

280453

 ERNST & YOUNG

Ajax Magnethermic Europe Limited

Report and Accounts

31 December 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

 **ERNST & YOUNG**

Ajax Magnethermic Europe Limited

DIRECTORS' REPORT

The directors present their report and accounts for the period ended 31 December 1998.

RESULTS AND DIVIDENDS

The profit for the period before taxation amounted to £73,397 (16 September 1998 - £600,486). The directors do not recommend payment of a dividend.

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.

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.

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

A resolution to reappoint Ernst & Young will be put to the members at the Annual General Meeting.

By order of the board


Secretary

12 NOV 1999

Ajax Magnethermic Europe Limited

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 5 to 15, 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 8 and 9.

Respective responsibilities of directors and auditors

As described on page 3 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 31 December 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

12 NOV 1999

Ajax Magnethermic Europe Limited

PROFIT AND LOSS ACCOUNT

for the period ended 31 December 1998

		<i>Period ended 31 December 1998</i>	<i>Period ended 16 September 1998</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
TURNOVER	2	2,712,967	5,351,477
Cost of sales		2,147,561	4,004,499
Gross profit		565,406	1,346,978
Other operating expenses		491,057	827,293
OPERATING PROFIT	4	74,349	519,685
Bank interest receivable		4,079	89,221
Bank interest payable		(5,031)	(8,420)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		73,397	600,486
Taxation	6	48,000	27,150
PROFIT FOR THE FINANCIAL PERIOD		25,397	573,336

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

Ajax Magnethermic Europe Limited

BALANCE SHEET

at 31 December 1998

		31 December 1998	16 September 1998
	Notes	£	£
FIXED ASSETS			
Tangible assets	7	1,864,205	1,882,087
CURRENT ASSETS			
Stocks	8	252,599	301,419
Debtors	9	3,525,979	3,611,691
Cash at bank and in hand		887,537	179,485
		4,666,115	4,092,595
CREDITORS: amounts falling due within one year	10	3,087,953	2,592,042
NET CURRENT ASSETS		1,578,162	1,500,553
TOTAL ASSETS LESS CURRENT LIABILITIES		3,442,367	3,382,640
PROVISIONS FOR LIABILITIES AND CHARGES	11	524,155	489,825
		2,918,212	2,892,815
CAPITAL AND RESERVES			
Called up share capital	12	51,000	51,000
Share premium account	13	207,000	207,000
Revaluation reserve	13	1,380,000	1,380,000
Profit and loss account	13	1,280,212	1,254,815
EQUITY SHAREHOLDERS' FUNDS		2,918,212	2,892,815



Director

12 NOV 1999

Ajax Magnethermic Europe Limited

STATEMENT OF CASH FLOWS

for the period ended 31 December 1998

		<i>Period ended</i> <i>31 December</i>	<i>Period ended</i> <i>16 September</i>
		<i>1998</i>	<i>1998</i>
	<i>Notes</i>	<i>£</i>	<i>£</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	14(a)	719,795	350,213
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	14(b)	(952)	80,801
TAXATION		-	(27,150)
CAPITAL EXPENDITURE	14(b)	(10,791)	(46,788)
FINANCING	14(b)	-	(1,490,000)
INCREASE/(DECREASE) IN CASH		<u>708,052</u>	<u>(1,132,924)</u>

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

	<i>Period ended</i> <i>31 December</i>	<i>Period ended</i> <i>16 September</i>
	<i>1998</i>	<i>1998</i>
	<i>£</i>	<i>£</i>
INCREASE/(DECREASE) IN CASH	708,052	(1,132,924)
Loan repayments	-	1,490,000
Change in net debt resulting from cash flows	<u>708,052</u>	<u>357,076</u>
MOVEMENT IN NET DEBT IN THE PERIOD	708,052	357,076
NET DEBT AT BEGINNING OF PERIOD	(640,271)	(997,347)
NET FUNDS/(DEBT) AT END OF PERIOD (NOTE 14 (c))	<u>67,781</u>	<u>(640,271)</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.

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

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

In prior years, provision for UK corporation tax on the profits of the company was made in the accounts of the former ultimate parent company. Also, the former ultimate parent company 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 31 December 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 31 December 1998</i>	<i>Period ended 16 September 1998</i>
	£	£
Distribution costs	125,099	293,291
Administration costs	365,958	534,002
	<u>491,057</u>	<u>827,293</u>

4. OPERATING PROFIT

This is stated after charging/(crediting):

	<i>Period ended 31 December 1998</i>	<i>Period ended 16 September 1998</i>
	£	£
Auditors' remuneration	30,182	20,500
Depreciation	28,673	39,959
Other operating lease rentals	38,626	61,787
Exchange gains	(3,998)	(79,418)
	<u></u>	<u></u>

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

5. DIRECTORS AND EMPLOYEES

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

	<i>Period ended 31 December 1998 No.</i>	<i>Period ended 16 September 1998 No.</i>
Management	5	5
Production	38	35
Other	18	18
	<u>61</u>	<u>58</u>

Staff costs for the above persons:

	<i>Period ended 31 December 1998 £</i>	<i>Period ended 16 September 1998 £</i>
Wages and salaries	354,561	905,664
Social security costs	32,402	75,094
Other pension costs	30,497	71,473
	<u>417,460</u>	<u>1,052,231</u>

Directors' remuneration

	<i>Period ended 31 December 1998 £</i>	<i>Period ended 16 September 1998 £</i>
Remuneration - emoluments	42,314	102,773
Number of directors in defined benefit schemes	<u>2</u>	<u>2</u>

6. TAXATION

The UK corporation tax charge for the period ended 31 December 1998 is £48,000.

The corporation tax charge for the period ended 16 September 1998 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>
Gross corporation tax	152,000
ACT surrendered by ultimate parent company	(98,000)
	<u>54,000</u>

No provision has been made in the accounts for the full potential deferred tax liability that would arise at 31 December 1998 of £74,000 (16 September 1998 - £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.

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

7. TANGIBLE FIXED ASSETS

	<i>Freehold land and buildings</i> £	<i>Plant and equipment</i> £	<i>Total</i> £
Cost or valuation:			
At 17 September 1998	1,820,201	466,566	2,286,767
Additions	-	10,791	10,791
At 31 December 1998	1,820,201	477,357	2,297,558
Depreciation:			
At 17 September 1998	86,290	318,390	404,680
Charge for period	5,132	23,541	28,673
At 31 December 1998	91,422	341,931	433,353
Net book value:			
At 31 December 1998	1,728,779	135,426	1,864,205
At 17 September 1998	1,733,911	148,176	1,882,087

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.

The value, under the historical cost convention, of tangible fixed assets at 31 December 1998 is as follows:

	<i>Freehold land and buildings</i> £	<i>Plant and equipment</i> £	<i>Total</i> £
Historical cost	609,784	698,137	1,307,921
Accumulated depreciation	219,294	566,197	785,491
Net book value	390,490	131,940	522,430

8. STOCKS

	<i>31 December 1998</i> £	<i>16 September 1998</i> £
Raw materials and consumables	168,422	174,931
Work in progress	84,177	126,488
	252,599	301,419

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

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

9. DEBTORS

	31 December 1998 £	16 September 1998 £
Trade debtors	1,982,241	2,647,341
Amounts recoverable on long-term contracts	1,452,646	641,206
Other debtors	78,997	315,405
Prepayments and accrued income	12,095	7,739
	<u>3,525,979</u>	<u>3,611,691</u>

10. CREDITORS: amounts falling due within one year

	31 December 1998 £	16 September 1998 £
Payments received on account	369,998	738,980
Trade creditors	1,207,708	459,400
Amounts due to group undertakings	1,170,789	1,006,863
Corporation tax	48,000	-
Other taxes and social security costs	29,352	29,079
Accruals and deferred income	262,106	357,720
	<u>3,087,953</u>	<u>2,592,042</u>

Included in amounts due to group undertakings is a short term loan balance of £819,756 (16 September 1998 - £819,756).

11. PROVISIONS FOR LIABILITIES AND CHARGES

The movements in provisions are as follows:

	Contract contingency provisions £	Guaranteed maintenance provisions £	Total £
At 17 September 1998	210,000	279,825	489,825
Net transfer from/(to) profit and loss account	136,000	(101,670)	34,330
At 31 December 1998	<u>346,000</u>	<u>178,155</u>	<u>524,155</u>

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS at 31 December 1998

12. SHARE CAPITAL

	31 December 1998 £	Authorised 16 September 1998 £
Ordinary shares of £1 each	51,000	51,000

	Allotted, called up and fully paid	
	31 December 1998 No.	16 September 1998 No.
	£	£
Ordinary shares of £1 each	51,000	51,000

13. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Share premium account £	Revaluation reserve £	Profit and loss account £	Total £
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 17 September 1998	51,000	207,000	1,380,000	1,254,815	2,892,815
Profit for the period	-	-	-	25,397	25,397
At 31 December 1998	51,000	207,000	1,380,000	1,280,212	2,918,212

14. NOTES TO THE STATEMENT OF CASH FLOWS

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

	Period ended 31 December 1998 £	Period ended 16 September 1998 £
Operating profit	74,349	519,685
Depreciation	28,673	39,959
Decrease in debtors	85,712	579,986
Decrease in stocks	48,820	327,724
Increase/(decrease) in creditors	447,911	(893,433)
Increase/(decrease) in provisions	34,330	(223,708)
Net cash inflow from operating activities	719,795	350,213

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

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

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

	<i>Period ended 31 December 1998 £</i>	<i>Period ended 16 September 1998 £</i>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	4,079	89,221
Interest paid	(5,031)	(8,420)
	<u>(952)</u>	<u>80,801</u>

	<i>Period ended 31 December 1998 £</i>	<i>Period ended 16 September 1998 £</i>
CAPITAL EXPENDITURE		
Payments to acquire tangible fixed assets	(10,791)	(46,788)

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

(c) Analysis of changes in net (debt)/funds:

	<i>At 17 September 1998 £</i>	<i>Cash flow £</i>	<i>At 31 December 1998 £</i>
Cash at bank and in hand	179,485	708,052	887,537
Debt due within one year	(819,756)	-	(819,756)
	<u>(640,271)</u>	<u>708,052</u>	<u>67,781</u>

Ajax Magnethermic Europe Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

15. OTHER FINANCIAL COMMITMENTS

At 31 December 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>31 December 1998 £</i>	<i>16 September 1998 £</i>
Within one year	1,674	3,648
More than one year but less than five years	40,892	40,892
	<u>42,566</u>	<u>44,540</u>

The company had outstanding bank guarantees and standby letters of credit with its various bankers at 31 December 1998 of £1,655,543 (16 September 1998 - £621,624). 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.

16. 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.

17. PARENT UNDERTAKING AND CONTROLLING PARTY

The company is a subsidiary undertaking of Ajax Magnethermic Corporation, a company registered in the USA. In the directors' opinion, the company's ultimate parent undertaking and controlling party is Citicorp Venture Capital Ltd, a company registered in the USA.

18. RELATED PARTIES

During the period, the company purchased goods and services in the normal course of business from Ajax Magnethermic Corporation, its immediate parent undertaking, for £121,230 (16 September 1998 - £413,780). In addition, licence fees of £145,785 (16 September 1998 - £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 £3,722 (16 September 1998 - £39,428). At the balance sheet date the net amount due to Ajax group undertakings was £1,170,789 (16 September 1998 - £1,006,863).