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Annual Report and Accounts **1998**

Torday & Carlisle PLC



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Torday & Carlisle PLC

is a strategic industrial investment company,

with activities focused on

optimising the medium term performance

of its businesses and investments.

Somewhat like a venture capital fund

it concentrates on positioning each subsidiary

or investment to realise its potential and

thereby build shareholder value.

We are now in a position to pay a dividend, of 0.5p per share, for the first time since 1992.

Results

The profit on ordinary activities before taxation of £1,339,000 is similar to last year's £1,365,000, but there have been significant changes in activities and structure during the year. These figures are not therefore meaningfully comparable without a detailed analysis of profit sources which is set out in the accompanying Operating and Finance Review and which I hope shareholders will find helpful as an addition to the normal statutory profit and loss account.

Activities

Following the £6.0m placing of new shares in April 1998 to finance small acquisitions and strategic stakes in undervalued quoted companies, the Group now regards itself as a strategic industrial investment company. Its activities are focused on optimising the medium term performance of its businesses and investments, and somewhat like a venture capital fund, it concentrates on positioning each subsidiary or investment to realise its potential and thereby build shareholder value.

Marine and Industrial Engineering

This traditional activity of Torday & Carlisle PLC is represented by the wholly owned DMI businesses and a number of joint ventures and associated companies. They contributed an operating profit of £1,813,000 and a profit before taxation of £1,368,000; compared to an operating profit of £2,174,000 and a profit before taxation of £1,808,000 in the previous year. This decline reflects the deep recession in the marine industry and the strength of sterling. Its performance is detailed in the accompanying Operating and Finance

Review. Significant points to note are; the achievement of break even at our DMI Automotive car die plant in the USA after substantial start up losses in previous years; the continued growth of our AMI heat exchanger business and plans for expanding it in 1999; and the acquisition of Valve Technics Ltd and investment in The LD Group PLC for £1,390,000 in July 1998 (including bank borrowings and finance leases assumed of £835,000).

In our last interim report I referred to approaches from various parties who were interested in investing in the whole or part of these engineering activities. These discussions have resulted in indicative offers for the net assets of the DMI businesses in the range of £7.0m (with a continued minority investment participation) to £9.0m. Your directors felt that the offer at the bottom end of this range significantly undervalued the businesses and did not allow us to maintain a worthwhile minority investment in them; it was not possible to proceed with the offer at the higher level due to changes in the circumstances of the potential purchaser. We are therefore content for the time being to retain these businesses, believing their value will improve as the marine industry recovers and we begin to earn a return on the new investments being made in AMI, Valve Technics and The LD Group. Shareholders will appreciate that, following the analogy with a venture capital fund, we have to maintain a flexible attitude to the timing and manner of disposal of any of our businesses and investments and in the meantime operate them with a view to maximising their returns and potential value.

Investment activities

In this new activity, we invest in small quoted industrial companies which our research suggests are undervalued, intending to act as a catalyst to realise greater value for shareholders. There are many such companies on the London Stock Exchange today and their under-valuation results partly from the difficult trading conditions they face but also from the well documented move by institutional investors to dis-invest from small quoted companies. Our actions may include encouraging mergers or "take privates", or helping to introduce more effective management which can deliver shareholder value whilst reducing central costs and some of the "conglomerate lifestyle" attitudes which often reside in such companies. The field of opportunities is large and we are actively seeking co-investors to enlarge our available resources.

In April 1998 we made investments of £427,000 and £142,000 in Beales Hunter PLC and Fife Indmar PLC, two small quoted industrial companies which in our opinion were undervalued. In the case of the former we were successful in encouraging a take-over offer from another company, and in the latter new management arrived to re-develop the company and re-orientate its activities. I am pleased to report that our investments were realised in July and August, resulting in gains of £199,000 and £52,000 respectively which are included in our statutory profit and loss account as profit on sale of fixed asset investments. We would not normally expect to make such high returns over such short periods of time; our target for this type of activity is to generate

on exit a minimum annualised pre-tax internal rate of return of 20%.

Between April 1998 and December 1998 we acquired 28.9% of Meristem PLC at a total cost of £5.5m (10.72m shares at an average cost of 51.3p), and a circular about this was sent to shareholders in October 1998.

Meristem is quoted on the London Stock Exchange with subsidiaries involved in the manufacture and sale of formulated chemicals and mineral products. Prior to our initial investment in Meristem in April, its Directors and the market has been expecting a year of further growth in profits. In July 1998 the company issued the first of its three profit warnings and the resulting fall in the share price has enabled us to average down the cost of acquiring our influential 28.9% shareholding. Following representations and proposals by ourselves, I was appointed Chief Executive in November 1998 when the former Chief Executive left the company. I am now working with the directors and management of Meristem to change things for the better and to deliver, in the course of time, improved shareholder value.

We believe the fair value of our shareholding in Meristem is at least equal to its cost of £5.5m (51.3p per share) and it has therefore been included in our balance sheet at cost. In our view the current share price of 27p per share (37p at 31 December 1998) does not represent the potential realisable value of this shareholding – a common situation for a number of small quoted companies which is commented upon later in this statement.

Chairman's Statement

Investment activities *(continued)*

The activities and potential for developing increased value in Meristem are obviously of great importance to Torday & Carlisle shareholders, and for this reason we have enclosed with these accounts a copy of the recent Annual report of Meristem. Within our consolidated financial statements, Meristem is required to be treated as an associate from 5 November 1998. A total contribution of £77,000, including dividends received prior to 5 November 1998, is included within group profit before taxation, a pro-forma analysis of which is included in the Operating and Finance Review.

Management and employees

I was appointed Chairman following the AGM in May 1998, and would like to express our great appreciation to my predecessor Peter Ryan, and to David Batie, Michael Hennon and Menno van der Hulst who retired from the Board as part of the fund raising, but continue to play major roles as directors of our trading subsidiaries. It is with deep regret we recorded the death in June 1998 of Mr Jim McColgan, who had been a non-executive director since April 1994 and whose wise counsel dispensed with warm humour is very much missed.

For its size and activities the Board considers adequate its present structure with four directors.

Consideration will be given to the appointment of an additional non-executive director in due course when the need and benefit arise.

As we progress through the challenging conditions in our industries, it is particularly important

to record our appreciation to all our management and employees for their contribution and efforts to these results.

Dividends

Following Court approval in July 1998 to eliminate the deficit on reserves by a reduction of share premium account, we are now in a position to pay a dividend, of 0.5p per share, for the first time since 1992. The dividend will be paid on 26 May 1999 to all shareholders on the share register at 23 April 1999.

Prospects

For the DMI businesses, we expect a continuation of difficult market conditions, although there are signs that there could be a better balance in the shipping and freight market in 12 – 18 months time. Nonetheless there are positive developments in DMI Automotive USA, the expansion of AMI and a full year contribution from The LD Group and Valve Technics.

In our investment activities, we expect to see gradual recovery at Meristem and a clearer focus on the underlying intrinsic value of that company. Our balance sheet structure (net gearing of 23% and interest cover of 5.3) and available bank facilities allow us to consider additional catalyst type investment opportunities.

Stock market difficulties for small quoted companies

In our interim report we referred to our review of the relative merits of a London Stock Exchange ("LSE") listing compared to AIM. Some subsequent relaxation of the transaction class tests and the issue of

our clearance circular relating to the Meristem share acquisition mean that we can continue for the time being with our LSE listing without undue commercial disadvantage; we will continue to keep this situation under review as our activities develop. Of more concern is the low level and downward volatility of share prices for smaller quoted companies. As institutional investors exit the sector, it is not easy to find new shareholders, with the result that many companies trade virtually on a "matched bargain" basis and at a significant discount to their "sum of the parts" valuation. In due course, corporate activity does and will redress this anomaly but it does mean that investors need strong nerves and an eye to medium term value. In the meantime it presents a number of interesting opportunities for catalyst investors such as ourselves, but it also means that our own shares trade at an unacceptably low valuation. In recent weeks the Torday & Carlisle share price has been as low as 19.5p (giving a market capitalisation of £6.7 million) and this can be compared with our net asset value of 40.4p per share. The latter includes the DMI businesses at their net asset value of £8.0 million and the shareholding in Meristem at its cost of £5.5 million. Your Directors believe both of these are stated at defensible values as well as providing a platform for further potential growth.



James Leek
Chairman

Operating and Finance Review

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Analysis of performance

The following analysis of the Group's trading results is provided to help shareholders understand the sources of the Group profit in the year and comparisons with 1997.

Year ended 31 December 1998 –

	DMI businesses			Central £000s	Meristem (Note b) £000s	Total £000s
	£000s	Acquisitions (Note a) £000s	Total £000s			
Operating profit						
Wholly owned companies	1,575	29	1,604	(395)	–	1,209
Joint ventures and associates	122	87	209	–	(11)	198
	1,697	116	1,813	(395)	(11)	1,407
Goodwill	–	(4)	(4)	–	(13)	(17)
Interest (Note c)	(283)	(36)	(319)	181	–	(138)
Share of interest of joint ventures and associates	(43)	(79)	(122)	–	(24)	(146)
Dividends received	–	–	–	–	125	125
Profit on sale of investments (Note d)	–	–	–	251	–	251
Exceptional cost (Note e)	–	–	–	(143)	–	(143)
Profit before taxation	1,371	(3)	1,368	(106)	77	1,339

Year ended 31 December 1997 –

	DMI businesses			Central £000s	Meristem £000s	Total £000s
	£000s	Acquisitions £000s	Total £000s			
Operating profit						
Wholly owned companies	2,162	–	2,162	(508)	–	1,654
Joint ventures and associates	12	–	12	–	–	12
	2,174	–	2,174	(508)	–	1,666
Interest (Note c)	(316)	–	(316)	65	–	(251)
Share of interest of joint ventures and associates	(50)	–	(50)	–	–	(50)
Profit before taxation	1,808	–	1,808	(443)	–	1,365

Note a – comprises the results of Valve Technics for the post acquisition period (see Note 22 on the financial statements) and the Group's equity share of the results of The LD Group (see Note 14 on the financial statements).

Note b – comprises the Group's share of the results of Meristem for the two months ended 31 December 1998 during which it was an associate (see Note 14 on the financial statements) and dividends received prior to it becoming an associate.

Note c – comprises interest incurred by Torday & Carlisle PLC and its wholly owned subsidiaries (including borrowings assumed on the acquisition of Valve Technics), split in accordance with segmental borrowings. Proceeds from the placing and open offer and payments in respect of the acquisition of Valve Technics and investments in Meristem and The LD Group form part of central cash balances and the interest thereon is included within central in the above analysis.

Note d – comprises the profits on disposal of the Group's investments in Beales Hunter PLC and Fife Indmar PLC as set out in the Chairman's statement.

Note e – comprises the cost of settlement of the claim for alleged breach of warranty relating to the sale of the Commercial Signs division in 1995 (see Note 5 on the financial statements).

Operating and Finance Review

Operations

The core manufacturing activities of Torday & Carlisle produced an operating profit of £1,813,000 which compares with £2,174,000 in 1997, a decline of 16%. This reduction is chiefly due to two factors:

- the continuing strength of sterling which has the double adverse effect in making UK operations less competitive and reduces the Group's overseas earnings on translation into sterling
- the deepest recession in the marine industry since the mid 1980's

Marine –

Our engine component reconditioning business suffered reduced volumes and margins in 1998 owing to the severely depressed marine market. Competition from new component suppliers in the Far East (helped by the collapse of their currencies) and other reconditioners was more evident in most of our sales territories. The deep recession in the marine industry is reflected by charter rates which fell by over a third during 1998 and ended the year at levels last seen in the mid 1980's recession. When charter rates are so low, shipowners and managers not only seek to make components last longer, but some unwisely allow partial repairs to be done to their engine components instead of the complete reconditioning we always carry out.

We have reacted to these market pressures by further cutting costs and increasing operational flexibility. We have continued to invest in improved equipment and processes in some locations, particularly at DMI Drechsler and in our Dutch factory.

Industrial –

This sector has done rather better than the marine business in 1998.

DMI(UK) has been very busy on liner reconditioning and serving the original equipment manufacturers ("OEMs") on their new liner production. Also during 1998, we commissioned a new plant to chrome plate automotive valves. This plant is capable of processing 8 million valves per annum and began operating at full capacity in December 1998.

The Dutch plant serving the industrial sector has had a sound year despite the internal re-organisation of equipment to implement the environmental plan for this site. This will ensure improved work flow and productivity as well as providing space for other production activities.

At DMI Drechsler in Hamburg we have seen good progress in the industrial business both in fabrication and metal spraying. We have increased metal spraying capacity for the industrial sector.

Car die volumes in the year were somewhat below expectations in Europe but I am delighted to say that DMI Automotive, our USA joint venture, achieved breakeven in 1998 (compared to losses of £120,000 in 1997) as we benefited from higher volumes and a wider customer base.

AMI –

This business deserves special commendation again this year. Although the bulk of its products go to the marine industry, it has enjoyed a busy year gaining volume from competitors and benefiting from its integration into the DMI world-wide sales and distribution organisation.

We continue to develop new fin block designs in this business and during 1998 a significant factory expansion was approved which will be completed by the end of June 1999. Thus our range of products will widen and our overall capacity will be increased.

The LD Group and Valve Technics –

In July 1998, we purchased a 50% stake in The LD Group and purchased outright their valve producing subsidiary, Valve Technics. The latter will complement DMI's valve reconditioning activities and provide additional products for our distribution network.

The LD Group has service and spares divisions aimed mainly at medium speed diesel engines used in the marine, power generation, environmental and other industries. This therefore adds to the T&C Group a more significant presence in the medium speed sector as well as providing a large diesel engine service organisation that can be used on both medium speed and slow speed engines.

This investment has also given Torday & Carlisle an interest in Kelvin Diesels (a diesel engine OEM located near to Glasgow). In the latter part of 1998, an agreement was entered into with Komatsu for Kelvin Diesels to marinise and sell appropriate engines from the Komatsu range.

The cost of the acquisition of Valve Technics and investment in The LD Group was £1,390,000 (including £835,000 of borrowings and finance leases assumed on acquisition of Valve Technics). We expect this to be earnings enhancing in the first year of ownership.

Financial

Cash flow and borrowings –

During the year the Company acquired a 28.9% stake in Meristem for £5,502,000 and spent £1,390,000 (including £835,000 of borrowings and finance leases assumed on acquisition of Valve Technics) on strategic acquisitions to strengthen further its DMI businesses. The background to these are set out more fully in the Chairman's Statement. The investments were funded by a £5,980,000 placing and open offer on 17 April 1998, through which the Company issued 17,640,431 shares at a price of 36p per share, other cash flow during the year of £758,000 and a further increase in net borrowings of £154,000 (before currency translation differences).

At 31 December 1998 net borrowings of £3,201,000 (1997: £2,859,000), represented 23.0% of net assets (1997: 42.1%).

Despite this increase in borrowings the Group net interest charge fell from £301,000 in 1997 to £284,000 in 1998. This is due to a fall in net interest charges payable by the Company and its subsidiaries from £251,000 in 1997 to £138,000 in 1998, reflecting both the timing of the Group's investment in Meristem and the general fall in European interest rates; at 31 December 1998 approximately 88% of Group borrowings were denominated in European currencies other than sterling. The Group's share of interest payable by joint ventures and associates however increased from £50,000 in 1997 to £146,000 in 1998 largely due to the investment in The LD Group and its associated interest charges. Borrowings of joint ventures and associates are not included in Group borrowings of £3,201,000.

Other cash flow in the year of £758,000 (compared to profit after taxation of £1,110,000) was depressed by payment of £293,000 relating to the settlement of the warranty claim in respect of the sale of the Commercial Signs division in 1995. DMI also invested a further £455,000 in increasing its strategic stocks of components at key geographic locations in Europe and the Middle East to improve its flexibility in a difficult market environment. Other than this working capital remained largely unchanged during the year. Capital expenditure at £670,000 was 76% of depreciation charge and, despite the recession in its key markets, the Group continues to invest where attractive returns can be foreseen.

A final dividend of 0.5p per share has been proposed, amounting to £172,000, which will be paid on 26 May 1999 to all shareholders on the share register at 23 April 1999. This is covered 6.5 times by profit after taxation and represents the first dividend to be paid since 1992.

Operating and Finance Review

Finance (continued)

Net assets –

The £5,980,000 raised through the placing and open offer, together with retained profits of £938,000 and a currency gain of £221,000 from retranslating the Group's overseas net assets, resulted in an increase in net assets from £6,786,000 (40.4p per share) to £13,925,000 (40.4p per share).

At 31 December 1998 net assets comprised:

	£000s	Pence per share
DMI businesses	8,066	23.4
Meristem	5,470	15.9
Other assets	389	1.1
Total	13,925	40.4

Although the market value of the investment in Meristem at 31 December 1998 was £3,914,000, we believe its fair value is at least equal to the cost and no write down has been made.

Taxation –

The tax charge during the year was 17.1% (1997: 24.0%). In the year the Group benefited by £224,000 from the utilisation of losses and other tax assets which were not recognised on the Group's balance sheet. Without these benefits the Group tax charge would have been 33.8%. At 31 December 1998 the Group has an estimated further £1,229,000 potentially available for relief against the United Kingdom trading tax charges and £450,000 against United Kingdom capital gains tax charges arising in future periods which have not been recognised in the accounts.

Year 2000 –

We are executing a carefully planned global programme for the Year 2000 of our business critical systems. The Year 2000 programme involves the modification and testing of our systems to ensure that they will function properly in 2000. The programme began in early 1998 and is expected to be completed well in advance of the millennium. All our systems have been assessed and plans have been designed to address compliance.

The nature of the Group's businesses means that there are few mission critical customers or suppliers, and so the policy adopted across the Group has focussed upon communicating with each major customer and supplier with a view to securing assurance that group wide operations will not be obstructed by deficiencies in our customer and supplier systems.

Costs of achieving compliance are considered unlikely to be significant.

Euro –

The Group's objective is for all relevant subsidiaries, joint ventures and associated undertakings to be able to handle business in Euros when required.

Eric Brightmore
Chief Executive

Stephen Scott
Finance Director

27 April 1999

DMI Businesses

A unique international service organisation providing a wide range of spare parts and reconditioning services to diesel engine users world wide.

Marine

DMI's core business relates to the provision of new and service exchange components for large 2-stroke engines and the provision of a truly international service.

The company has established stocks of components at strategic locations throughout the world including the UK, Rotterdam, Canada West Coast, US East Coast, Dubai and China. DMI sales offices operate in Oslo, London, Hamburg, Rotterdam, Paris, Piraeus, Hong Kong, Cyprus, Istanbul and many other locations. DMI recently announced that they have been appointed as authorised reconditioners for Mitsubishi Heavy Industries to support their engines in Europe.

DMI's traditional range of products includes pistons, valve spindles and seats, cylinder covers, fuel injection equipment and piston rings. More recently the DMI business has expanded to include AMI Exchangers, who supply new and reconditioned heat exchangers, with the emphasis on charge air coolers for diesel engines.

DMI Drechsler based in the Port of Hamburg provides a wide range of on-board and workshop repair services and specialises in the reconditioning of 2-stroke piston rods using a unique metal spray process which enables piston rods to be brought back to size with increased surface hardness and a specially designed lubricity to provide long life and minimal lube oil consumption.

The DMI business now incorporates Lincoln Diesel PLC, who were established in 1969 and have steadily developed an international reputation as a leader in the supply of 4-stroke diesel engine spare parts and service. Lincoln Diesel now operates a network of over 40 specialist engineers. These engineers are highly qualified and experienced in on-site servicing, repair and maintenance for any type of diesel engine. They are constantly mobile, and will respond to any diesel service call anywhere in the world.

International quality standards (BS EN ISO9002:1994) are applied throughout every area of operation.

Lincoln Diesel's central warehouses in Lincoln house over £1m worth of spares stock, ready for same-day despatch. Main stocking lines include: WH Allen, Mirrlees Blackstone, Dorman, Perkins, Ruston, Lister, Petter, Napier Turbochargers, ABC, Rolls Royce.

The LD Group's subsidiary Kelvin Diesels (est. 1908) designs and manufactures a range of marine propulsion engines for fishing vessels, ferries and work boats. Complete propulsion packages are supplied, comprising engine, gearbox, sterngear and controls.

The most significant recent landmark has been the launch of the new 800 bhp KEL-170 engine, putting Kelvin Diesels in a highly competitive and enviable position within the marine propulsion industry. Auxiliary generating sets are also supplied.

Marine *(continued)*

A new standard of inlet and exhaust valve manufacture has been set by another of DMI's subsidiaries, Valve Technics. All raw materials bear certificates of conformity, and are batch-tested to ensure correct and consistent metallurgy. The company boasts a highly versatile forging/production facility and is certified to BS EN ISO9002:1994. Many clients appreciate the flexible and responsive approach of the research and development team. The customer base includes many OEMs as well as outlets to various after markets.

The LD Group's wide range of 4-stroke, medium speed services is a perfect complement to DMI's international market and service organisation in providing comprehensive services in all aspects of the marine market.

Other Industrial products

At Zwolle, in the Netherlands, we have for many years been involved with the chrome plating and machining of large industrial components mainly for the oil, hydraulic and capital goods industries.

In the UK we have always had an industrial chrome plating service business catering for a few large customers in the textile machinery and automotive industries. During 1998, we have commissioned a new plant to chrome plate automotive valves. This investment has greatly increased our industrial plating activity with emphasis on the automotive sector. Welcome developments of this type reduce our dependence on the marine sector.

Car Dies

Since the late 1980's the Group has progressively developed the chrome plating of car dies as a licensee of Koka Chrome of Japan, first in the UK, then in Holland and more recently in the USA by means of our joint venture with Koka Chrome. We also have a licensee operation in Spain.

This process has been increasingly accepted by the automotive industry because of the significant operating and cost advantages it provides to them, especially on double-sided zinc coated sheet.

James Leek (54) *

Executive Chairman

Appointed April 1998. Chartered Accountant, currently Non-Executive Chairman of McLeod Russel Holdings PLC, and Non-Executive Director of Exeter Preferred Capital Investment Trust PLC and the Pennine AIM VCTs. Formerly Chief Executive of Caparo Group Limited (1975-1994) and Non-Executive Chairman of Amberley Group PLC (1993-1997). Mr Leek was also appointed to the Board of Meristem PLC in November 1998 as Chief Executive.

Eric Brightmore (57)

Chief Executive

Appointed March 1994. Chartered Engineer, formerly with Aurora PLC (1977-1994), ending as Chief Executive, and prior to that with Sulzer and British Steel.

Stephen Scott ACA (38)

Finance Director and Company Secretary

Joined the Company in June 1989 and appointed to the Board in December 1993. Formerly employed by Arthur Andersen.

Jack Farley (63) *

Non-Executive Director

Appointed April 1997. Consultant with Wacks Caller, solicitors. Represents the interests of Cogshall Partnership, who hold 21.0% of the shares of the Company.

* Members of the Remuneration Committee and Audit committee

Registered Office

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The Company is registered in England,
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Brokers

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The Company's shares are traded on the Official List of the
London Stock Exchange.

Directors' Report

Group activities

Torday & Carlisle PLC is a company which make strategic investments in under-valued industrial businesses as a means of actively developing and enhancing shareholder value.

At 31 December 1998 the Company had the following significant investments:

- A 100% holding in DMI, a private group of companies involved in the treatment, reconditioning, exchange and supply of diesel engine, marine and industrial components from a network of factories, joint ventures, licencees and sales offices in Europe, the Far East, and North America;
- A 28.9% holding in Meristem, a company quoted on the London Stock Exchange, with subsidiaries involved in the manufacture and sale of formulated chemicals and mineral products.

A list of the Company's interests in subsidiary, joint venture and associated undertakings is shown on page 44.

Business review

The review of the business for the year is contained in the Chairman's Statement and the Operating and Finance Review.

Results and dividends

The consolidated profit and loss account is set out on page 18. Further analysis of the turnover and results of the Group are given in note 2 on pages 24 to 26.

The Directors recommend a full year dividend of 0.5p per share (1997: Nil). The profit retained for the financial year was £938,000 (1997: £1,037,000).

Donations

During the year the Group made charitable donations amounting to £1,010.

Employees and employment involvement

The average number of persons employed directly by group companies during 1998 was 367 compared with 343 in 1997.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event that an employee became disabled during employment every effort would be made, including appropriate training, to ensure that employment with the Group could continue.

The Directors attach the greatest importance to the development of employee involvement and financial and commercial information is made available to all groups of employees. The decentralised nature of the Group necessitates that the detailed application of this policy is the responsibility of local management in compliance with practices in the country of operation or relevant industry sector.

Supplier payment policy

The Group does not operate a defined code of practice regarding payment of suppliers. The Company's subsidiaries are based in a number of geographical locations which necessitates that the terms and conditions of payments to suppliers are determined and communicated in accordance with local customs and practices. It is the Group's policy that transactions are then settled in compliance with these legal or other contractual obligations having regard to good commercial practice. Average creditor days at 31 December 1998 for the Group was 83. It is not meaningful to disclose a similar statistic for the Company since it does not trade in its own right.

Directors

The names of the present directors are set out on page 11. Details of directors' emoluments in 1998 are given in note 4 on pages 27 and 28.

Mr James Leek was appointed to the Board on 17 April 1998. Mr David Batie, Mr Michael Hennon and Mr Menno van der Hulst resigned on 17 April 1998. Mr Peter Ryan did not offer himself for re-election at the Annual General Meeting on 23 May 1998 and Mr James Leek was appointed executive chairman. It is unfortunate that we record the death in June 1998 of Mr Jim McColgan, who has been a non-executive director since April 1994.

Directors and officers' liability insurance

The Company has secured insurance on behalf of the Directors and certain officers of the Group, which indemnifies them from certain liabilities in relation to the Group, in accordance with Section 310(3) of the Companies Act 1985.

Statement of Directors' responsibilities for the accounts

The Directors are required by the Companies Act 1985 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 as at the end of the financial year and of the profit and loss and cash flows of the Group for that period. It is also the Directors' responsibility to maintain adequate accounting records for safeguarding the assets of the Company and Group and for preventing and detecting fraud and other irregularities.

The Directors confirm that the financial statements have been prepared on the going concern basis and that suitable accounting policies consistently applied and supported by reasonable and prudent judgements have been used in the preparation of the financial statements and that applicable accounting standards have been followed.

Directors' interests

The register kept by the Company for the purposes of Section 324 of the Companies Act 1985 shows that the Directors of the Company had the following interests in the ordinary shares of the Company at 31 December 1998.

	Nature of Interest	1 January 1998	31 December 1998
James Leek	Beneficial	—	833,333
Eric Brightmore	Beneficial	30,000	45,000
	Non Beneficial	15,167	12,583
Stephen Scott	Beneficial	40,000	60,000
	Non Beneficial	—	15,000

Up to 20 April 1999, there have been no changes in directors' interests since 31 December 1998.

James Leek held a beneficial holding of 833,333 shares on the date of his appointment to the Torday & Carlisle PLC Board.

Details of directors' share options are shown on page 27.

Significant shareholdings

At 20 April 1999, the Company had been notified of the interests in 3% or more of the issued share capital of the Company as shown below.

	No. of ordinary shares held	% of ordinary shares held
Cogshall Partnership	7,230,250	21.0
Undervalued Assets Trust PLC	4,054,738	11.8
Edinburgh Small Companies Trust plc	3,240,032	9.4
Schroder UK Smaller Companies Fund	2,378,581	6.9
EAP Securities Limited	1,305,000	3.8
Rysaffe Trustee Company (CI) Limited	1,300,000	3.8

The Directors consider that the Company is not a close company as defined in the Income and Corporation Taxes Act 1988.

Directors' Report

Annual General Meeting

Under Section 89 of the Companies Act 1985, if the Directors wish to allot any un-issued ordinary shares for cash (other than pursuant to an employee share scheme) they must in the first instance offer them to existing ordinary shareholders in proportion to their ordinary shareholding. There may be occasions, however, when the Directors will need the flexibility to finance business opportunities by the issue of ordinary shares without a pre-emption offer for existing ordinary shareholders. Shareholders granted that authority to the Directors at the Extraordinary General meeting held on 17 April 1998. The authority will expire at the end of the Annual General Meeting on 24 May 1999 and Resolution 6 seeks to renew it.

Resolution 6 is similar to the resolution passed by shareholders at the 1998 Extraordinary General Meeting with a limit of 5% of issued ordinary share capital being imposed on the issue of new shares without first offering them to existing ordinary shareholders. It also seeks a disapplication of the pre-emption rights on a rights issue or open offer so as to allow the Directors to make exclusions or such other arrangements as may be appropriate to resolve legal or practical problems which, for example, might arise with ordinary shareholders. The authority will expire no later than fifteen months after the passing of this Resolution.

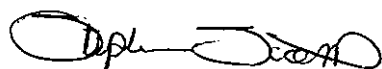
In certain circumstances it may be advantageous for the Company to purchase its own shares. Resolution 7 seeks authority from shareholders to do so, such authority to expire at the next Annual General Meeting or on 24 August 2000, whichever is the earlier. The Directors have no current intention of buying back any of the Company's shares, but it is one of the options they wish to keep under review. They intend to exercise this power only if and when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase the earnings per share and is in the best interests of shareholders generally. Any shares purchased in this way will be cancelled and the number of shares in issue will be accordingly reduced. This Resolution specifies the maximum number of shares which may be acquired (10% of the Company's issued share capital) and the maximum and minimum prices at which they may be bought.

Auditors

A resolution to re-appoint PricewaterhouseCoopers (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of Price Waterhouse) will be put to members at the Annual General Meeting.

By order of the Board

Stephen Scott
Secretary



27 April 1999

The Board of Torday & Carlisle is responsible to the shareholders for control of the Group and therefore supports the Principles of Corporate Governance set out in the Combined Code derived by the Committee on Corporate Governance from the Committee's Final Report and from the Cadbury and Greenbury Reports. The Board has given full consideration to the Principles of Good Governance set out in the Combined Code.

With the exception of those sections which require or depend upon the existence of three independent non-executive directors, as discussed below, the Company has complied throughout the accounting period under review with Section 1 of The Combined Code.

The Board

The Board comprises an Executive Chairman, Chief Executive, Finance Director (who acts as the Company Secretary) and one Non-Executive Director. The Board meets ten times a year to discuss a specific schedule of matters, principally investment, divestment and performance. Information of an appropriate quality is supplied in a timely manner to assist the Directors to perform their duties in an adequate manner.

All directors have access to the advice and services of the Company Secretary who administers the Board and Board Committee meetings and ensures that relevant procedures and regulations are followed. The Board has also agreed that any of its directors may obtain independent professional advice, at the Company's expense, in furtherance of their duties. Where it is considered appropriate, training is made available to the directors.

The Board believes that the division of roles between the Executive Chairman and the Chief Executive ensures an adequate balance of power and authority exists. The Non-Executive Director, though not independent, as he represents the interests of Cogshall Partnership, ensures no individual can dominate the decision making process. Owing to the small size of the Company, the Board do not currently consider it appropriate to appoint further non-executive directors, although the matter will be kept under review.

As a consequence of the above, the requirement for the Remuneration Committee and the Audit Committee to consist exclusively of non-executive directors has not been met.

The Audit Committee meets twice a year and membership comprises the Executive Chairman and the Non- Executive Director. The Committee reviews reports from the external auditors PricewaterhouseCoopers as well as the cost effectiveness, independence and objectivity of the auditors.

Directors' remuneration

The Company's Executive Remuneration policy is described in the Report of the Remuneration Committee on page 16.

Relations with shareholders

The Board considers the continuation of dialogue with shareholders to be a very important activity in the Company's development.

The Chairman of the Remuneration and Audit Committee will be available to answer questions at the Annual General Meeting. The level of proxy votes lodged on each resolution at the Annual General Meeting and the balance for and against the resolution will be indicated at the meeting after the resolution has been dealt with on a show of hands.

Accountability and audit

The Board of Directors is responsible for ensuring that an adequate system of internal financial control is operated within the Group.

No system of internal financial control can provide absolute assurance against material misstatement or loss, but any system of controls implemented by the Board should be appropriate to the business, in order to provide reasonable assurance that assets are safeguarded, transactions are authorised and recorded properly and that material errors or irregularities would be either prevented or detected within a timely period.

The key elements of the internal financial control system put in place by the Directors are:

- the publication and communication of the Group's operational "Established Procedures" which set out appropriate levels of authorisation which must be adhered to as the Group conducts its business;

Corporate Governance

Accountability and audit *(continued)*

- the definition of a recognised organisational and management structure within which individual executive directors have responsibility for the day-to-day running of the business;
- established and detailed procedures for the setting of annual budgets and monthly forecasts and the on-going monitoring of actual financial performance against these targets, on a monthly basis, both at operational and Board level; and
- a clearly defined and well-established set of accounting policies which ensures that financial performance is recorded on a consistent and appropriate basis throughout the Group's reporting entities.

The Directors have duly undertaken a review of the effectiveness of the key internal financial controls which have been in place at the principal operating sites within the Group during the year ended 31 December 1998.

On 10 December 1998 The Stock Exchange advised all UK listed companies that the Institute of Chartered Accountants in England and Wales had agreed to convene a working party to produce guidance for directors on the scope, extent, nature and review of internal controls embodied in Principle D2 and provision D2.1 of The Combined Code. Until such guidance is published your Board considers that in confirming compliance with the recommendations issued by the Rutteman Working Group in December 1994, compliance with Provision D2.1 of The Combined Code regarding the effectiveness of internal controls is satisfied.

Going concern

After making appropriate enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Report of the Remuneration Committee

The Company has a Remuneration Committee comprising the Executive Chairman and the Non-Executive Director which sets the remuneration levels and conditions of the other Executive Directors.

Remuneration policy is set to attract, retain and motivate senior personnel and fairly reward them for their individual contribution to the success of the Group. The main components of executive directors' remuneration are as follows:

1. **Basic salary and benefits**
Executive Directors receive basic salary and benefit packages having regard to local custom in the country of employment. These are reviewed annually with reference to comparable levels within the industry, rates for similar positions and the responsibility of individual directors.
2. **Performance related bonus**
Executive Directors receive an annual incentive bonus linked to the achievement of financial performance targets within the business defined by the remuneration committee. These bonuses are not pensionable.
3. **Share options**
Share options are granted to Executive Directors so as to align their long term interests with those of the shareholders and to ensure that long term growth is not sacrificed to short term gain.

No Executive Director has a service agreement requiring more than 12 months notice. None of the Executive Directors have service agreements which include any requirement for compensation to be paid by the Group upon termination of employment other than in respect of the appropriate period of notice.

The remuneration of the Executive Chairman and the Non-Executive Director is set by the Board. The Non-Executive Director does not receive share options and does not have a service contract with the Company.

During the financial year 31 December 1998 no director had any material interest in any contract with the Company or any of its subsidiaries, joint ventures or associated undertakings.

Eric Brightmore and Stephen Scott offer themselves for re-election at the Annual General Meeting on the 24 May 1999.

Both directors have an un-expired term of twelve months remaining on their contracts.

Details of directors' emoluments and share options are shown in note 4 to the accounts.

By order of the Board

Jack Farley

Non-executive director

27 April 1999

Auditors' Report to the shareholders of Torday & Carlisle PLC

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We have audited the financial statements on pages 18 to 44.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described on page 13 of 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 director's 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 15 and 16 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 Group's corporate governance procedures or its internal controls.

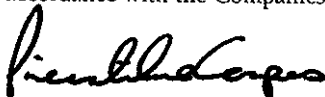
Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as 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

27 April 1999

Consolidated Profit and Loss Account

For the year ended 31 December 1998

		1998		1997
		Continuing operations		(As restated)
	Notes	£000s	Acquisition £000s	Total £000s
				Note 1(b) £000s
Turnover				
Group turnover including share of joint ventures' and associates' turnover	2	23,655	580	24,235
Less: Share of joint ventures' and associates' turnover		(4,473)	—	(4,473)
Group turnover	2	19,182	580	19,762
Cost of sales		(13,516)	(312)	(13,828)
Gross profit		5,666	268	5,934
Distribution costs		(2,437)	(137)	(2,574)
Administration costs		(2,027)	(104)	(2,131)
Group operating profit		1,202	27	1,229
Share of operating profit/(loss) in:				
Joint ventures				26
Associates				135
Total operating profit				1,390
Profit on sale of fixed asset investments	3			251
Loss on sale of operation	5			(143)
Profit on ordinary activities before interest and taxation				1,498
Interest payable and similar charges (net)	6			(284)
Investment income	7			125
Profit on ordinary activities before taxation	2&3			1,339
Taxation	8			(229)
Profit on ordinary activities after taxation				1,110
Dividends	10			(172)
Retained profit for the financial year	21			938
Earnings per share	11			3.8p
Diluted earnings per share	11			3.7p

Consolidated Balance Sheet

As at 31 December 1998

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	Notes	1998 £000s	1997 (As restated) Note 1(b) £000s
Fixed assets			
Goodwill	12	92	–
Tangible assets	13	7,385	6,620
Investments in joint ventures:			
Share of gross assets		1,099	1,097
Share of gross liabilities		(642)	(687)
	14	457	410
Investments in associates	14	6,252	478
		<u>14,186</u>	<u>7,508</u>
Current assets			
Stocks	15	4,247	3,238
Debtors	16	4,646	4,391
Cash at bank and in hand		198	241
		<u>9,091</u>	<u>7,870</u>
Creditors: Amounts falling due within one year	17	(7,147)	(6,169)
Net current assets		<u>1,944</u>	<u>1,701</u>
Total assets less current liabilities		<u>16,130</u>	<u>9,209</u>
Creditors: Amounts falling due after more than one year	18	(1,348)	(1,529)
Provisions for liabilities and charges	19	(857)	(894)
Net assets	2	<u>13,925</u>	<u>6,786</u>
<i>Represented by:</i>			
Capital and reserves			
Called up equity share capital	20	1,722	840
Share premium account	21	5,680	7,161
Revaluation reserve	21	310	313
Profit and loss account	21	6,213	(1,528)
Equity shareholders' funds		<u>13,925</u>	<u>6,786</u>

Group Statement of Total Recognised Gains and Losses

For the year ended 31 December 1998

	1998	1997 (As restated) Note 1(b)
	£000s	£000s
Retained profit for the financial year	938	1,037
Currency translation differences:		
Subsidiaries	208	(519)
Joint ventures	19	(4)
Associates	(6)	18
Total recognised gains for the financial year	1,159	532

There is no material difference between the reported results and those on a historical cost basis.

Reconciliation of Movements in Group Shareholders' Funds

For the year ended 31 December 1998

	1998 £000s	1997 £000s
Profit on ordinary activities after taxation	1,110	1,037
Dividends	(172)	—
Retained profit for the financial year	938	1,037
Goodwill written off on acquisition of subsidiary undertaking	—	(200)
Currency translation differences	221	(505)
New share capital subscribed (net of issue costs)	5,980	300
Net increase in shareholders' funds	7,139	632
Opening shareholders' funds	6,786	6,154
Closing shareholders' funds	13,925	6,786

Consolidated Cash Flow Statement

Year ended 31 December 1998

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	1998	1997
	(£000s)	(As restated) Note 1(b) (£000s)
Net cash inflow from operating activities (Note 22)	1,728	1,937
Dividends received from joint ventures and associates	54	78
Returns on investments and servicing of finance		
Interest received	104	38
Interest paid	(223)	(284)
Interest element of finance lease rental payments	(18)	(9)
Dividends received	100	-
Net cash outflow from returns on investments and servicing of finance	(37)	(255)
Taxation	(76)	(414)
Capital expenditure		
Purchase of tangible fixed assets	(712)	(738)
Sale of tangible fixed assets	42	5
Capital expenditure	(670)	(733)
Acquisitions and disposals		
Purchase of subsidiary undertaking (Note 22)	(256)	(570)
Cash balances of business acquired	(729)	-
Investments in associated undertakings	(5,847)	(178)
Purchase of other fixed asset investments	(569)	-
Sale of other fixed asset investments	820	-
Further payments associated with disposal of operation (Note 5)	(293)	-
Acquisitions and disposals	(6,874)	(748)
Financing		
Issue of ordinary share capital	6,351	-
Payments of expenses on issue of equity shares	(371)	-
New bank loans taken out	-	130
Bank loan repayments	(406)	(461)
Capital element of finance lease rental payments	(94)	(28)
Financing	5,480	(359)
Decrease in cash	(395)	(494)
Reconciliation of net debt		
	1998	1997
	(£000s)	(£000s)
Net debt at 1 January 1998	(2,859)	(3,057)
Decrease in cash in the period	(395)	(494)
Net decrease in debt and lease financing	500	359
Decrease/(increase) in net debt from cash flows	105	(135)
Finance leases acquired on purchase of subsidiary undertaking	(106)	-
New finance leases taken out	(153)	(42)
Currency translation differences	(188)	375
Movement in net debt in the period	(342)	198
Net debt at 31 December 1998	(3,201)	(2,859)

Notes supporting the cash flow statement can be found at Note 22 on pages 39 and 40.

Company Balance Sheet

As at 31 December 1998

	Notes	1998 £000s	1997 £000s
Fixed assets			
Investments	14	<u>7,295</u>	<u>1,795</u>
		<u>7,295</u>	<u>1,795</u>
Current assets			
Debtors	16	635	280
Cash at bank and in hand		<u>1,525</u>	<u>934</u>
		2,160	1,214
Creditors: Amounts falling due within one year	17	<u>(713)</u>	<u>(711)</u>
Net current assets		<u>1,447</u>	<u>503</u>
Total assets less current liabilities		<u>8,742</u>	<u>2,298</u>
Provisions for liabilities and charges	19	<u>(491)</u>	<u>(534)</u>
Net assets		<u>8,251</u>	<u>1,764</u>
<i>Represented by:</i>			
Capital and reserves			
Called up equity share capital	20	1,722	840
Share premium account	21	5,680	7,161
Other reserve	21	342	342
Profit and loss account	21	<u>507</u>	<u>(6,579)</u>
Equity shareholders' funds		<u>8,251</u>	<u>1,764</u>

The financial statements on pages 18 to 44 were approved by the Board of Directors on 27 April 1999 and are signed on its behalf by:



Eric Brightmore
Director

Notes on Financial Statements

For the year ended 31 December 1998

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I. ACCOUNTING POLICIES

(a) Accounting standards

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and are prepared under the historical cost convention as modified by the revaluation of certain tangible fixed assets.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Company, its subsidiary undertakings and the Group's share of the post-acquisition results of joint ventures and associated undertakings. Figures for the year ended 31 December 1997 have been restated where necessary to reflect requirements of FRS 9 "Associates and joint ventures". The profit for either period has not been affected by these changes. Turnover and profits of subsidiary undertakings acquired or disposed of during the year are accounted for according to their effective dates of acquisition or disposal.

(c) Goodwill

Goodwill arising up to 31 December 1997 has been eliminated against reserves in accordance with SSAP 22 "Accounting for Goodwill". For the year ending 31 December 1998 and onwards, goodwill arising in the year will be capitalised and amortised in accordance with the provisions of FRS 10 "Goodwill and Intangible Assets", which has replaced the provisions of SSAP 22. The goodwill is amortised so as to write off the cost to the profit and loss account in equal annual instalments over a period of 20 years or less, as deemed appropriate by the directors in relation to each individual acquisition.

On the disposal of a business the related goodwill is written off to the profit and loss account as part of the profit or loss on disposal to the extent that it has not already been amortised through the profit and loss account. Provision is also made to write off goodwill to the profit and loss account where there has been a long term impairment in the value of the related investment.

(d) Tangible fixed assets

Depreciation is not provided on freehold land. Depreciation of tangible fixed assets other than freehold land is calculated so as to write off the cost or revaluation, in equal annual instalments over their estimated useful lives (in the case of leasehold land and buildings over the remaining period of the lease) and otherwise using the following rates:

Buildings	2-5%
Plant and machinery	5-25%

(e) Deferred taxation

No provision is made for tax deferred by timing differences unless there is reasonable probability that the tax deferred will become payable in the foreseeable future.

(f) Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost, in the case of work in progress and finished goods, includes an appropriate addition for labour and overheads.

(g) Foreign currency translation

The assets and liabilities of overseas subsidiary, joint venture and associated undertakings are expressed in sterling at the rates of exchange ruling at the balance sheet date. The results of the overseas subsidiary, joint venture and associated undertakings are expressed in sterling at the average rates of exchange applicable for the year.

The exchange differences arising from the re-translation of the opening net investment in overseas subsidiary, joint venture and associated undertakings and from applying the average rate compared with the closing rate to the profit and loss account are shown as a movement on revenue reserves.

Monetary assets and liabilities of the Group denominated in a foreign currency at the balance sheet date are translated at the year end rate and exchange differences are taken to the profit and loss account.

Notes on Financial Statements

For the year ended 31 December 1998

1. ACCOUNTING POLICIES (continued)

(h) Turnover

Turnover comprises the sales value of goods supplied and services provided to third parties exclusive of value added tax.

(i) Leased assets

Tangible fixed assets which are subject to finance lease arrangements are capitalised in the balance sheet and the related lease liability is included in creditors. Any such assets are depreciated over their estimated useful lives using depreciation rates similar to those used for other tangible fixed assets (see note 1(d) above). Operating lease rentals are charged to the profit and loss account as incurred.

(j) Pensions

The cost of pensions in respect of the Group's defined benefit pension schemes is charged to the profit and loss account so as to spread the cost over the service lives of employees in the schemes. Variations from the regular cost are spread over the average expected remaining service lives of current employees in the schemes.

(k) Government grants

Capital based grants are treated as deferred income which is credited to the profit and loss account by instalments over the expected useful economic life of the related asset on a basis consistent with the depreciation policy. Revenue based grants are credited to the profit and loss account in the same accounting period as the related expenditure.

2. SEGMENTAL AND GEOGRAPHICAL ANALYSIS

Analysis by class of business, as defined in the accompanying Chairman's statement, is as follows:

	Turnover (gross)		Profit before taxation		Net Assets	
	1998 £000s	1997 £000s	1998 £000s	1997 £000s	1998 £000s	1997 £000s
DMI businesses	23,124	20,995	1,368	1,808	8,066	6,767
Meristem	1,111	—	77	—	5,470	—
Central	—	—	(106)	(443)	389	19
	<u>24,235</u>	<u>20,995</u>	<u>1,339</u>	<u>1,365</u>	<u>13,925</u>	<u>6,786</u>

Turnover by geographical location is as follows:

	Continuing operations £000s	Acquisition £000s	Joint ventures £000s	Associates £000s	1998 Total £000s
United Kingdom	6,289	580	499	3,134	10,502
Rest of Europe	12,893	—	—	—	12,893
Rest of the World	—	—	462	378	840
	<u>19,182</u>	<u>580</u>	<u>961</u>	<u>3,512</u>	<u>24,235</u>

	Continuing operations £000s	Joint ventures £000s	Associates £000s	1997 Total £000s
United Kingdom	6,577	484	—	7,061
Rest of Europe	13,242	—	—	13,242
Rest of the World	—	355	337	692
	<u>19,819</u>	<u>839</u>	<u>337</u>	<u>20,995</u>

Notes on Financial Statements

For the year ended 31 December 1998

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2. SEGMENTAL AND GEOGRAPHICAL ANALYSIS (continued)

Profit before tax by geographical location is as follows:

	Continuing operations £000s	Acquisition £000s	Joint ventures £000s	Associates £000s	1998 Total £000s
United Kingdom	1,307	(9)	2	(62)	1,238
Rest of Europe	29	—	—	—	29
Rest of the World	(3)	—	(19)	94	72
	<u>1,333</u>	<u>(9)</u>	<u>(17)</u>	<u>32</u>	<u>1,339</u>

	Continuing operations £000s	Joint ventures £000s	Associates £000s	1997 Total £000s
United Kingdom	902	(1)	—	901
Rest of Europe	508	—	—	508
Rest of the World	(7)	(118)	81	(44)
	<u>1,403</u>	<u>(119)</u>	<u>81</u>	<u>1,365</u>

Net assets by geographical location is as follows:

	Continuing operations £000s	Acquisition £000s	Joint ventures £000s	Associates £000s	1998 Total £000s
United Kingdom	2,547	213	152	5,754	8,666
Rest of Europe	4,369	—	—	—	4,369
Rest of the World	87	—	305	498	890
	<u>7,003</u>	<u>213</u>	<u>457</u>	<u>6,252</u>	<u>13,925</u>

	Continuing operations £000s	Joint ventures £000s	Associates £000s	1997 Total £000s
United Kingdom	1,876	149	—	2,025
Rest of Europe	3,932	—	—	3,932
Rest of the World	90	261	478	829
	<u>5,898</u>	<u>410</u>	<u>478</u>	<u>6,786</u>

Notes on Financial Statements

For the year ended 31 December 1998

2. SEGMENTAL AND GEOGRAPHICAL ANALYSIS (continued)

Turnover analysed by customer location is as follows:

	Continuing operations £000s	Acquisition £000s	Joint ventures £000s	Associates £000s	1998 Total £000s
United Kingdom	3,834	197	499	2,594	7,124
Rest of Europe – Benelux countries	3,481	16	–	5	3,502
Germany	3,010	–	–	15	3,025
Scandinavian countries	2,540	28	–	2	2,570
France	887	–	–	11	898
Others	3,099	13	–	107	3,219
Rest of World	2,331	326	462	778	3,897
	<u>19,182</u>	<u>580</u>	<u>961</u>	<u>3,512</u>	<u>24,235</u>

	Continuing operations £000s	Joint ventures £000s	Associates £000s	1997 Total £000s
United Kingdom	4,403	484	–	4,887
Rest of Europe – Benelux countries	3,277	–	–	3,277
Germany	3,256	–	–	3,256
Scandinavian countries	2,338	–	–	2,338
France	922	–	–	922
Others	3,586	–	–	3,586
Rest of World	2,037	355	337	2,729
	<u>19,819</u>	<u>839</u>	<u>337</u>	<u>20,995</u>

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is stated after charging/(crediting):

	1998 £000s	1997 £000s
Staff costs (see Note 4)	8,120	7,755
Depreciation (see Note 13)	876	814
Amortisation of goodwill:		
Subsidiaries	2	–
Associates	15	–
Loss on sale of tangible fixed assets	22	–
Profit on sale of investments	(251)	–
Operating lease rentals:		
Other operating leases	155	117
Auditors' remuneration:		
Audit	54	83
Non audit	35	33
Government grants received	(20)	–

The Auditors remuneration in respect of the Company amounted to £15,000 (1997: £19,000). In addition £27,000 was paid to the Auditors for professional services in connection with the acquisition of Valve Technics Limited and investment in The LD Group PLC and £41,000 in respect of stock exchange reporting.

Profit on sale of investments relates to the sale of the investments in Beales Hunter PLC and Fife Indmar PLC, which were purchased and sold in the year.

Notes on Financial Statements

For the year ended 31 December 1998

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4. DIRECTORS AND EMPLOYEES

(a) Employees

Staff costs and average number of employees have been as follows:

	Continuing operations	Acquisition	1998 Total	1997 Total
	£000s	£000s	£000s	£000s
Wages and salaries	6,413	180	6,593	6,225
Social security costs	1,219	32	1,251	1,192
Other pension costs	267	9	276	338
	<u>7,899</u>	<u>221</u>	<u>8,120</u>	<u>7,755</u>
Average number of employees	<u>342</u>	<u>25</u>	<u>367</u>	<u>343</u>

(b) Directors

Details of directors' share options are as follows:

	1998	1997	Exercise Price	Date from which exercisable	Expiry date
Eric Brightmore	78,000	—	42.5p	29 April 2001	26 April 2008
	50,000	50,000	48p	30 April 1999	27 April 2006
	50,000	50,000	32p	14 July 1998	11 July 2005
	200,000	200,000	33p	21 April 1999	21 April 2004
Stephen Scott	78,000	—	42.5p	29 April 2001	26 April 2008
	35,000	35,000	48p	30 April 1999	27 April 2006
	35,000	35,000	32p	14 July 1998	11 July 2005

Mr James Leek has no options from the Company but has an option over 882,353 shares of Cogshall Partnership, the Group's largest shareholder, at a price of 34p exercisable only in total in the period up to 30 April 2000.

No additional options were granted to the directors after the year end and none of the options have been exercised. During the year the Company's share price was between 50½p and 31½p and was 31½p at 31 December 1998.

Details of directors' emoluments were as follows:

	Salary	Fee	Benefits in kind	1998 Total	1997 Total
	£000s	£000s	£000s	£000s	£000s
James Leek (appointed 17 April 1998)	39	—	—	39	—
Eric Brightmore	105	—	9	114	119
Stephen Scott	60	—	8	68	70
Jack Farley	15	25	—	40	10
David Batie (resigned 17 April 1998)	15	—	2	17	57
Michael Hennon (resigned 17 April 1998)	12	—	2	14	45
Menno van der Hulst (resigned 17 April 1998)	25	—	2	27	94
Peter Ryan (resigned 17 April 1998)	11	—	—	11	28
Jim McColgan (deceased June 1998)	7	—	—	7	14
	<u>289</u>	<u>25</u>	<u>23</u>	<u>337</u>	<u>437</u>

In addition to the above £28,000 was paid to Mr Peter Ryan as compensation for loss of office.

Mr Jack Farley received a fee of £25,000 in relation to services provided in connection with the investment in Meristem PLC.

The emoluments of the highest paid director in the period, inclusive of pension contributions of £16,000 (1997: £15,000), were £130,000 (1997: £134,000).

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For the year ended 31 December 1998

4. DIRECTORS AND EMPLOYEES (continued)

(b) Directors (continued)

Two directors were members of the Torday & Carlisle PLC Pension and Life Assurance Scheme, which is a defined benefit scheme. The amounts of pension entitlements earned, and the accrued pension liabilities and changes therein are as follows:

	Total accrued pension as at 31 December 1997 £000s	Increase in accrued pension during 1998 £000s	Total accrued pension as at 31 December 1998 £000s	Transfer value of the increase in accrued pension during 1998 £000s
Stephen Scott	7	1	8	4
Michael Hennon (resigned 17 April 1998)	10	—	—	—

Mr Michael Hennon's increase in accrued pension during 1998 represents accrued pension up to 17 April 1998, the date at which he resigned from the Board.

In addition, the Group contributed the following amounts to money purchase schemes on behalf of other directors:

	£000s
Eric Brightmore	16
David Batie (resigned 17 April 1998)	5
Menno van der Hulst (resigned 17 April 1998)	3

5. LOSS ON SALE OF OPERATION

On the 14 May 1998 the Company announced that settlement had been reached in respect of the claim for alleged breach of warranty relating to the sale of the Commercial Signs division in 1995. As a result legal proceedings against the Company for £931,000, plus interest and costs, have been withdrawn.

The cost of settlement net of provisions in the accounts at 1 January 1998 of £150,000, was £143,000.

6. INTEREST PAYABLE AND SIMILAR CHARGES (NET)

	1998 £000s	1997 (As restated) Note 1(b) £000s
Interest payable on loans and borrowings wholly repayable within five years:		
Bank loans and overdrafts	110	141
Finance leases and hire purchase contracts	18	9
	<u>128</u>	<u>150</u>
On long term borrowings	114	139
Interest receivable and similar income	(104)	(38)
	<u>138</u>	<u>251</u>
Group share of interest in:		
Joint ventures	43	48
Associates	103	2
	<u>284</u>	<u>301</u>

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7. INVESTMENT INCOME

	1998 £000s	1997 £000s
Dividends received from UK quoted investments	125	—

8. TAXATION

The tax charge is made up as follows:

	1998 £000s	1997 £000s
United Kingdom taxation		
Corporation tax at 31%:		
Current year	157	134
Prior year	(5)	(48)
Tax on franked investment income	25	—
Deferred Tax	2	—
Advance corporation tax set-off	(5)	10
Group share of taxation attributable to:		
Joint ventures	(1)	1
Associates	(15)	—
	<u>158</u>	<u>97</u>
Overseas taxation		
Local taxation:		
Current year	86	299
Prior year	—	(3)
Deferred taxation	(31)	(78)
Group share of taxation attributable to:		
Joint ventures	2	1
Associates	14	12
	<u>71</u>	<u>231</u>
Group tax charge for the year	<u>229</u>	<u>328</u>

9. TORDAY & CARLISLE PLC PROFIT AND LOSS ACCOUNT

Torday & Carlisle PLC has not presented its own profit and loss account, as permitted by Section 230(1) of the Companies Act 1985. The amount of the consolidated profit after taxation for the financial year dealt with in the accounts of the holding Company is £679,000 (1997: £182,000).

10. DIVIDENDS

A final dividend of 0.5p per share has been proposed for 1998 (1997: Nil), amounting to £172,000 (1997: Nil).

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For the year ended 31 December 1998

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit on ordinary activities after taxation of £1,110,000 (1997: £1,037,000) and on 29,057,397 ordinary shares, being the weighted average number of ordinary shares in issue (1997: 16,746,857 ordinary shares).

The calculation of diluted earnings per share is based on the profit on ordinary activities after taxation of £1,110,000 (1997: £1,037,000) and on 29,723,175 ordinary shares, 29,057,397 being the weighted average number of ordinary shares plus 665,778 being the weighted average number of ordinary shares which would arise if all outstanding share options were exercised (1997: 17,161,523 ordinary shares, 16,746,857 being the weighted average number of ordinary shares plus 414,666 being the weighted average number of ordinary shares which would arise if all outstanding options were exercised).

12. GOODWILL

Movements during the year have been as follows:

	£000s
Cost	
At 1 January 1998	—
Additions	94
	<hr/>
At 31 December 1998	94
	<hr/>
Amortisation	
At 1 January 1998	—
Charge for the year	2
	<hr/>
At 31 December 1998	2
	<hr/>
Net book amount	
At 31 December 1998	92
	<hr/>
At 31 December 1997	—
	<hr/>

Goodwill arising in the year comprises £94,000 in respect of the acquisition of Valve Technics Limited (see Note 22).

Notes on Financial Statements

For the year ended 31 December 1998

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13. TANGIBLE FIXED ASSETS

Movements during the year have been as follows:

	Freehold land and buildings £000s	Short lease land and buildings £000s	Plant and machinery £000s	Group Total £000s
Cost or valuation				
At 1 January 1998	3,894	178	9,535	13,607
Additions at cost	5	1	859	865
Acquisition of subsidiary	—	—	851	851
Disposals	(18)	—	(65)	(83)
Currency translation adjustments	216	13	492	721
At 31 December 1998	4,097	192	11,672	15,961
Depreciation				
At 1 January 1998	712	47	6,228	6,987
Amount provided for the year	97	9	770	876
Acquisition of subsidiary	—	—	384	384
Disposals	—	—	(19)	(19)
Currency translation adjustments	56	4	288	348
At 31 December 1998	865	60	7,651	8,576
Net book amount				
At 31 December 1998	3,232	132	4,021	7,385
At 31 December 1997	3,182	131	3,307	6,620

All of the above leasehold land and buildings relate to short leaseholds as defined by the Companies Act 1985.

Land and buildings include freehold properties valued on an existing use basis in 1984 at £1,406,000 and freehold properties valued on an existing use basis in 1988 at £709,000.

Land and buildings would have been included on an historical cost basis at 31 December 1998 as follows:

	1998 £000s	1997 £000s
Cost	3,696	3,651
Aggregate depreciation	(865)	(776)
Net book amount	2,831	2,875

Included within cost of plant and machinery is £647,000 (1997: £248,000) held under finance leases and hire purchase contracts. The accumulated depreciation charge on these assets at 31 December 1998 was £161,000 (1997: £80,000).

Capital expenditure under contract of £36,000 (1997: £18,000) has not been provided for in the accounts.

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For the year ended 31 December 1998

14. INVESTMENTS

The Group

A list of the Group's interests in joint venture and associated undertakings is shown on page 44.

The movements during the year were as follows:

	Joint ventures £000s	Loan notes £000s	Associates £000s	Other investments £000s	1998 Total £000s
Cost					
At 1 January 1998					
Goodwill	-	-	-	-	-
Other	12	398	478	-	888
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	12	398	478	-	888
Share of profits/(losses) after tax	(18)	-	48	-	30
Dividends payable	-	-	(54)	-	(54)
Currency translation adjustments	22	(3)	(6)	-	13
Additions:					
Goodwill	-	-	1,693	-	1,693
Other	-	46	4,108	569	4,723
Disposals	-	-	-	(569)	(569)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1998	16	441	6,267	-	6,724
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Amounts written off					
At 1 January 1998					
Goodwill	-	-	-	-	-
Other	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	-	-	-
Amortisation of goodwill	-	-	15	-	15
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1998	-	-	15	-	15
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book amount					
At 31 December 1998					
Goodwill	-	-	1,678	-	1,678
Other	16	441	4,574	-	5,031
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	16	441	6,252	-	6,709
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1997					
Goodwill	-	-	-	-	-
Other	12	398	478	-	888
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	12	398	478	-	888
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

During the year the Group subscribed for a further £46,000 of loan notes in DMI Automotive Inc, a Company registered in Michigan, USA, which is a joint venture with Koka Chrome Industry Co. Limited for the chrome plating of car dies.

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14. INVESTMENTS (continued)

Meristem PLC

The Company purchased shares in Meristem PLC at various dates in the year and on the 5 November 1998 increased its holding to 10,284,564 shares, representing 27.71% of the ordinary share capital. From that date the directors have accounted for the investment in Meristem PLC as an associate in accordance with Financial Reporting Standard number 9. A further 440,000 shares were purchased on the 16 December 1998, increasing the Company's holding to 10,724,564 shares (28.90% of the ordinary share capital). Total cost of the investment was £5,502,000 (comprising an average of 51.3p per share).

The acquisition cost of the interest in Meristem PLC is made up of:

	£000s
Fair value of net assets acquired	3,880
Goodwill	1,622
Total cost	5,502

An amortisation charge of £13,000 for the two months ended 31 December 1998 has been deducted from the goodwill and has been written off to the profit and loss account in the year.

The investment in Meristem PLC represents an investment in UK quoted securities. The market value of these securities at 31 December 1998 was £3,914,000. However the directors of Torday & Carlisle PLC believe the fair value of the investment is at least equal to its cost.

The group's equity share of the results for the two months ended 31 December 1998 and net assets at 31 December 1998 for Meristem PLC is as follows:

	£000s	£000s
Turnover		1,111
Loss before tax		(35)
Tax credit		16
Loss after taxation		(19)
Share of assets		
Share of fixed assets	4,302	
Share of current assets	3,882	
		8,184
Share of liabilities		
Liabilities due within one year	(1,932)	
Liabilities due after more than one year	(2,391)	
		(4,323)
Share of net assets		3,861

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For the year ended 31 December 1998

14. INVESTMENTS (continued)

The LD Group PLC

On 1 July 1998, the Group acquired a 50% interest in The LD Group PLC. The consideration of £299,000 was paid in cash. The acquisition cost of the interest in The LD Group PLC is made up of:

	£000s
Fair value of net assets acquired	228
Goodwill	71
Total cost	<u>299</u>

An amortisation charge of £2,000 has been deducted from the goodwill and has been written off to the profit and loss account in the year.

The directors have accounted for the investment in The LD Group PLC as an associate in accordance with Financial Reporting Standard number 9. The LD Group PLC's accounting period end is the 31 July 1998, but for the purposes of Torday & Carlisle PLC's group consolidation, accounts have been drawn up to the 31 December 1998.

	£000s	£000s
Turnover		<u>2,401</u>
Share of assets		
Share of fixed assets	1,386	
Share of current assets	<u>2,169</u>	
		3,555
Share of liabilities		
Liabilities due within one year	(1,774)	
Liabilities due after more than one year	<u>(1,068)</u>	
		(2,842)
Share of net assets		<u>713</u>

The Company

Investments comprise the shares in subsidiaries, joint venture and associated undertakings shown on page 44.

	1998 £000s	1997 £000s
Cost less amounts written off at 1 January 1998	1,795	9,811
Investment in the year	5,550	494
Transfer of investment to subsidiary undertaking	<u>(50)</u>	<u>(8,510)</u>
Cost less amounts written off at 31 December 1998	<u>7,295</u>	<u>1,795</u>

The Group's equity share of the turnover and net assets of all its associate undertakings, excluding Meristem PLC, are as follows:

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For the year ended 31 December 1998

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15. STOCKS

	1998	1997
	£000s	£000s
Raw materials and consumables	976	803
Work in progress	902	602
Finished goods and goods for resale	2,369	1,833
	<u>4,247</u>	<u>3,238</u>

16. DEBTORS

	The Group		The Company	
	1998	1997	1998	1997
	£000s	£000s	£000s	£000s
Trade debtors	4,045	3,816	-	-
Amounts owed by group undertakings	-	-	567	-
Amounts owed by joint ventures	52	40	-	24
Amounts owed by associated undertakings	59	30	-	-
Other debtors	236	152	65	-
Prepayments and accrued income	254	353	3	12
Taxation recoverable	-	-	-	244
	<u>4,646</u>	<u>4,391</u>	<u>635</u>	<u>280</u>

17. CREDITORS: Amounts falling due within one year

	The Group		The Company	
	1998	1997	1998	1997
	£000s	£000s	£000s	£000s
Bank loans and overdrafts	2,001	1,559	-	-
Trade creditors	2,156	1,783	193	156
Amounts owed to group undertakings	-	-	11	238
Amounts owed to joint ventures	2	9	-	-
Amounts owed to associated undertakings	8	-	-	-
Other creditors	178	141	2	68
Other taxation and social security	245	517	7	9
Accruals and deferred income	1,742	1,783	272	240
Corporation tax	543	340	56	-
Obligations under finance lease and hire purchase contracts (see Note 18)	100	37	-	-
Proposed dividend	172	-	172	-
	<u>7,147</u>	<u>6,169</u>	<u>713</u>	<u>711</u>

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For the year ended 31 December 1998

18. CREDITORS: Amounts falling due after more than one year

	The Group		The Company	
	1998 £000s	1997 £000s	1998 £000s	1997 £000s
Bank loans	1,104	1,421	—	—
Obligations under finance lease and hire purchase contracts	194	83	—	—
Corporation tax	25	25	—	—
Other creditors	25	—	—	—
	<u>1,348</u>	<u>1,529</u>	<u>—</u>	<u>—</u>

The bank loans consist of seven foreign currency denominated loans held by subsidiary undertakings. The foreign currency denominated loans are repayable over periods of between 1 and 6 years and bear interest at rates of between 5.30% and 7.80% subject to periodic revision.

The bank borrowings and net obligations under finance lease and hire purchase contracts are repayable as follows:

The Group	Finance lease and hire purchase contracts		Bank loans and overdrafts	
	1998 £000s	1997 £000s	1998 £000s	1997 £000s
Within 2 years	190	73	2,413	1,949
Within 2-5 years	104	47	472	743
After 5 years	—	—	220	288
	<u>294</u>	<u>120</u>	<u>3,105</u>	<u>2,980</u>
Within 1 year	(100)	(37)	(2,001)	(1,559)
	<u>194</u>	<u>83</u>	<u>1,104</u>	<u>1,421</u>

Total borrowings not wholly repayable within five years amount to £621,000 (1997: £812,000).

The composition of the Group's gross bank borrowings is as follows:

	1998 £000s	1997 £000s
Sterling	340	62
Dutch Guilders	2,490	2,708
German Marks	275	210
	<u>3,105</u>	<u>2,980</u>

Dutch Guilders bank borrowings are secured by fixed and floating charges over the assets of DMI (Europe) BV and a cross guarantee from the Company. German Mark bank borrowings are secured by fixed and floating charges over the assets of DMI Wolfgang Drechsler GmbH. Sterling bank borrowings are secured by a fixed and floating charge over the assets of the Company and its United Kingdom based subsidiary undertakings.

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19. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:

	The Group		The Company	
	1998	1997	1998	1997
	£000s	£000s	£000s	£000s
Deferred taxation	219	210	—	—
Provision for environmental costs	147	150	—	—
Provision for property costs	491	534	491	534
	<u>857</u>	<u>894</u>	<u>491</u>	<u>534</u>

The movement during the year was as follows:

	The Group Deferred taxation £000s	The Group Environmental provision £000s	The Group & Company Property provision £000s
Balance at 1 January 1998	210	150	534
Transfer to profit and loss account	(29)	—	—
Cash paid	—	(13)	(43)
Currency adjustments	38	10	—
Balance at 31 December 1998	<u>219</u>	<u>147</u>	<u>491</u>

The deferred taxation provided in the accounts comprises:

	The Group		The Company	
	1998	1997	1998	1997
	£000s	£000s	£000s	£000s
Deferred taxation in overseas subsidiary undertakings	219	210	—	—

The potential liability in respect of the Group's share of retained overseas earnings if remitted as a dividend has also not been provided.

In addition to the above the following estimated amounts, calculated at current taxation rates, have not been recognised in the accounts but will be available for relief against United Kingdom taxation liabilities arising in future periods.

The deferred tax assets/(liabilities) are:

	The Group		The Company	
	1998	1997	1998	1997
	£000s	£000s	£000s	£000s
Accelerated capital allowances	(48)	(13)	2	3
Short term timing differences	157	308	155	220
Tax effects of trading losses	285	290	216	290
ACT recoverable	835	846	435	444

Capital losses available in the Group are estimated at (gross) £1,500,000 (1997: £1,770,000) and in the Company at £1,200,000 (1997: £1,500,000).

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20. CALLED UP EQUITY SHARE CAPITAL

	5p Ordinary shares	
	1998	1997
	£000s	£000s
Allotted	1,722	840
Authorised	2,250	1,350

On 17 April 1998 the Company issued 17,640,431 ordinary shares at 36p through a placing and open offer and subscription to raise £6.0 million, net of expenses. The objective for the fundraising was to fund the Group's future investment plans as set out in the circular to shareholders dated 20 March 1998.

Of the un-issued shares, 1,722,000 are reserved for the share option schemes approved by the shareholders on 31 May 1984, 23 May 1996 and 23 May 1998. At 31 December 1998 options under the schemes were outstanding in respect of 749,000 ordinary shares and are first exercisable at dates between April 1997 and April 2008 at amounts varying between 32p and 74p per share.

21. RESERVES

	Share premium account £000s	Revaluation reserve £000s	Other reserve £000s	Profit & loss account £000s
The Group				
At 1 January 1998	7,161	313	—	(1,528)
Capital reduction	(6,579)	—	—	6,579
Retained profit for the financial year	—	—	—	938
Issue of shares (net of expenses)	5,098	—	—	—
Revaluation reserve transfer	—	(5)	—	5
Currency translation adjustments	—	2	—	219
At 31 December 1998	5,680	310	—	6,213
The Company				
At 1 January 1998	7,161	—	342	(6,579)
Capital reduction	(6,579)	—	—	6,579
Retained profit for the financial year	—	—	—	507
Issue of shares (net of expenses)	5,098	—	—	—
At 31 December 1998	5,680	—	342	507

In July 1998 Court approval was granted to eliminate the Company's deficit on distributable reserves by reduction of the share premium account.

The total goodwill eliminated against consolidated reserves at 31 December 1998 is as follows:

	1998	1997
	£000s	£000s
Amounts written off directly to reserves	1,358	1,358
Amortised through the profit and loss account	17	—
	1,375	1,358

The amount written off directly to reserves was done so as a matter of accounting policy prior to 31 December 1997 and would be charged through the profit and loss account, should the related businesses be sold.

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22. CASH FLOW STATEMENT

Reconciliation of Group operating profit to net cash inflow from operating activities:

	1998	1997 (As restated) Note 1(b)
	£000s	£000s
Group operating profit	1,229	1,654
Depreciation charges	876	814
Loss on sale of tangible fixed assets	22	-
Increase in stocks	(455)	(235)
Decrease in debtors	326	334
Decrease in creditors	(214)	(265)
	1,784	2,302
Net cash outflow in respect of restructuring and reorganisation costs (provided in prior years)	(56)	(365)
Net cash inflow from operating activities	1,728	1,937

The cash outflow in respect of restructuring and reorganisation relates to costs for which provision had already been made in prior years.

Analysis of movement in net debt:

	At 1 January 1998 £000s	Cash flow £000s	Acquisition excluding cash and overdrafts £000s	New finance leases £000s	Exchange movements £000s	At 31 December 1998 £000s
Cash at bank and in hand	241	(43)	-	-	-	198
Overdrafts	(1,158)	(352)	-	-	(76)	(1,586)
Total cash	(917)	(395)	-	-	(76)	(1,388)
Debt due < 1 year	(401)	-	-	-	(14)	(415)
Debt due > 1 year	(1,421)	406	-	-	(89)	(1,104)
Finance leases	(120)	94	(106)	(153)	(9)	(294)
	(1,942)	500	(106)	(153)	(112)	(1,813)
Total	(2,859)	105	(106)	(153)	(188)	(3,201)

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22. CASH FLOW STATEMENT (continued)

Acquisition of subsidiary undertaking:

On 1 July 1998, the Group acquired the entire share capital of Valve Technics Limited in the UK for a total cost of £256,000. Details of the cash flows arising and net assets acquired are set out below:

	Balance sheet at acquisition £000s	Fair value adjustments £000s	Fair value to Group £000s
Fixed assets	551	(84)	467
Stocks	403	(16)	387
Debtors	407	–	407
Creditors	(360)	(10)	(370)
Bank overdrafts	(729)	–	(729)
Net assets acquired	272	(110)	162
Goodwill arising on acquisition	(16)	110	94
Total cost of acquisition including acquisition expenses	256	–	256
Satisfied by:			
Cash			256

The fair value adjustments relate to the write down of fixed assets and adjustments to working capital to properly reflect their fair value at 1 July 1998.

Total bank borrowings arising out of the acquisition amounted to £985,000 (comprising overdraft of £729,000 and acquisition costs of £256,000).

The losses after taxation of Valve Technics Limited prior to acquisition were as follows:

	£000s
1 August 1997 to 1 July 1998	239
Year ended 31 July 1997	87

The subsidiary undertaking acquired during the year had the following effect on the Group's cash flows:

	Continuing businesses £000s	Acquired business £000s	Total £000s
Cash inflow from operating activities	1,683	45	1,728
Dividends received from joint ventures and associates	54	–	54
Returns on investments and servicing of finance	15	(52)	(37)
Taxation	(76)	–	(76)
Capital expenditure	(647)	(23)	(670)
Acquisitions and disposals	(6,874)	–	(6,874)
Financing	5,523	(43)	5,480
Net cash outflow	(322)	(73)	(395)

23. CONTINGENT LIABILITIES

The contingent liabilities of the Company not provided in the accounts at 31 December 1998 include guarantees of bank borrowings in respect of subsidiary undertakings amounting to £3,316,000 (1997: £3,704,000). In addition the Group has given a guarantee to secure bank borrowings of £946,000 (1997: £951,000) in its joint venture DMI Automotive Inc and £250,000 in respect of its associate, The LD Group PLC. There are contingent liabilities in respect of claims arising in the normal course of business of the Company and its subsidiary undertakings. The directors do not consider that any substantial liability will arise from such claims.

During 1994, surveys were undertaken at DMI (Europe)'s two sites at Zwolle and agreement reached with the authorities on treating polluted soil and groundwater for which provision has been made in the accounts (see Note 19). This treatment plan also includes the disposal of an amount of polluted soil. Whilst the cost of this is not expected to exceed £400,000 and any cost is unlikely to be incurred prior to 2002, no provision has been made in the accounts for this owing to uncertainty over the eventual size and timing of the expenditure.

Meristem PLC, an associated undertaking, has disclosed the following contingent liability in its financial statements for the year ended 31 December 1998:

'Meristem have been advised by Ethyl Corporation (Ethyl) that the United States Internal Revenue Service (IRS) has proposed an adjustment to Ethyl's US income tax treatment of the acquisition of Hardwicke Chemical Company (Hardwicke) from Ethyl in 1990. Ethyl has indicated to Meristem that it has filed an administrative appeal against the proposed adjustment with the IRS, which the Board believes to be in the region of \$6 million. If the IRS determines that any proposed adjustment should be made then, unless Ethyl appeal successfully through the courts, it is possible that Ethyl may seek indemnification from Meristem for the additional tax cost incurred by Ethyl under the terms of the agreement between Ethyl and Meristem relating to the acquisition of Hardwicke. Any such claim would be subject to arbitration under the provisions of the acquisition agreement. The Board believes that, if the IRS were to uphold the adjustment and if Ethyl were to seek indemnification, Meristem would have strong grounds for resisting the claim in full.'

The LD Group PLC, an associated undertaking, has disclosed the following contingent liability in its financial statements for the year ended 31 July 1998 in respect of its subsidiary undertaking, Kelvin Diesels PLC:

'Kelvin Diesels PLC has received government grants under the Regional Selective Assistance Scheme of £330,000. This company is currently in default of the terms of the offer letter and there is a possibility that the grant may have to be repaid. The directors consider that this possibility is remote and no provision has been made in these accounts.'

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24. OPERATING LEASE COMMITMENTS

The annual rental commitments at 31 December 1998 in respect of non-cancellable operating leases were as follows:

	Property		Equipment	
	1998	1997	1998	1997
	£000s	£000s	£000s	£000s
The Group				
Operating leases which expire:				
Within one year	–	–	9	6
Between two and five years	34	–	133	95
After more than five years	382	376	–	6
	<u>416</u>	<u>376</u>	<u>142</u>	<u>107</u>
The Company				
Operating leases which expire:				
Within one year	–	–	–	–
Between two and five years	–	–	17	33
After more than five years	376	376	–	–
	<u>376</u>	<u>376</u>	<u>17</u>	<u>33</u>

25. PENSION COSTS

The Group operates pension schemes in the UK and in the Netherlands. The UK schemes are the Torday & Carlisle PLC Pension and Life Assurance Scheme ("the T&C Scheme") which is a defined benefit scheme, and The LD Group Pension Scheme ("the LD Scheme") which is a defined contribution scheme.

The total pension cost for the Group for the year was £276,000 (1997: £338,000). The pension costs relating to the T&C scheme are assessed in accordance with the advice of qualified actuaries.

The latest actuarial review of the T&C Scheme was carried out as at 1 April 1996 using the projected unit credit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 9% per annum, that salary increases would average 7% per annum and that from 6 April 1997 future pensions would be increased in line with the lower of 3% or the retail price index. At the date of the latest actuarial review, the market value of the assets of the T&C Scheme was £2,979,000 and the actuarial value of the scheme was sufficient to cover 111% of the benefits that had accrued to members, after allowing for expected future increases in earnings. This surplus should be eliminated over the service lives of the current employees using the recommended contribution rate of 11.7% of pensionable earnings. The next actuarial review of the Scheme will be carried out during 1999.

The LD Scheme covers the employees at Valve Technics Limited. The assets of the pension scheme are held separately from those of The LD Group PLC.

The charge relating to the pension cost of the schemes in the Netherlands has been determined in accordance with local best practice and regulations in the Netherlands. The principal scheme in the Netherlands is administered by a body covering the metal working industry throughout the Netherlands.

Notes on Financial Statements

For the year ended 31 December 1998

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26. SUBSEQUENT EVENTS

On 4 January 1999, the Group disposed of its joint venture undertaking, Piston Rings (UK) Limited, for a cash consideration of £100,000 representing net asset value at 31 December 1998.

27. RELATED PARTY TRANSACTIONS

Related party transactions are as follows:

Sales	Amount		Balance outstanding at 31 December	
	1998	1997	1998	1997
<i>Parties</i>	£000s	£000s	£000s	£000s
Torday & Carlisle Group to Group joint venture and associated undertakings	131	27	43	9
	<hr/>	<hr/>	<hr/>	<hr/>
Purchases	Amount		Balance outstanding at 31 December	
	1998	1997	1998	1997
<i>Parties</i>	£000s	£000s	£000s	£000s
Group joint venture and associated undertakings from Torday & Carlisle Group	51	6	8	—
	<hr/>	<hr/>	<hr/>	<hr/>
Management charges	Amount		Balance outstanding at 31 December	
	1998	1997	1998	1997
<i>Parties</i>	£000s	£000s	£000s	£000s
Group joint venture and associated undertakings to Torday & Carlisle Group	44	—	49	—
	<hr/>	<hr/>	<hr/>	<hr/>
Sales commissions	Amount		Balance outstanding at 31 December	
	1998	1997	1998	1997
<i>Parties</i>	£000s	£000s	£000s	£000s
Torday & Carlisle Group to Group joint venture and associated undertakings	2	25	2	9
	<hr/>	<hr/>	<hr/>	<hr/>
Group joint venture and associated undertakings to Torday & Carlisle Group	32	29	14	7
	<hr/>	<hr/>	<hr/>	<hr/>
Pensions	Amount		Balance outstanding at 31 December	
	1998	1997	1998	1997
<i>Parties</i>	£000s	£000s	£000s	£000s
Group joint venture and associated undertakings to Torday & Carlisle Group	5	5	5	5
	<hr/>	<hr/>	<hr/>	<hr/>
Dividends	Amount		Balance outstanding at 31 December	
	1998	1997	1998	1997
<i>Parties</i>	£000s	£000s	£000s	£000s
Group joint venture and associated undertakings to Torday & Carlisle Group	54	78	—	49
	<hr/>	<hr/>	<hr/>	<hr/>

Sales, purchases and commissions represent arms length transactions between the relevant parties.

Subsidiary, Joint Venture and Associated Undertakings

The Group's significant subsidiary, joint venture and associated undertakings at the year end are shown below. The operating activities of all the companies fall within the core businesses of the Group. All the shareholdings are of ordinary shares and no other classes of shares are issued. The companies marked * are joint venture and associated undertakings. + denotes an interest held by a subsidiary of the ultimate parent company.

At the date of this report	Country of incorporation and operation	Interest
T & C Industrial Holdings Ltd	England	100%
Diesel Marine International Ltd +	England	100%
DMI (Europe) BV +	Netherlands	100%
DMI (UK) Ltd +	England	100%
DMI Wolfgang Drechsler GmbH +	Germany	100%
DMI Scandinavia AS +	Norway	100%
DMI (Far East) Ltd +	Hong Kong	100%
Diesel Marine International (France) SARL +	France	100%
AMI Exchangers Ltd +	England	100%
Valve Technics Ltd +	England	100%
The LD Group PLC * +	England	50%
DMI Automotive Inc* +	USA	50%
DMI (Japan) Ltd * +	Japan	50%
Piston Rings (UK) Ltd* +	England	50%
Meristem PLC *	England	28.9%
Diesel Marine (Guangzhou) Ltd * +	China	20%
Diesel Marine (Nantong) Ltd * +	China	20%
Diesel Marine (Dalian) Ltd * +	China	20%

The results of all of the above listed subsidiary, joint venture and associated undertakings are included within the consolidated financial statements. The financial year end of all of the above companies is 31 December, with the exception of The LD Group PLC which has a 31 July year end.