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Chairman's Statement

I am pleased to report on another year of solid improvement in the Group's performance. Profit before tax, at £1,365,000, was an increase of 17.2% on the 1996 profit before tax of £1,165,000. Earnings per share at 6.2p was an increase of 10.7%.

In my 1996 Chairman's statement I reported the acquisition of AMI Exchangers Limited (AMI) on 30 January 1997. It is encouraging to report that this company made a strong contribution to the Group's performance in 1997 with an operating profit of £341,000 for the 11 months it was part of the Group.

Improvements in the operating performance of other businesses in the Group however continue to be held back by a combination of difficult market conditions and adverse exchange rate movements. 67% of Group turnover and 49% of Group operating profit arise outside the UK. The continued appreciation of sterling against other European currencies during 1997 has reduced the operating profits of overseas subsidiaries when translated into sterling by £228,000. After excluding the impact of exchange rate movements, operating profit from continuing businesses before acquisitions would have increased by 3.7% on turnover 1.0% higher. This reflects the difficult market conditions under which the Group is operating.

Losses at our car die plating joint venture with Koka Chrome Industry Co. Limited of Japan in the USA, DMI Automotive Inc., were significantly reduced in the second half of the year, on turnover 66% higher than the first half. Our share of the total loss for the whole year was £120,000 (1996: £150,000). After accounting for this loss, our investment in DMI Automotive Inc. comprises £163,000, together with a joint and several guarantee over the £951,000 borrowings of this company. One of our major objectives for 1998 will be to build on increasing market penetration and to move this company into profit.

Despite the £570,000 cash outflow on the acquisition of AMI, Group borrowings fell in the year from £3,057,000 to £2,859,000. This represents gearing of 42% (1996: 50%).

I am happy to report that agreement has now been reached with Man B&W Diesel A/S over our alleged copyright infringement and/or breach of confidentiality in drawings of pistons manufactured by Man B&W Diesel A/S. As a result legal proceedings against the Group have been withdrawn. Legal proceedings in respect of the claim for alleged breach of warranty in respect of the sale of the Group's Commercial Signs Division in 1995 continue.

During my six years as chairman of the Company the Group has been transformed from a loss making, heavily indebted business to one now well positioned for future growth, with a strong executive team. I intend to resign at the forthcoming AGM and James Leek, who was appointed a director on 17 April 1998, will succeed me as chairman. James has a wide degree of experience in developing companies through his association with Caparo Group Limited, and latterly with Amberley Group PLC and McLeod Russel Holdings PLC, and I wish him well. David Batic, Mike Hennon and Menno van der Hulst have also stood down from the Torday & Carlisle PLC board to concentrate on DMI matters, and I thank them for their contributions.

DMI reconditions all types of crosshead pins by chromium plating, grinding and super-finishing to manufacturer's tolerances.

Chairman's Statement

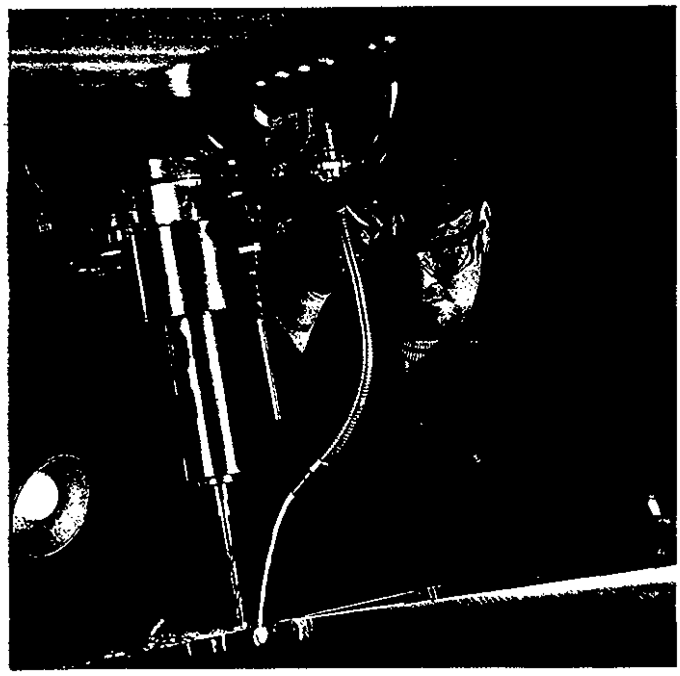
The appointment of James Leek as a director also coincided with a fund raising exercise by the Company, through which we raised £6.0 million, net of expenses, by way of a placing and open offer and subscription, which was approved at an Extraordinary General Meeting on 17 April.

Your Board believes that there are many quoted industrial companies whose small market capitalisation makes them unattractive to institutional investors and thus difficult to grow by acquisition using lowly rated shares. We believe that the Group has a sound underlying business, and we have proved in the last two years our ability to make small bolt-on acquisitions which are earnings enhancing. Part of the funds raised will be used to finance further small acquisitions related to the Group's core engineering business. It will also enable us to consider expanding the Group by exploiting the opportunities, for acquisition and for taking strategic stakes in small quoted industrial companies, which the Directors believe are provided by the relatively low ratings given currently to them. We believe that the experience of James Leek should assist in managing the Group's growth.

It is also the Company's intention to return to dividend payments as soon as possible. To achieve this we obtained shareholder approval at the EGM on 17 April, subject to court sanction, to reduce the share premium account of the Company by £6,579,000. As a result, and subject to court approval, I hope we will be in a position to declare a dividend in the near future.

PETER H RYAN
Chairman

Profit before tax, at £1,365,000 was an increase of 17.2% on the 1996 profit.



AMI made a strong contribution to the Group's performance in 1997.

Operating Review

Complete reconditioning to the highest quality standards is securing a high degree of customer loyalty.

- MARINE
  Reconditioning and exchange of large diesel engine components, mainly for marine customers
- INDUSTRIAL
  Surface treatment of industrial components
- CAR DIES
  Plating of press dies, mainly for automotive manufacturers

The Group improved its profits in difficult trading conditions caused by a marine recession and the strong pound.

The Group improved its profit in difficult trading conditions caused by a marine recession and the strong pound. The strength of sterling had a double adverse effect in that it made our UK operations less competitive in export markets and it reduced the Group's overseas profits on translation into sterling.

Marine

Despite a very depressed marine market, as is evidenced by the Baltic Freight Index reaching a ten year low point during 1997, we retained marine volumes and slightly increased market share in our engine component reconditioning business. In this sector we did better in Holland and Germany than in the UK, the latter being adversely affected by the strength of the pound.

Competition in this sector is severe but our policy of carrying out complete reconditioning to the highest quality standards is securing a high degree of customer loyalty. We also continue to improve the quality of our products by good technical innovation and our competitiveness by productivity initiatives and increased operational flexibility. Our trading and fuel equipment division in Rotterdam has enjoyed a good year and made a sound contribution.

Cylinder heads for popular diesel engines are processed by DMI's factories in Holland and England.

DMI's Porous Chrome is specified on new and reconditioned cylinder liners for high performance and heavy duty diesel engines.

Industrial

This sector has been relatively active during 1997 in the UK, Germany and Holland. The UK benefited from the first full year in liner production at North Shields after the closure of Lowestoft and the transfer of this work. This liner reconditioning activity has been consistently heavily loaded throughout the year and has certainly improved the profitability of the North Shields site. Other industrial products for the North Shields site have remained generally active over the year.

In Germany DMI Drechsler has had a superb year with its metal spraying activity being particularly buoyant. It has also enjoyed healthy volumes in its industrial fabrication activities.

In Holland, after a very poor start, the industrial sector improved strongly in the second half of the year, particularly on long components requiring various forms of surface treatment.

AMI

Whilst its heat exchanger products are mainly for the marine industry, I think in this year's report it should be singled out for special comment. We had a contribution for 11 months of 1997 from AMI and it did exceptionally well, benefiting to some extent from sales through the world-wide distribution network of DMI. It further complements our range of marine components and strengthens our 'one stop shop' concept for our customers.

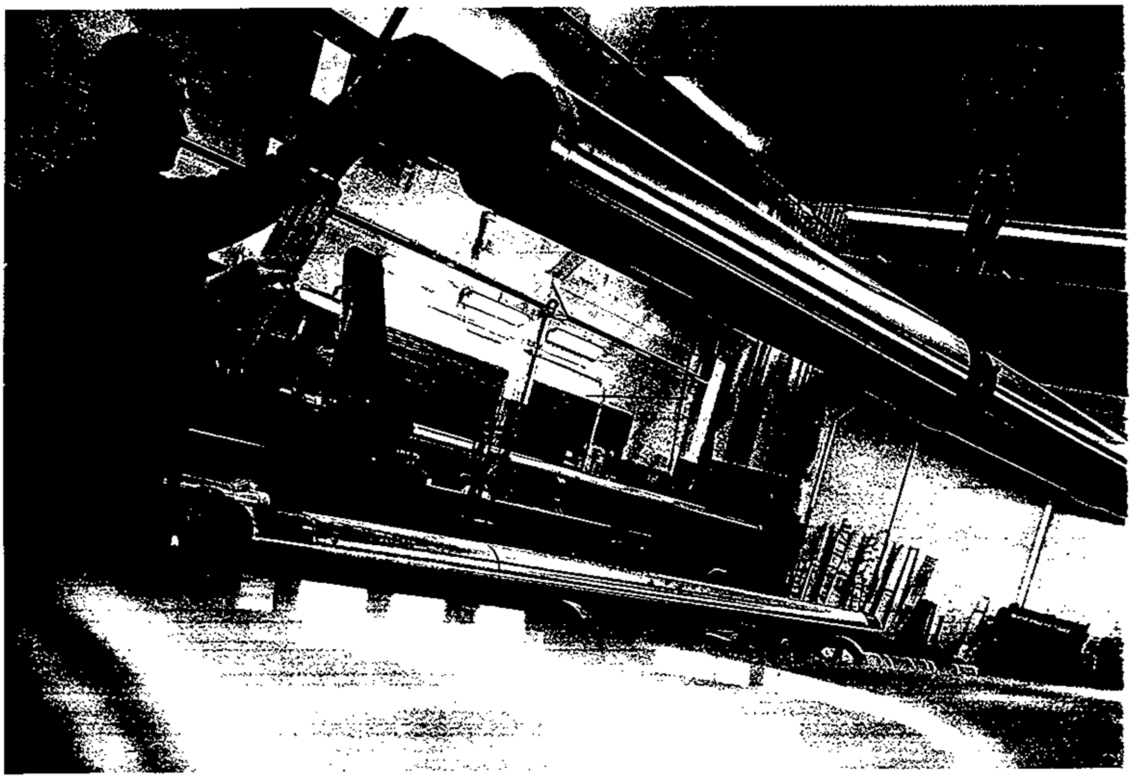
I am very pleased with this acquisition which reflects our acquisition policy of adding complimentary 'bolt-ons' to the DMI core.

We are developing new products at AMI and will see an expansion of activity in this business in 1998.

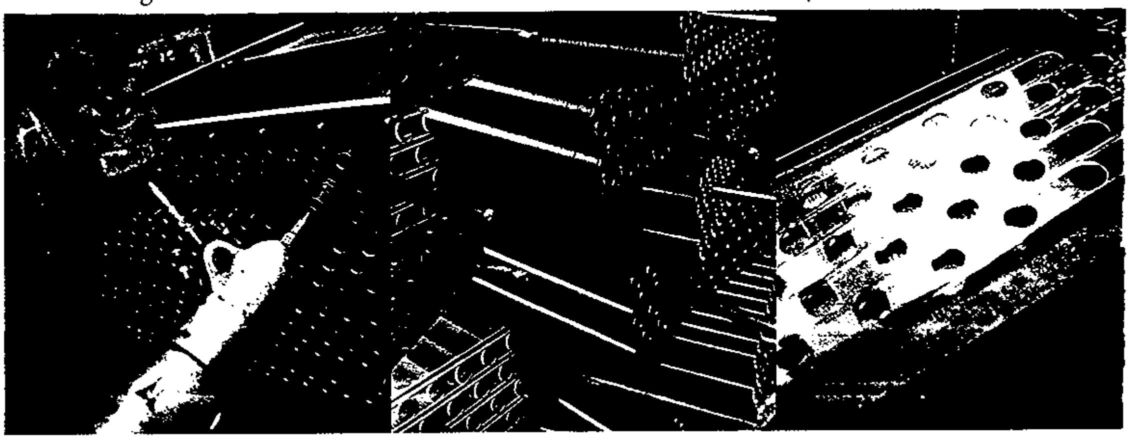
DMI Drechsler metal spraying activity was particularly buoyant

The piston ring grooves are machined oversize to remove wear, chromium plated, and ground back to standard size.

In Holland DMI has facilities for the plating of components up to 17 metres in length.



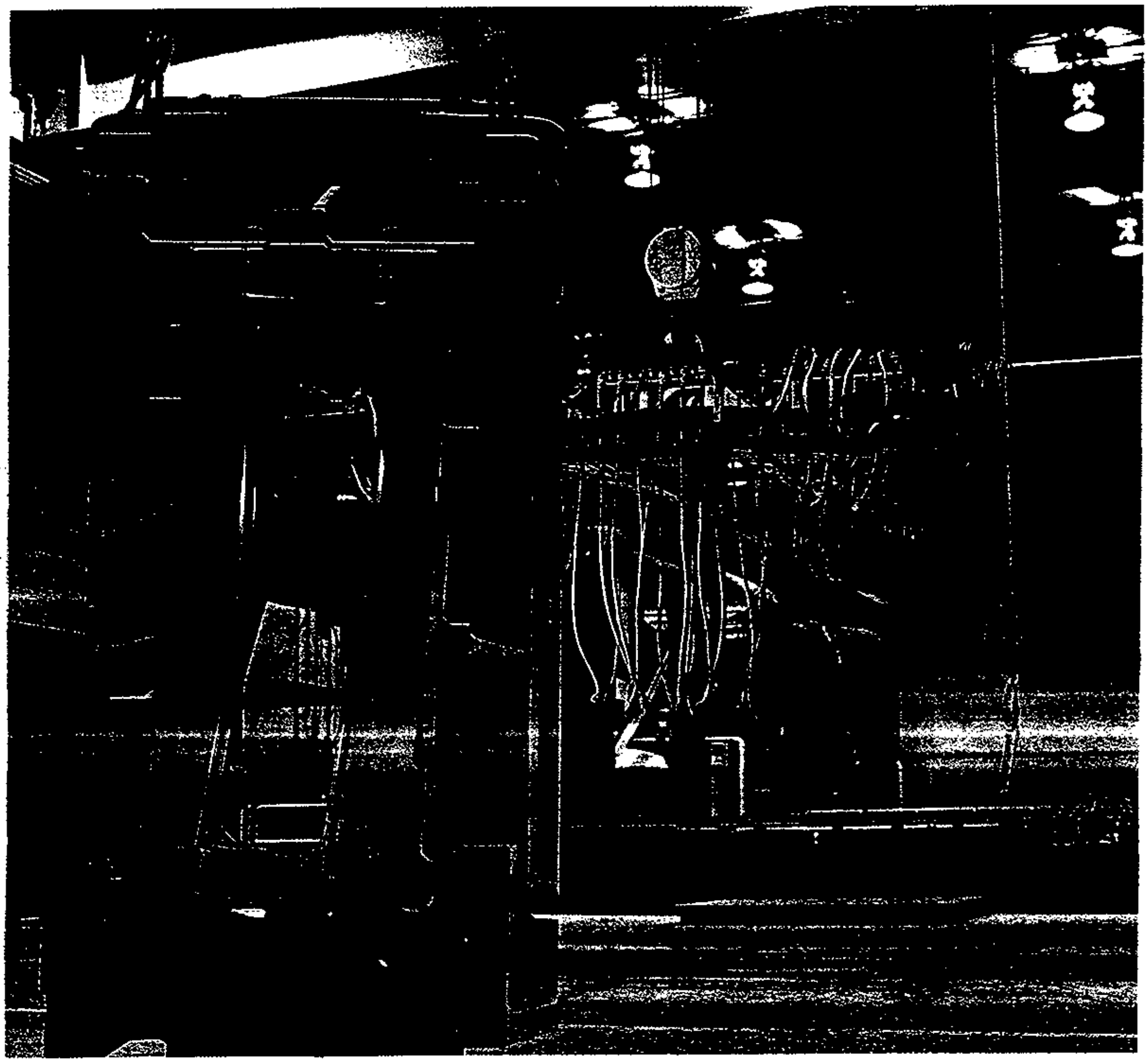
AMI benefited from sales of marine heat exchangers through the world-wide distribution network of DMI.



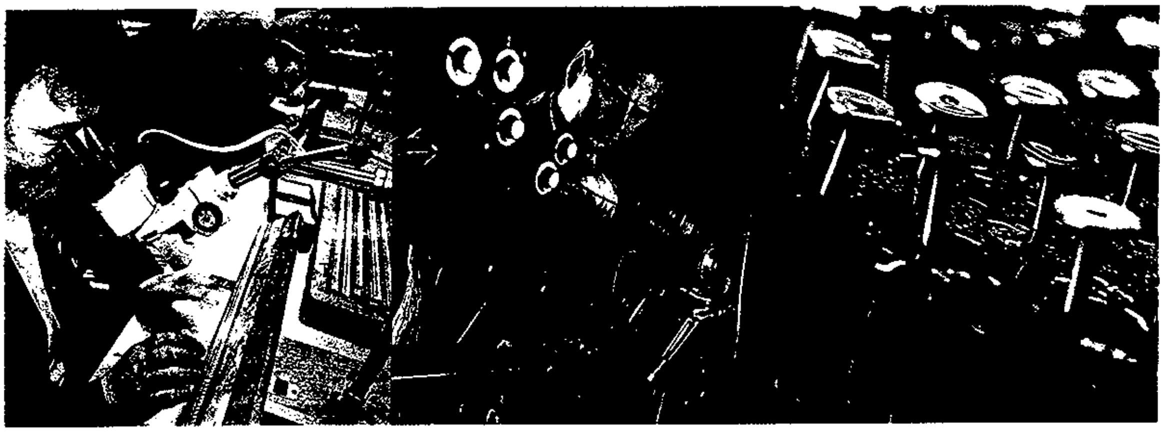
The re-stelliting of the seating face is carried out by the Plasma Arc process which ensures a high quality weld.

Operating Review

Significant key customer approvals were achieved in the second half of 1997 at DMI Automotive Inc.



DMI treats a wide range of industrial components.



Car Dies

The UK plant achieved its budget on car dies and further developed its strong market position.

Our Dutch car die plant did not perform as well but has further increased its flexibility and response to the market.

The USA plant continued to produce a loss for the year as a whole. This is very disappointing but it is important to note that the second half year was much better than the first half both in volume and result. Also some significant key customer approvals were achieved in the second half of 1997 which should enable 1998 to be a year of further improvement.

ERIC BRIGHTMORE
Chief Executive

"The Group continues to benefit from its acquisition policy of complimentary bolt-ons to the DMI core.

DMI has perfected the reconditioning of large bore. 2-stroke piston crowns to original dimensions and tolerances.

Operating profit increased by 11.4% on 1996.

Profit and Loss

Profit before tax in 1997, at £1,365,000, was an increase of 17.2% on the 1996 profit of £1,165,000.

Operating profit increased by 11.4%. It is encouraging to see that Group operating profit before exceptional costs and discontinued businesses has now risen for the third year in succession:

	1994 £000s	1995 £000s	1996 £000s	1997 £000s
Operating profit*	426	945	1,450	1,616

*before exceptional costs and discontinued businesses

Overall the Group operating margin also increased from 7.0% in 1996 to 8.2% in 1997.

The Group's reported results in 1997 were significantly affected by the appreciation of sterling against major European currencies. The average rate of exchange of Sterling against the Dutch Guilder and German Mark during 1997 was 21% higher than that during 1996. The affect of this on the reported profit and loss of the Group is shown as follows:

	1997 £000s	Restated 1997* £000s	1996 £000s
Turnover			
Continuing operations	18,159	20,929	20,727
Acquisition	1,660	1,660	-
	19,819	22,589	20,727
Operating profit			
Continuing operations	1,275	1,503	1,450
Acquisition	341	341	-
	1,616	1,844	1,450
Interest	(251)	(298)	(285)
Profit before tax	1,365	1,546	1,165

*restated at 1996 exchange rates (unaudited)

But for the adverse impact of exchange rate movements, the Group's profit before tax would have increased by 33% on that of 1996, of which 27% is due to the acquisition of AMI on 30 January 1997. £35,000 of the Group interest charge also arises from the acquisition of AMI.

The effective tax rate borne by the Group during 1997 was 24% which is a slight increase on 1996 at 22%. The Group has significant tax losses and surplus advance corporation tax. To the extent that the Group is able to utilise them, they will reduce the overall tax burden of the Group in future years.

Financial Review

Because of the higher effective tax rate, and the additional shares issued to acquire AMI, earnings per share increased by only 10.7%, from 5.6p in 1996 to 6.2p in 1997.

Net Assets

Net assets increased during the year by £632,000 to £6,786,000, which represents 40p per share (1996: 38p per share). This is after a loss of £505,000 on the retranslation of the Group's overseas net assets. 67% of the net assets of the Group are located outside the UK.

The Group also issued 722,892 ordinary shares at 41.5p to the vendor of AMI, representing an increase of £300,000 in shareholders' funds and offsetting the £200,000 goodwill written off as part of the acquisition.

As noted in the Chairman's statement, subsequent to the year end the Company has undertaken a fund raising exercise. Following the Extraordinary General Meeting on 17 April, the Company has now issued a further 17,640,431 shares for cash at 36p raising £6.0 million, net of expenses. The impact of this on the balance sheet of the Group at 31 December 1997, on a proforma basis, would have been as follows:

	As at 31 December 1997	Placing & open offer & subscription	Pro-forma
	£m	£m	£m
Fixed Assets			
Tangible fixed assets	6.6	-	6.6
Investments	0.9	-	0.9
	7.5	-	7.5
Current Assets			
Stocks	3.3	-	3.3
Debtors	4.4	-	4.4
Cash at bank and in hand	0.2	6.0	6.2
	7.9	6.0	13.9
Creditors: amounts falling due within one year	(6.2)	-	(6.2)
Net Current Assets	1.7	6.0	7.7
Total Assets Less Current liabilities	9.2	6.0	15.2
Creditors: amounts falling due after more than one year	(1.5)	-	(1.5)
Provisions for liabilities and charges	(0.9)	-	(0.9)
Net Assets	6.8	6.0	12.8

As a result the pro-forma net cash position of the Group at 31 December 1997 would have been £3.1 million (£6.2 million cash less £3.1 million borrowings).

Cash Flow

During 1997 Group borrowings fell by £198,000 from £3,057,000 to £2,859,000. This represents gearing of 42% (1996: 50%).

The Group incurred a net outflow in 1997 of £570,000 associated with the acquisition of AMI, which was funded through the Group's UK facilities. Despite this, 98% of Group bank borrowings at the end of the year were denominated in overseas currencies and the Group benefited on translation of these borrowings into sterling by £375,000.

Capital expenditure in the year was £738,000 which was marginally below the Group depreciation charge of £814,000.

STEPHEN M SCOTT
Finance Director

Directors and Advisers

PETER RYAN, aged 67*
Non-Executive Chairman
Also Chairman of Lilleshall PLC and a director of other public companies.

ERIC BRIGHTMORE, aged 56
Chief Executive
Appointed March 1994. Formerly Chief Executive of Aurora PLC.

STEPHEN SCOTT ACA, aged 37
Finance Director and Company Secretary
Joined the Company in June 1989 and appointed to the Board in December 1993. Formerly employed by Arthur Andersen.

JAMES LEEK FCA, aged 53
Executive Director
Appointed 17 April 1998. Formerly Chief Executive of Caparo Group Limited (1975-1994) and non-executive Chairman of Amberley Group PLC (1993-1997). Currently non-executive Chairman of McLeod Russel Holdings PLC and non-executive director of Exeter Prefered Capital Investment Trust PLC and the Pennine AIM VCTs.

JIM McCOLGAN, aged 67*
Non-Executive Director
Formerly Group Managing Director of Blue Circle Industries PLC and currently a non-executive director of Mirror Group PLC and Marshalls PLC.

JACK FARLEY, aged 62*
Non-Executive Director
Partner in Donns Solicitors and represents the interests of Cogshall Partnership, who hold 28.7% of the shares of the Company.

* Members of the Remuneration Committee and Audit committee

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Cheshire, WA14 1HA

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Manchester, M3 5FT

BROKERS
Bell Lawrie White & Co.
48 St. Vincent Street,
Glasgow, G2 5TS

AUDITORS
Price Waterhouse
89 Sandyford Road,
Newcastle upon Tyne, NE99 1PL

SOLICITORS
Dickinson Dees
St Ann's Wharf, 112 Quayside,
Newcastle upon Tyne, NE99 1SB

PRINCIPAL BANKERS
Barclays Bank PLC
Percy Street,
Newcastle upon Tyne, NE1 4QL

ABN AMRO Bank NV
Stationsplein, Postbus 643, 8000 AP Zwolle,
The Netherlands

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

The Company is registered in England, number 417183

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Directors' Report

Group Activities

Torday & Carlisle PLC is a holding company with subsidiaries which are involved in the treatment, reconditioning, exchange and supply of diesel engine, marine and industrial components from a network of factories, joint ventures, licensees and sales offices in Europe, the Far East and North America.

Business Review

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

Results and Dividends

The consolidated profit and loss account is set out on page 20. Further analysis of the turnover and results of the Group are given in note 2 on page 25.

The directors do not recommend the payment of a dividend for 1997. The profit retained for the year was £1,037,000 (1996: £908,000).

Employees and Employee Involvement

The average number of persons employed directly by Group companies during 1997 was 343 compared with 332 in 1996.

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 1997 for the Group was 68. 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 12. Mr Jack Farley was appointed to the Board on 21 April 1997. 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. Details of directors' emoluments in 1997 are given in the report of the remuneration committee on pages 17 and 18.

Mr James Leek will retire at the forthcoming Annual General Meeting and will be proposed for re-election in accordance with the Articles of Association. Mr. Peter Ryan will not offer himself for re-election at the Annual General Meeting and, subject to his re-election, James Leek will be appointed Chairman.

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.

Directors' Report

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.

	Nature of Interest	1 January 1997	31 December 1997
Peter Ryan	Beneficial	10,500	20,500
Eric Brightmore	Beneficial	20,000	30,000
	Non Beneficial	15,167	15,167
Stephen Scott	Beneficial	40,000	40,000
Jim McColgan	Beneficial	25,000	25,000
	Non Beneficial	12,500	12,500
David Batie	Beneficial	10,000	10,000
	Non Beneficial	7,500	7,500
Michael Hennon	Beneficial	10,000	10,000
Menno Van der Hulst	Beneficial	10,000	10,000
	Non Beneficial	-	50,000
Jack Farley	Beneficial	-	-

Up to 8 April 1998, there have been no changes in directors' interests since 31 December 1997. During that period, however, the directors and other shareholders of the company became entitled to subscribe for shares pursuant to the open offer described in the prospectus relating to the company dated 20 March 1998.

Details of directors' share options are shown on page 17.

Significant Shareholdings

At 8 April 1998, the Company had been notified of the interests in 3% or more of the issued share capital of the Company as shown below. This table is based on the 16,807,098 shares in issue and does not take account of any shares acquired in the placing and open offer and subscription described in the prospectus referred to above.

	No. of ordinary shares held	% of ordinary shares held
Cogshall Partnership	4,820,167	28.7%
Undervalued Assets Trust PLC	2,250,000	13.4%
EAP Securities Limited	870,000	5.2%
Guiness Flight Unit Trust Managers Limited	759,454	4.5%
Hermes Investment Management Limited	740,000	4.4%
Lawrence Waller Esq.	699,892	4.2%
Legal & General Assurance Society Limited	540,000	3.2%

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

Special Business at the AGM

A special resolution will be proposed for the adoption of new Articles of Association. For more information on the new articles, refer to page 40.

Auditors

The auditors, Price Waterhouse, have expressed their willingness to continue in office and a resolution to re-appoint them and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board

Stephen Scott

STEPHEN M SCOTT
Secretary
20 April 1998

Corporate Governance

The Board of Torday & Carlisle is responsible to the shareholders for control of the Group and therefore supports the highest standards of corporate governance. During the year the Company has complied with the recommendations of the report of the Cadbury Committee on Corporate Governance issued on 1 December 1992 (commonly known as the Cadbury Report) and the Code of Best Practice contained therein, as required by the Listing Rules of the London Stock Exchange, except that the Company did not comply with those sections of the Code which require, or depend upon, the existence of three independent non-executive directors. Due to his relationship with the Cogshall Partnership, who hold 28.7% of the shares of the Company, Jack Farley is not considered independent within the meaning of the Cadbury Report. Following the resignation of Peter Ryan from the Board at the forthcoming AGM, Jim McColgan will be the Company's only independent non-executive director. Nevertheless the directors intend that the Company should follow policies and procedures which reflect the Code on Best Practice set out in the Cadbury report insofar as it is appropriate to a company of this size and the Company's compliance will be kept under regular review by the Board.

The Board

The Board is responsible for setting overall Group strategy and policy, monitoring Group performance and authorising significant transactions.

The division of the roles of Chairman and Chief Executive ensures that an adequate balance of power and authority exists on the Board. The existence of experienced and independent non-executives on the Board provides a further safeguard of the interests of shareholders. The Board has also agreed that any of its directors may obtain independent professional advice, at the Company's expense, in pursuance of their duties.

Audit Committee

The audit committee comprises the Chairman and non-executive directors. The committee meets twice a year prior to the release of the half year and full year results and on such other occasions as it considers necessary. Other directors may attend by invitation and the committee has routine and private access to the Group's auditors.

Financial Control

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 mis-statement 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;
- 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 key internal financial controls which have been in place at the principal operating sites within the Group during the year ended 31 December 1997.

Going Concern

After making 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.

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.

Report by the Auditors to the Directors of Torday & Carlisle PLC on Corporate Governance Matters

In addition to our audit of the financial statements we have reviewed your statement on page 15 concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of Opinion

We carried out our review having regard to the guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial controls on page 15 and on going concern on page 15 have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Company and examination of relevant documents, your statements on page 15 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

PRICE WATERHOUSE
Chartered Accountants

Newcastle upon Tyne
20 April 1998

Report of the Remuneration Committee

The Company has a remuneration committee comprising the Chairman and non-executive directors which sets the remuneration levels and conditions of the executive directors.

The Company has complied, throughout the financial year, with Section A of the best practice provisions annexed to the Listing Rules of the London Stock Exchange and the remuneration committee has given full consideration to Section B of the best practice provisions annexed to the Listing Rules in framing the remuneration packages of 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 non-executive directors is set by the Board. Non-executive directors do not receive either annual incentive bonuses or share options and do not have service contracts with the Company.

James Leek, the executive director proposed for re-election at the forthcoming annual general meeting, has a service contract which is terminable by notice to him of 12 months.

During the financial year ended 31 December 1997 no director had any material interest in any contract with the Company or any of its subsidiary or associated undertakings.

Details of directors' share options are as follows:

	1997	1996	Exercise Price	Date from which exerciseable	Expiry date
Eric Brightmore	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
David Batie	25,000	25,000	48p	30 April 1999	27 April 2006
	25,000	25,000	32p	14 July 1998	11 July 2005
	10,000	10,000	74p	16 April 1997	16 April 2002
Michael Hennon	25,000	25,000	48p	30 April 1999	27 April 2006
	25,000	25,000	32p	14 July 1998	11 July 2005
	10,000	10,000	74p	16 April 1997	16 April 2002
Stephen Scott	35,000	35,000	48p	30 April 1999	27 April 2006
	35,000	35,000	32p	14 July 1998	11 July 2005

During the year the Company's share price was between 42½p and 34½p and was 34½p at 31 December 1997.

Report of the Remuneration Committee

Details of directors' emoluments were as follows:

	Salary £000s	Performance related bonus £000s	Benefits in kind £000s	1997 Total £000s	1996 Total £000s
Eric Brightmore	100	10	9	119	131
Stephen Scott	58	6	6	70	73
David Batie	51	-	6	57	58
Michael Hennon	40	-	5	45	47
Menno van der Hulst	87	-	7	94	113
Peter Ryan (non-executive)	28	-	-	28	27
Jack Farley (non-executive)	10	-	-	10	-
Jim McColgan (non-executive)	14	-	-	14	12
	388	16	33	437	461

The above emoluments include performance-related bonuses in respect of achievement of certain performance criteria defined by the Company's remuneration committee.

The emoluments of the highest paid director in the period, inclusive of pension contributions of £15,000 (1996:£10,000) were £134,000 (1996:£141,000).

Two directors are 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 1996 £000s	Increase in accrued pension during 1997 £000s	Total accrued pension as at 31 December 1997 £000s	Transfer value of the increase in accrued pension during 1997 £000s
Stephen Scott	6	1	7	5
Michael Hennon	9	1	10	9

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

	1997 £000s	1996 £000s
Eric Brightmore	15	10
David Batie	16	16
Menno van der Hulst	9	11

Auditors' Report to the Shareholders of Torday & Carlisle PLC

We have audited the financial statements on pages 17 and 18 and pages 20 to 38 which have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and the accounting policies set out on page 24.

Respective Responsibilities of Directors and Auditors

As described on page 16 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

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

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

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 1997 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.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors

Newcastle upon Tyne
20 April 1998

Consolidated Profit and Loss Account Year ended 31 December 1997

	Notes	£000s	1997 £000s	£000s	1996 £000s
Turnover					
Continuing operations	2	18,159		20,727	
Acquisition	2	1,660		-	
			19,819		20,727
Cost of sales	2		(13,865)		(14,604)
Gross profit	2		5,954		6,123
Net operating costs	2		(4,300)		(4,613)
Profits less losses from interests in associated undertakings	2&11		(38)		(60)
Operating profit					
Continuing operations	2	1,275		1,450	
Acquisition	2	341		-	
			1,616		1,450
Interest payable and similar charges (net)	5		(251)		(285)
Profit on ordinary activities before taxation	2&3		1,365		1,165
Taxation	6		(328)		(257)
Profit retained for the financial year	18		1,037		908
Earnings per share	9		6.2p		5.6p

Group Statement of Total Recognised Gains and Losses
Year ended 31 December 1997

	1997 £000s	1996 £000s
Profit retained for the financial year	1,037	908
Currency translation differences	(505)	(925)
Total recognised gains/(losses) for the financial year	532	(17)

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

Consolidated Balance Sheet As at 31 December 1997

	Notes	1997 £000s	1996 (As restated) Note 24 £000s
Fixed assets			
Tangible assets	10	6,620	6,825
Investments	11	888	826
		7,508	7,651
Current assets			
Stocks	12	3,238	3,082
Debtors	13	4,391	4,731
Cash at bank and in hand		241	691
		7,870	8,504
Creditors: Amounts falling due within one year	14	(6,169)	(6,589)
Net current assets		1,701	1,915
Total assets less current liabilities		9,209	9,566
Creditors: Amounts falling due after more than one year	15	(1,529)	(2,053)
Provisions for liabilities and charges	16	(894)	(1,359)
Net assets	2	6,786	6,154
Represented by:			
Capital and reserves			
Called up equity share capital	17	840	804
Share premium account	18	7,161	6,897
Revaluation reserve	18	313	315
Profit and loss account	18	(1,528)	(1,862)
Equity shareholders' funds		6,786	6,154

Reconciliation of Movements in Group Shareholders' Funds
Year ended 31 December 1997

	1997 £000s	1996 £000s
Profit retained for the financial year	1,037	908
Goodwill written off on acquisition of subsidiary undertaking	(200)	(128)
Currency translation differences	(505)	(925)
New share capital subscribed	300	-
Net increase/(reduction) in shareholders' funds	632	(145)
Opening shareholders' funds	6,154	6,299
Closing shareholders' funds	6,786	6,154

Consolidated Cash Flow Statement Year ended 31 December 1997

		1997		1996
	£000s	£000s	£000s	£000s
Net cash inflow from operating activities		2,015		1,920
Returns on investments and servicing of finance				
Interest received	38		15	
Interest paid	(284)		(312)	
Interest element of finance lease rental payments	(9)		(9)	
Net cash outflow from returns on investments and servicing of finance		(255)		(306)
Taxation		(414)		(226)
Capital expenditure				
Purchase of tangible fixed assets	(738)		(882)	
Sale of tangible fixed assets	5		20	
Capital expenditure		(733)		(862)
Acquisitions and disposals				
Purchase of subsidiary undertaking (note 19)	(570)		(1,184)	
Investment in associated undertaking	(178)		(90)	
Acquisitions and disposals		(748)		(1,274)
Financing				
New bank loans taken out	130		943	
Other secured loan taken out	-		123	
Bank loan repayments	(461)		(534)	
Capital element of finance lease rental payments	(28)		(31)	
Financing		(359)		501
Decrease in cash		(494)		(247)

Reconciliation of net debt

		1997		1996
	£000s	£000s	£000s	£000s
Net debt at 1 January 1997		(3,057)		(2,808)
Decrease in cash in the period	(494)		(247)	
Net decrease/(increase) in debt and lease financing	359		(501)	
Increase in net debt from cash flows		(135)		(748)
Bank loans taken over on purchase of subsidiary undertaking		-		(82)
New finance leases taken out		(42)		
Currency translation differences		375		581
Movement in net debt in the period		198		(249)
Net debt at 31 December 1997		(2,859)		(3,057)

Notes supporting the cash flow statement can be found at note 19 on pages 34 and 35.

Company Balance Sheet As at 31 December 1997

	Notes	1997 £000s	1996 (As restated) Note 24 £000s
Fixed assets			
Tangible assets	10	-	-
Investments	11	1,795	9,811
		1,795	9,811
Current assets			
Debtors	13	280	385
Cash at bank and in hand		934	980
		1,214	1,365
Creditors: Amounts falling due within one year	14	(711)	(9,196)
Net current assets/(liabilities)		503	(7,831)
Total assets less current liabilities		2,298	1,980
Provisions for liabilities and charges	16	(534)	(698)
Net assets		1,764	1,282
Represented by:			
Capital and reserves			
Called up equity share capital	17	840	804
Share premium account	18	7,161	6,897
Other reserve	18	342	342
Profit and loss account	18	(6,579)	(6,761)
Equity shareholders' funds		1,764	1,282

The financial statements on pages 20 to 38 were approved by the Board of Directors on 20 April 1998 and are signed on its behalf by:

ERIC BRIGHTMORE
Director

Notes on Financial Statements Year ended 31 December 1997

1 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 associated undertakings. 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 in the year is eliminated against consolidated reserves. 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. 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 and associated undertakings are expressed in sterling at the rates of exchange ruling at the balance sheet date. The results of the overseas subsidiary and associated undertakings are expressed in sterling at the average rates of exchange applicable for the year.

The exchange differences arising from the retranslation of the opening net investment in overseas subsidiary 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.

(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.

(ii) 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.

2 Segmental and Geographical Analysis

	Continuing Operations £000s	Acquisition £000s	1997 Total £000s	1996 Total £000s
Turnover - United Kingdom	4,917	1,660	6,577	5,415
Rest of Europe	13,242	-	13,242	15,312
	18,159	1,660	19,819	20,727
Cost of sales	(12,914)	(951)	(13,865)	(14,604)
Gross profit	5,245	709	5,954	6,123
Net operating costs	(3,932)	(368)	(4,300)	(4,613)
Profit less losses from interests in associated undertakings	(38)	-	(38)	(60)
Operating profit	1,275	341	1,616	1,450
Interest payable and similar charges (net)	(216)	(35)	(251)	(285)
Profit on ordinary activities before taxation	1,059	306	1,365	1,165

Net operating costs comprise:

	Continuing Operations £000s	Acquisition £000s	1997 Total £000s	1996 Total £000s
Administration expenses	1,787	149	1,936	2,006
Distribution costs	2,145	219	2,364	2,607
	3,932	368	4,300	4,613

Profit before tax by geographical location is as follows:

	Continuing Operations £000s	Acquisition £000s	1997 Total £000s	1996 Total £000s
United Kingdom	595	306	901	674
Rest of Europe	508	-	508	558
Rest of the World	(44)	-	(44)	(67)
	1,059	306	1,365	1,165

Net assets by geographical location is as follows:

	Continuing Operations £000s	Acquisition £000s	1997 Total £000s	1996 Total £000s
United Kingdom	1,909	335	2,244	1,513
Rest of Europe	3,932	-	3,932	4,270
Rest of the World	610	-	610	371
	6,451	335	6,786	6,154

Turnover analysed by customer location is as follows:

	Continuing Operations £000s	Acquisition £000s	1997 Total £000s	1996 Total £000s
United Kingdom	4,042	361	4,403	4,317
Rest of Europe - Benelux countries	3,131	146	3,277	3,510
Germany	3,211	45	3,256	2,916
Scandinavian countries	2,253	85	2,338	2,240
France	911	11	922	1,422
Others	2,860	726	3,586	3,870
Rest of World	1,751	286	2,037	2,452
	18,159	1,660	19,819	20,727

3 Profit on Ordinary Activities Before Taxation

The profit on ordinary activities before taxation is stated after charging:

	1997 £000s	1996 £000s
Staff costs (see note 4)	7,755	8,264
Depreciation	814	879
Operating lease rentals:		
Other operating leases	117	125
Auditors' remuneration:		
Audit	83	77
Non audit	47	41

The Auditors' remuneration in respect of the company amounted to £19,000 (1996: £19,000). In addition the sum of £10,000 was paid to the Auditors for professional services in connection with the acquisition of AMI. This has been included in the £366,000 cost of the acquisition (see note 19).

Details of directors' emoluments are shown in the report of the remuneration committee on pages 17 and 18.

4 Employees

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

	Continuing Operations £000s	Acquisition £000s	1997 Total £000s	1996 Total £000s
Wages and salaries	6,026	199	6,225	6,591
Social security costs	1,172	20	1,192	1,329
Other pension costs	334	4	338	344
	7,532	223	7,755	8,264
Average number of employees	321	22	343	332

5 Interest Payable and Similar Charges (Net)

	1997 £000s	1996 £000s
Interest payable on loans and borrowings wholly repayable within five years:		
Bank loans and overdrafts	141	111
Finance leases and hire purchase contracts	9	9
	150	120
On long term borrowings	139	181
Interest receivable and similar income	(38)	(16)
	251	285

6 Taxation

The tax charge is made up as follows:

	1997 £000s	1996 £000s
United Kingdom taxation		
Corporation tax at 31.5%:		
Current year	134	231
Prior year	(48)	(73)
Advance corporation tax set-off	10	(140)
	96	18
Overseas taxation		
Local taxation:		
Current year	299	268
Prior year	(3)	-
Deferred taxation	(78)	(41)
Group share of taxation attributable to associated undertakings	14	12
	232	239
Group tax charge for the year	328	257

7 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 for the financial year dealt with in the accounts of the holding Company is £182,000 (1996: £125,000).

8 Dividends Paid and Proposed

No dividend has been paid and no dividend is proposed for 1997 (1996: £Nil).

9 Earnings Per Share

The calculation of earnings per share is based on the profit on ordinary activities after taxation of £1,037,000 (1996: £908,000) and on 16,746,857 ordinary shares, being the weighted average number of ordinary shares in issue and ranking for a full year's dividend (1996: 16,084,206 ordinary shares).

10 Tangible Fixed Assets

Movements during the year have been as follows:

	The Group				The Company
	Freehold land and buildings £000s	Short lease land and buildings £000s	Plant and machinery £000s	Total £000s	Plant and machinery £000s
Cost or valuation					
At 1 January 1997	4,043	182	9,606	13,831	29
Additions at cost	32	13	693	738	-
Acquisition of subsidiary	210	-	270	480	-
Disposals	-	-	(223)	(223)	(29)
Currency translation adjustments	(391)	(17)	(811)	(1,219)	-
At 31 December 1997	3,894	178	9,535	13,607	-
Depreciation					
At 1 January 1997	702	42	6,262	7,006	29
Amount provided for the year	96	8	710	814	-
Disposals	-	-	(218)	(218)	(29)
Currency translation adjustments	(86)	(3)	(526)	(615)	-
At 31 December 1997	712	47	6,228	6,987	-
Net book amount					
At 31 December 1997	3,182	131	3,307	6,620	-
At 31 December 1996	3,341	140	3,344	6,825	-

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 1997 as follows:

	The Group		The Company	
	1997 £000s	1996 £000s	1997 £000s	1996 £000s
Cost	3,651	3,817	-	-
Aggregate depreciation	(776)	(651)	-	-
Net book amount	2,875	3,166	-	-

Included within cost of plant and machinery is £248,000 (1996: £295,000) held under finance leases and hire purchase contracts. The accumulated depreciation charge on these assets at 31 December 1997 was £80,000 (1996: £138,000).

Capital expenditure under contract of £18,000 (1996: £208,000) has not been provided for in the accounts.

11 Investments

The Group

Investments comprise the Group's interests in the associated undertakings shown on page 38. The movements during the year were as follows:

	1997 £000s	1996 £000s
Cost or amount under equity method of accounting at 1 January 1997	826	945
Share of retained losses of associated undertakings	(130)	(121)
Capital investment	128	90
Reclassified from 'Amounts owed by associated undertakings'	50	-
Currency translation adjustments	14	(88)
Cost or amount under equity method of accounting at 31 December 1997	888	826

During the year the Group subscribed for a further £128,000 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.

The Group's equity share of the trading results of associated undertakings comprises:

	1997 £000s	1996 £000s
Profit less losses before tax	(38)	(60)
Taxation	(14)	(12)
Profit after tax	(52)	(72)
Dividends payable	(78)	(49)
Losses withdrawn for the year	(130)	(121)

Sales made to associated companies amounted to £27,000 (1996: £22,000).

The Group's equity share of the balance sheets of associated undertakings comprises:

	1997 £000s	1996 £000s
Capital invested	722	722
Post acquisition losses withdrawn plus currency translation differences	(261)	(145)
Loans	427	249
	888	826

The Company

Investments comprise the shares in subsidiary and associated undertakings shown on page 38.

	1997 £000s	1996 £000s
Cost less amounts written off at 1 January 1997	9,811	9,585
Investment in the year	494	1,090
Transfer of investment to subsidiary undertaking	(8,510)	(864)
Cost less amounts written off at 31 December 1997	1,795	9,811

12 Stocks

	The Group 1997 £000s	1996 £000s	The Company 1997 £000s	1996 £000s
Raw materials and consumables	803	591	-	-
Work in progress	602	693	-	-
Finished goods and goods for resale	1,833	1,798	-	-
	3,238	3,082	-	-

13 Debtors

	The Group 1997 £000s	1996 £000s	The Company 1997 £000s	1996 £000s
Trade debtors	3,816	3,935	-	-
Amounts owed by group undertakings	-	-	-	30
Amounts owed by associated undertakings	70	74	24	72
Other debtors	152	140	-	70
Prepayments and accrued income	353	582	12	7
Taxation recoverable	-	-	244	206
	4,391	4,731	280	385

14 Creditors: Amounts Falling Due Within One Year

	The Group 1997 £000s	1996 £000s	The Company 1997 £000s	1996 £000s
Bank loans and overdrafts	1,558	1,673	-	-
Trade creditors	1,784	1,693	156	136
Amounts owed to group undertakings	-	-	238	8,731
Amounts owed to associated undertakings	9	21	-	-
Other creditors	141	102	68	43
Other taxation and social security	517	563	9	9
Accruals and deferred income	1,783	2,220	240	277
Corporation tax	340	295	-	-
Obligations under finance lease and hire purchase contracts (see note 15)	37	22	-	-
	6,169	6,589	711	9,196

15 Creditors: Amounts Falling Due After More Than One Year

	The Group		The Company	
	1997	1996	1997	1996
	£000s	£000s	£000s	£000s
Bank loans	1,421	1,969	-	-
Obligations under finance lease and hire purchase contracts	83	84	-	-
Corporation tax	25	-	-	-
	1,529	2,053	-	-

The bank loans consist of ten foreign currency denominated loans held by subsidiary undertakings. The foreign currency denominated loans are repayable over periods of between 1 and 9 years and bear interest at rates of between 4.90% 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	
	1997	1996	1997	1996
	£000s	£000s	£000s	£000s
Within 2 years	73	44	1,950	2,106
Within 2-5 years	47	62	743	1,093
After 5 years	-	-	288	443
	120	106	2,981	3,642
Within 1 year	(37)	(22)	(1,560)	(1,673)
	83	84	1,421	1,969

Total borrowings not wholly repayable within five years amount to £812,000 (1996: £1,035,000).

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

	1997	1996
	£000s	£000s
Sterling	62	-
Dutch Guilders	2,709	3,256
German Marks	210	377
Norwegian Kroner	-	9
	2,981	3,642

Dutch Guilders bank borrowings are secured by fixed and floating charges over the assets of DMI (Europe) BV, a charge over the shares 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.

16 Provisions for Liabilities and Charges

Provisions for liabilities and charges comprise:

	The Group 1997 £000s	The Group 1996 £000s	The Company 1997 £000s	The Company 1996 £000s
Deferred taxation	210	369	-	-
Provision for environmental costs	150	292	-	-
Provision for property costs	534	698	534	698
	894	1,359	534	698

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 1997	369	292	698
Subsidiaries acquired	4	-	-
Transfer to profit and loss account	(78)	-	-
Cash paid	-	(113)	(164)
Currency adjustments	(85)	(29)	-
Balance at 31 December 1997	210	150	534

The deferred taxation provided in the accounts comprises:

	The Group 1997 £000s	The Group 1996 £000s	The Company 1997 £000s	The Company 1996 £000s
Deferred taxation in overseas subsidiary undertakings	210	369	-	-

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 1997 £000s	The Group 1996 £000s	The Company 1997 £000s	The Company 1996 £000s
Accelerated capital allowances	(13)	57	3	4
Short term timing differences	308	384	220	286
Tax effects of trading losses	290	406	290	337
ACT recoverable	846	836	444	437

Capital losses available in the Group are estimated at (gross) £1,200,000 (1996: £1,200,000) and in the Company at £900,000 (1996: £900,000).

17 Called Up Equity Share Capital

	5p Ordinary shares	
	1997	1996
	£000s	£000s
Allotted	840	804
Authorised	1,350	1,350

On 30 January 1997, 722,892 ordinary shares of 5p each were issued and allotted as part of the consideration for the acquisition of AMI. Total consideration for the shares issued was £300,000.

Of the un-issued shares, 804,000 are reserved for the share option schemes approved by the shareholders on 31 May 1984 and 23 May 1996. At 31 December 1997 options under the schemes were outstanding in respect of 550,000 ordinary shares and are first exercisable at dates between April 1997 and April 2006 at amounts varying between 32p and 74p per share.

18 Reserves

	Share premium account £000s	Revaluation reserve £000s	Other reserve £000s	Profit & loss account £000s
The Group				
At 1 January 1997	6,897	315	-	(1,862)
Profit for the financial year	-	-	-	1,037
Realised on disposal or depreciation of revalued tangible fixed assets	-	(6)	-	6
Issue of shares	264	-	-	-
Goodwill written-off	-	-	-	(200)
Currency translation adjustments	-	4	-	(509)
At 31 December 1997	7,161	313	-	(1,528)
The Company				
At 1 January 1997	6,897	-	342	(6,761)
Profit for the financial year	-	-	-	182
Issue of shares	264	-	-	-
At 31 December 1997	7,161	-	342	(6,579)

The total goodwill eliminated against consolidated reserves amounts to £1,358,000 (1996: £1,158,000).

19 Cash Flow Statement

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

		1997		1996
	£000s	£000s	£000s	£000s
Operating profit		1,616		1,450
Depreciation charges		814		879
Profit on sale of tangible fixed assets		-		(12)
Profits less losses of associated undertakings	38		60	
Dividend from associated undertakings	78		49	
Profit less loss of associated undertakings less dividend received		116		109
Increase in stocks		(235)		(148)
Decrease/(increase) in debtors		334		(38)
Decrease in creditors		(265)		(81)
Net cash inflow from operating activities		2,380		2,159
Net cash outflow in respect of restructuring and reorganisation costs (provided in prior years)		(365)		(239)
Net cash inflow from operating activities		2,015		1,920

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

Analysis of net debt:

	At 31 January 1997 £000s	Cash Flow £000s	Acquisition £000s	New finance leases £000s	Exchange movements £000s	At 31 December 1997 £000s
Cash at bank and in hand	691	(424)	-	-	(25)	242
Overdrafts	(1,182)	(70)	-	-	93	(1,159)
Total cash	(491)	(494)	-	-	68	(917)
Debt due < 1 year	(491)	29	-	-	61	(401)
Debt due > 1 year	(1,969)	302	-	-	246	(1,421)
Finance leases	(106)	28	-	(42)	-	(120)
	(2,566)	359	-	(42)	307	(1,942)
Total	(3,057)	(135)	-	(42)	375	(2,859)

19 Cash Flow Statement (continued)

Acquisition of subsidiary undertaking:

On 30 January 1997, the Group acquired the entire share capital of AMI in the UK for a total cost of £366,000. Details of the cash flows arising and net assets acquired are set out below:

	Net book value and fair value £000s
Fixed assets	480
Stocks	203
Debtors	428
Cash at bank and in hand	296
Creditors	(437)
Bank overdrafts	(800)
Deferred tax	(4)
Net assets acquired	166
Goodwill written off on acquisition	200
Total cost of acquisition including acquisition expenses	366
Satisfied by:	
Cash	66
Shares allotted	300

Total borrowings arising out of the acquisition amounted to £570,000 (comprising overdraft of £800,000, cash at bank of £296,000 and acquisition expenses of £66,000).

The profits after taxation of AMI prior to acquisition were as follows:

	£000s
30 April 1996 to 31 January 1997	132
Financial year ended 30 April 1996	270

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

	Continuing operations £000s	Acquisition £000s	Total £000s
Cash inflow from operating activities	1,799	216	2,015
Returns on investments and servicing of finance	(223)	(32)	(255)
Taxation	(231)	(183)	(414)
Capital expenditure	(670)	(63)	(733)
Acquisitions and disposals	(748)	-	(748)
Financing	(359)	-	(359)
Net cash outflow	(432)	(62)	(494)

20 Contingent Liabilities

The contingent liabilities of the Company not provided in the accounts at 31 December 1997 include guarantees of bank borrowings in respect of subsidiary undertakings amounting to £3,704,000 (1996: £3,867,000). In addition the Group has given a guarantee to secure bank borrowings of £951,000 (1996: £980,000) in its joint venture DMI Automotive Inc. 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.

As set out in last year's Report and Accounts, the Company received notification during 1995 of a claim for £882,000 relating to the disposal of the Commercial Signs division on 30 October 1995 alleging breach of warranty. Legal proceedings for £931,000 (plus interest and costs) have been raised, but on the basis of legal advice the Company will continue to defend this claim. The Board considers it neither necessary nor appropriate to make any provision for the damages claimed, but a provision of £150,000 for legal fees was made in the accounts during 1995.

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 16). 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 in 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.

21 Operating Lease Commitments

The annual rental commitments at 31 December 1997 in respect of non-cancellable operating leases were as follows:

	Property		Equipment	
	1997 £000s	1996 £000s	1997 £000s	1996 £000s
The Group				
Operating leases which expire:				
Within one year	-	-	6	20
Between two and five years	-	-	95	64
Over five years	376	376	6	-
	376	376	107	84
The Company				
Operating leases which expire:				
Within one year	-	-	-	3
Between two and five years	-	-	33	-
Over five years	376	376	-	-
	376	376	33	3

22 Pension Costs

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

The total pension cost for the Group for the year was £338,000 (1996: £344,000). The pension costs relating to the UK 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 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.

23 Subsequent Events

At an Extraordinary General Meeting on 17 April, shareholders approved the issue by the Company of 17,640,431 shares at 36p through a placing and open offer and subscription to raise £6.0 million, net of expenses.

24 Restatement of 1996 Balance Sheet

The 1996 balance sheets have been restated to reclassify provisions for surplus property costs in the Company balance sheet and provisions for surplus property costs and environmental costs in the Group balance sheet to improve clarity of presentation. The result has been to reduce creditors: amounts falling due within one year by £95,000 in the Company balance sheet and £129,000 in the Group balance sheet, to reduce creditors: amounts falling due after more than one year by £603,000 in the Company balance sheet and £861,000 in the Group balance sheet, and to increase provisions for liabilities and charges by £698,000 in the Company balance sheet and £990,000 in the Group balance sheet.

Subsidiary and Associated Undertakings

The Group's significant subsidiary and associated undertakings during the year and at the date of this report are shown below. The 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 associated undertakings. + denotes an interest held by a subsidiary of the ultimate parent company.

	Country of incorporation and operation	Interest
At the date of this report		
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%
Diesel Marine International (France) SARL +	France	100%
AMI Exchangers Ltd	England	100%
DMI Automotive Inc* +	USA	50%
DMI (Japan) Ltd * +	Japan	50%
Piston Rings (UK) Ltd* +	England	50%
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 and associated undertakings are included within the consolidated financial statements. The financial year end of all of the above companies is 31 December.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at the Company's Registered Office (address shown below) on the 18th day of May 1998 at 11.30 am for the purpose of considering and, if thought fit, passing the following resolutions of the Company. Resolutions 1 to 3 are ordinary resolutions and resolution 4 will be proposed as a special resolution of the Company.

Routine Business

1. To receive the Statement of Accounts for the year ended 31 December 1997 and the reports of the directors and auditors thereon.

2. To re-elect James Leek as a director.

3. To re-appoint the auditors, Price Waterhouse, and authorise the directors to fix their remuneration.

Special Business

4. That the Articles of Associations in the form of the draft produced to the meeting and, for the purposes of identification only, signed by the Chairman of the Meeting, be and are hereby approved and adopted as the Articles of Association of the Company in substitution for and to the exclusion of the Company's existing Articles of Association.

Torday & Carlisle PLC
Registered Office
West Chirton Industrial Estate
Gloucester Road
North Shields
20 April 1998

By order of the Board
STEPHEN M SCOTT
Secretary

NOTE:

1) A member of the Company entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and, on a poll, vote in his or her place. A proxy need not be a member of the Company. A form of proxy is included as an insert to this document.

2) Directors' service contracts and the proposed new Articles of Association referred to in resolution 4 will be available for inspection, by any member, for a period of one hour preceding the meeting and during the meeting. Service contracts will also be available for inspection by any interested party, during normal office hours from the date of this notice until the date of the meeting at the Company's registered office. The proposed new Articles of Association will also be available for inspection by any interested party during normal office hours from the date of this notice until the day of the meeting at the offices of Apax Partners & Co., Corporate Finance Ltd., 15 Portland Place, London W1N 3AA.

To be valid, a form of proxy and, if applicable, any authority under which it is signed, or a certified copy of such authority, should be lodged at the offices of IRG plc at Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4BR not later than 48 hours before the time appointed for holding the meeting. Completion and return of a form of proxy will not prevent a member from attending and voting at the meeting should he or she so wish.

The Company pursuant to regulation 3 of the Uncertificated Securities Regulations 1995 specifies that only those shareholders registered in the Register of Members of the Company as at 11.30 am on 16 May 1998 shall be entitled to attend or vote at the aforesaid meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 11.30 am on 16 May 1998 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Information on the Company's New Articles of Association

In recent years the requirements of the Listing Rules of the London Stock Exchange in connection with Articles of Association have been amended on a number of occasions. Your Directors are therefore seeking authority to adopt new Articles of Association ("the New Articles") which reflect these changes. The New Articles also contain certain other improvements.

In connection with resolution 4 to be proposed at the Annual General Meeting, this is a summary of the amendments to be effected to the Company's Articles of Association by the adoption of the New Articles with the exception of those changes of a minor, drafting or technical nature.

The New Articles will be available for inspection during usual business hours on any week day (Saturdays excepted) from the date of this document until the close of the Annual General Meeting of the Company to be held on 18 May 1998 at the offices of Apax Partners & Co., Corporate Finance Ltd., 15 Portland Place, London, W1N 3AA and for at least 15 minutes prior to and during the meeting at West Chirton Industrial Estate, Gloucester Road, North Shields, NE29 8RQ.

Information on the Company's New Articles of Association (continued)

The principal amendments to be effected by the New Articles are as follows:-

New provisions throughout the New Articles make the New Articles entirely consistent with dealings in the Company's ordinary share capital through the CREST system and with the holding of shares in uncertificated form.

New Article 33 restricts the Company's first and paramount lien on every share (not being a fully paid share) to all moneys called or payable at a fixed time in respect of such share and does not extend the lien to any other debts or liabilities of the registered holder to the Company.

New Article 39 means that the Director's discretion to refuse to register any transfer of shares in certificated form (not being fully paid shares) may not be exercised so as to prevent dealings in the shares from taking place on an open and proper basis.

New Article 47 will allow the Company to sell any additional shares issued to an untraced shareholder subject to certain restrictions.

New Article 48 will extend and clarify the Company's existing powers to impose sanctions on shareholders who fail to comply with a notice given under section 212 of the Companies Act 1985 (as amended by the Companies Act 1989) requiring information as to the beneficial ownership of shares. In accordance with the Listing Rules of the London Stock Exchange, the sanctions which the Company may impose comprise of disenfranchisement from voting and, when the shares comprise at least 0.25% of the issued shares of that class, the suspension of dividends and registration of transfers.

Subject to the Companies Act 1985, New Article 49 will continue to entitle the Company to purchase its own shares. Unlike the existing Articles of Association of the Company, however, this power will be subject to neither a maximum price limit fixed by reference to the price of the shares in the ten business days preceding the purchase nor the restriction that, if purchases are to be made by tender, the opportunity to tender will be made available on the same basis to all shareholders.

On requisition by the members, new Article 51 will require the Directors to forthwith convene an extraordinary general meeting of the Company for a date not later than 28 days after the date of the notice of convening the meeting.

New Article 62 will allow the Chairman, with the consent of a meeting at which a quorum is present (or if in his opnion it is necessary in order to facilitate the business of the meeting) and shall if so directed by the meeting, to adjourn a general meeting of the Company.

New Article 81 confirms that the Company's Directors may send out instruments of proxy to the members at the expense of the Company.

New Article 89 will require all the Directors of the Company to retire by rotation and not just the non-executive Directors as at present.

New Article 96(g) will allow the Directors to request the resignation of a Director in writing.

New Article 104 will allow the Directors to exercise any statutory powers in relation to the transfer of undertakings.

New Article 122 clarifies the circumstances in which the Director may vote on a resolution in which he has a material interest, in accordance with the latest rules of the London Stock Exchange in this respect.

New Article 139 will allow the Company to issue cheques or warrants in respect of dividends and to also make payment by any form of electronic media to a bank account. The Company will also be allowed to stop issuing cheques or warrants in respect of dividends if two consecutive cheques are returned or not cashed until such time as the member concerned communicates to the Company his or her new address.

New Article 142 will enable the Directors to capitalise any profits and reserves to cater for any adjustment to the subscription price of any employee share options as a result of alterations to the share capital of the Company which would otherwise result in the subscription price falling below the nominal value of the shares.

New Article 143 also allows the Directors to pay a scrip dividend wholly in cash if it appears desirable to do so because of a change in circumstances.

New Article 145 permits the Company, in accordance with Section 251 of the Companies Act 1985, to send a summary financial statement to members or debenture holders.

New Article 154 will allow a general meeting to be convened by an advertisement in at least one United Kingdom national newspaper if suspension or curtailment of postal services means that the Company is unable effectively to convene a general meeting by notices sent through the post.

New Article 157 will allow the Company in accordance with the changes introduced by the Companies Act 1989, to purchase insurance for its Directors and other officers.