets, on the basis of current use.

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 16 September 1998

8. TANGIBLE FIXED ASSETS (continued)

The value, under the historical cost convention, of tangible fixed assets at 16 September 1998 is as follows:

	<i>Freehold land and buildings</i>	<i>Plant and equipment</i>	<i>Total</i>
	£	£	£
Historical cost	609,784	687,345	1,297,129
Accumulated depreciation	214,161	542,649	756,810
Net book value	<u>395,623</u>	<u>144,696</u>	<u>540,319</u>

9. STOCKS

	<i>16 September 1998</i>	<i>31 December 1997</i>
	£	£
Raw materials and consumables	174,931	188,263
Work in progress	126,488	440,880
	<u>301,419</u>	<u>629,143</u>

Progress billings in excess of the value of the work done on the related contracts are included under creditors.

10. DEBTORS

	<i>16 September 1998</i>	<i>31 December 1997</i>
	£	£
Trade debtors	2,647,341	1,460,180
Amounts recoverable on long-term contracts	641,206	2,463,819
Other debtors	315,405	253,372
Prepayments and accrued income	7,739	14,306
	<u>3,611,691</u>	<u>4,191,677</u>

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 16 September 1998

11. CREDITORS: amounts falling due within one year

	<i>16 September 1998</i>	<i>31 December 1997</i>
	£	£
Payments received on account	738,980	533,883
Trade creditors	459,400	1,099,157
Amounts due to group undertakings	1,006,863	3,153,485
Other taxes and social security costs	29,079	36,708
Accruals and deferred income	357,720	152,242
	<u>2,592,042</u>	<u>4,975,475</u>

Included in amounts due to group undertakings is a short term loan balance of £819,756 (31 December 1997 - £2,309,756).

12. PROVISIONS FOR LIABILITIES AND CHARGES

The movements in provisions are as follows:

	<i>Contract contingency provisions</i>	<i>Guaranteed maintenance provisions</i>	<i>Total</i>
	£	£	£
At 1 January 1998	378,500	335,033	713,533
Net transfer to profit and loss account	(168,500)	(55,208)	(223,708)
At 16 September 1998	<u>210,000</u>	<u>279,825</u>	<u>489,825</u>

13. SHARE CAPITAL

	<i>16 September 1998</i>	<i>31 December 1997</i>	<i>Authorised 31 December 1997</i>
	£	£	£
Ordinary shares of £1 each	<u>51,000</u>	<u>51,000</u>	<u>51,000</u>

	<i>16 September 1998</i>	<i>31 December 1997</i>	<i>Allotted, called up and fully paid</i>
	No.	No.	£
Ordinary shares of £1 each	<u>51,000</u>	<u>51,000</u>	<u>51,000</u>

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 16 September 1998

14. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital</i> £	<i>Share premium account</i> £	<i>Revaluation reserve</i> £	<i>Profit and loss account</i> £	<i>Total</i> £
At 1 January 1997	51,000	207,000	1,354,283	2,293,440	3,905,723
Profit for the year	-	-	-	1,094,756	1,094,756
Dividend	-	-	-	(2,681,000)	(2,681,000)
Transfer of additional depreciation on revalued assets	-	-	25,717	(25,717)	-
At 1 January 1998	51,000	207,000	1,380,000	681,479	2,319,479
Profit for the period	-	-	-	573,336	573,336
At 16 September 1998	51,000	207,000	1,380,000	1,254,815	2,892,815

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 16 September 1998

15. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities.

	<i>Period ended 16 September 1998 £</i>	<i>Year ended 31 December 1997 £</i>
Operating profit	519,685	900,372
Depreciation	39,959	63,397
Decrease/(increase) in debtors	579,986	(3,024,347)
Decrease/(increase) in stocks	327,724	(331,685)
(Decrease)/increase in creditors	(893,433)	901,983
(Decrease)/increase in provisions	(223,708)	509,364
Net cash inflow/(outflow) from operating activities	<u>350,213</u>	<u>(980,916)</u>

(b) Analysis of cash flows for headings netted in the statement of cash flows

	<i>Period ended 16 September 1998 £</i>	<i>Year ended 31 December 1997 £</i>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	89,221	194,384
Interest paid	(8,420)	-
	<u>80,801</u>	<u>194,384</u>

	<i>Period ended 16 September 1998 £</i>	<i>Year ended 31 December 1997 £</i>
CAPITAL EXPENDITURE		
Payments to acquire tangible fixed assets	<u>(46,788)</u>	<u>(64,371)</u>

	<i>Period ended 16 September 1998 £</i>	<i>Year ended 31 December 1997 £</i>
FINANCING		
Repayments of loans	<u>1,490,000</u>	<u>-</u>

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 16 September 1998

15. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(c) Analysis of changes in net debt

	<i>At 1 January 1998 £</i>	<i>Cash flow 16 September 1998 £</i>	<i>At 16 September 1998 £</i>
Cash at bank and in hand	1,312,409	(1,132,924)	179,485
Debt due within one year	(2,309,756)	1,490,000	(819,756)
	<u>(997,347)</u>	<u>357,076</u>	<u>(640,271)</u>

16. OTHER FINANCIAL COMMITMENTS

At 16 September 1998, the company had annual commitments under non-cancellable operating leases in respect of plant and equipment as follows:

Rentals falling due within one year on leases expiring:

	<i>16 September 1998 £</i>	<i>31 December 1997 £</i>
Within one year	3,648	22,026
More than one year but less than five years	40,892	45,563
Over five years	-	1,693
	<u>44,540</u>	<u>69,282</u>

The company had outstanding bank guarantees and standby letters of credit with its various bankers at 16 September 1998 of £621,624 (31 December 1997 - £1,975,777). The guarantees were in respect of certain debtors and creditors.

The company participates in banking facilities available to Ajax Holding Corporation. and subsidiaries. The company is party to group cross guarantee arrangements to support such facilities, which include fixed and floating charges over the assets of the company.

17. PENSIONS

From 31 October 1998, the Ajax Magnethermic Europe 1998 Pension Plan replaced the BBA Group pension schemes. The scheme covers the majority of UK employees and is of the funded defined benefit type. The total pension cost borne by the company is shown in note 5. The pension costs are assessed in accordance with the advice of independent qualified actuaries. The company's pension commitments are contained within a defined benefit scheme with assets held in a separate trustee administered fund. The first actuarial valuation of the Ajax Magnethermic Europe 1998 Pension Plan took place on 31 October 1998 and the most recent valuation of the BBA Scheme was on 30 September 1996.

The Trustees of the Ajax Plan have advised the company that the employer's contributions should be increased due to the change in the plan and due to the results of the actuarial valuation at 31 October 1998. The directors have agreed to this increase and employer's contributions have been increased from 11.5% of pensionable pay to 12.7% since 31 October 1998.

Under the BBA Scheme management costs were borne by the Scheme. These costs are now to be charged to the employer. Ajax Magnethermic Corporation have agreed to carry the costs involved in the initial set up, including the first actuarial valuation.

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 16 September 1998

18. PARENT UNDERTAKING AND CONTROLLING PARTY

On 10 August 1998, the company became a subsidiary undertaking of Ajax Magnethermic Corporation, a company registered in the USA. On 16 September 1998 the company's ultimate parent undertaking and controlling party changed from BBA Group Plc to Citicorp Venture Capital Ltd, a company registered in the USA.

19. RELATED PARTIES

During the period, the company purchased goods and services in the normal course of business from Ajax Magnethermic Corporation for £413,780. In addition, licence fees of £236,749 became payable on sales during the period. Sales and expenses recharged at cost to Ajax Magnethermic Corporation and other Ajax group undertakings amounted to £39,428. At the balance sheet date the net amount due to Ajax group undertakings was £1,006,863.

Also, the company paid management charges and expenses recharged from BBA Group plc, the former ultimate parent undertaking, of £108,480. At the balance sheet date, £22,227 remained due to BBA Group plc.