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· ASSOCIATED BRITISH ENGINEERING PLC ·

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ANNUAL REPORT FOR 2001

CONTENTS

FINANCIAL HIGHLIGHTS

	2001 £000s	2000 £000s
TURNOVER ON		
CONTINUING OPERATIONS	3,812	3,363
LOSS BEFORE TAXATION ON		
ORDINARY ACTIVITIES	(156)	(3335)
CONTINUING OPERATIONS	(453)	(209)
NET CASH	1,991	1,116
	PENCE	PENCE
LOSS PER £2 ORDINARY SHARE ON		
CONTINUING OPERATIONS	(39)p	(20)p
EQUITY SHAREHOLDER FUNDS		
PER £2 ORDINARY SHARE	245p	260p

CHAIRMAN'S STATEMENT

The Group made a pre-tax loss of £156,000, which includes a loss of £453,000 in respect of the continuing operations. This compares with a Group pre-tax loss of £3,335,000 last year of which £209,000 was in respect of continuing operations.

The Group has taken action to stem these losses by reducing the central overhead costs and restructuring a trading division of British Polar Engines, which incurred operating losses of £203,000 in the year ended 31 March 2001. The cost of this restructuring is £256,000. Costs of £156,000 were incurred during the year and are included in these accounts and £100,000 has been incurred after the balance sheet date. These actions are designed to enable the Group to trade profitably.

On 14 December 2000 the Company announced that it had acquired the fixed assets and business of Kelvin Diesels, a similar business to British Polar Engines. This business has now been successfully integrated into the operations of British Polar Engines and we are experiencing some success by reinvigorating the sales of Kelvin.

On 14 March 2001 the shareholders approved the sale of the site at Havant and the proceeds were received just prior to the year-end. This has continued the policy of realising cash from assets which are surplus to the Group's operating requirements. The net cash inflow of the Group of £794,000 for the year allowed the Group to increase its net cash resources to £1,991,000 at the year-end.

There have also been a number of Board changes. On 31 May 2000 Michael Barry ceased to be Managing Director and resigned from the Board and on 31 October 2000 Jonathan Davies retired as a director and I became Chairman. These two retiring directors had between them over 40 years experience of the Group and I would like to thank them for their commitment over such a long period.

The Board continues to review opportunities for developing the Group but in the current economic climate we are being careful about the types of business in which we wish to become involved. We are however giving serious consideration to those situations, which we believe, may be of interest to our shareholders. We will keep shareholders informed of developments.

I would like to finish by thanking our loyal employees for their dedicated commitment to the continuing operations in a changing environment. It is a measure of their commitment that we can continue to develop the operations and consider opportunities despite these changes.

Rupert Pearce Gould
Chairman
6 August 2001

DIRECTORS' REPORT

The directors submit their report and audited accounts for the year ended 31 March 2001.

ACTIVITIES

During the year the Company has acted as a parent undertaking for subsidiaries engaged in diesel and related engineering activities. Details of the trading subsidiaries are set out on page 20.

RESULTS AND DIVIDENDS

The Group loss for the year on ordinary activities before taxation amounted to £156,000 (2000 loss of £3,335,000). The directors do not recommend a dividend on the ordinary shares for the year (2000 nil per ordinary share).

DIRECTORS

The names of the directors who served during any part of the period from 1 April 2000 to 31 March 2001 are:

Hon J H Davies	retired on 31 October 2000
Mr M J Barry	resigned on 31 May 2000
Mr D A H Brown	non-executive Director
Mr S J Cockburn	non-executive Director
Mrs K M Hill	Finance Director and Company Secretary
Mr P I Janardanan	resigned on 31 May 2000
Mr R A Pearce Gould	Chairman

Biographical details of the present directors are set out on page 39.

All the directors served throughout the year except where their resignation or retirement are set out above.

In accordance with the articles of association, Mr S J Cockburn and Mrs K M Hill retire by rotation as directors of the Company and, being eligible, offer themselves for re-election. Their biographical details are set out in page 39. Mr S J Cockburn does not have a service contract with the Company.

SUBSTANTIAL HOLDINGS

As at 12 July 2001 the Company had been notified of the following substantial interests in the issued ordinary share capital of the Company:

Pershing Keen Nominees Limited – account PSL991 (on account of discretionary clients)	16.7 per cent
R A Pearce Gould – account CMC (on behalf of Cambridge Management Consultants Limited)	8.8 per cent
J P Tucker	4.0 per cent
R R Harris and R H Cutts (Registered in the name of Sun Life Pensions Management Limited)	3.8 per cent
J R M Keatley	3.2 per cent

DIRECTORS' REPORT

BENEFICIAL INTEREST IN SIGNIFICANT CONTRACTS

None of the directors had a material interest in any contract of significance to which the Company or any of its subsidiaries was party during the year.

BENEFICIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

The beneficial interests of the directors, their spouses and children (if any), in the share capital of the Company according to the register kept by the Company under section 325 of the Companies Act 1985 as at 1 April 2000 and 31 March 2001 were as follows:

	Ordinary shares of £2 each Preference shares		7 per cent Cumulative		8 per cent Cumulative Redeemable Preference shares	
	2001	2000	2001	2000	2001	2000
D A H Brown	100	100	-	-	-	-
S J Cockburn	1,250	1,250	55,314	55,314	2,000	2,000
K M Hill	500	500	-	-	-	-
R A Pearce Gould	115,750	110,750	-	-	-	-

At the relevant dates Mr S J Cockburn had a non beneficial interest in 10,000 7 per cent cumulative preference shares. No director had any interest in the shares of any subsidiary.

At the relevant dates (except where otherwise indicated) the directors also had the following options to subscribe for ordinary shares in the Company after a period of three years and within a period of ten years from date of grant:

	Date of Grant		Exercise Price £	Number of options
M J Barry	9 July 1990	(lapsed 31 May 2000)	8.00	12,500
	11 July 1994	(lapsed 31 May 2000)	8.50	12,500
K M Hill	13 December 1991		8.00	480
	11 July 1994		8.50	1,000
	6 January 2001		2.00	1,500

None of the non-executive directors participates in the Company's share option scheme.

The exercise price is the market price at the date of issue of the options. Other than those that have been disclosed, no options lapsed, were granted to, or exercised by any director or member of his immediate family during the year. The market price of the Company's shares at 31 March 2001 was 192.5p and the equivalent range of market prices for the £2 ordinary share during the year was between 166.5p and 415p.

DIRECTORS' REPORT

In addition on 3 January 2001 the company granted Cambridge Management Consultants Limited, which provides the services of Mr R A Pearce Gould, a long term incentive whereby it receives either a fee equal to the difference between the average closing mid-market price of the Ordinary Shares for the previous five trading days and 200p multiplied by 40,000 or the right to subscribe for 40,000 shares at an exercise price of 200p per share. This share option is exercisable until 6 months after Mr R A Pearce Gould ceases to be a director of the Company.

Since 31 March 2001 and up to and including 12 July 2001 there have been no changes in the directors' interests in the share capital of the Company save that Mr R A Pearce Gould has become a trustee of the Pension Fund in the place of Mr J H Davies who has retired and therefore has a non-beneficial interest in 17,500 ordinary shares.

CHARITABLE AND POLITICAL DONATIONS

The Group made no charitable or political donations during the year.

EMPLOYEE INVOLVEMENT

We have maintained our commitment to employee involvement throughout the business. Staff are kept informed of the performance and objectives of the Group through the interim and annual published results and staff meetings. Working teams allow management to meet with staff representatives, providing opportunities for staff to contribute to the every day running of the business.

DISABLED PERSONS

It is the Company's policy to give sympathetic consideration to the recruitment, continuing employment, training, career development and promotion of disabled persons.

CREDITOR PAYMENT POLICY

The Company's current policy concerning the payment of the majority of its trade creditors is to follow the Better Payment Practice Code co-ordinated by the Better Payment Practice Group. For other suppliers, the Company's policy is to:

(a) Settle the terms of payment with those suppliers when agreeing the terms of each transaction;

(b) Ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and

(c) Pay in accordance with its contractual and other legal obligations.

Wherever possible subsidiaries follow the same policy. The average number of days which the company took to pay trade creditors was 30 days.

DIRECTORS' REPORT

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on Monday 17 September 2001 at 11.30am at which the following business will be proposed as special business.

RESOLUTION 5 – DISAPPLICATION OF PRE-EMPTION RIGHTS

In accordance with section 95 of the Companies Act 1985, it is proposed to renew for a further year the authority of the directors to allot equity securities for cash without first being required to offer such securities to shareholders of the Company by way of rights issue and, in other cases, to any issue of equity securities representing no more than 131,342 ordinary shares, equivalent to 10 per cent of the issued ordinary share capital of the Company. The authority will terminate no later than fifteen months after the passing of this resolution.

AUDITORS

In accordance with sections 384 and 390A of the Companies Act 1985 a resolution to re-appoint Grant Thornton as auditors to the Company and authorise the directors to fix their remunerations will be put to the annual general meeting.

On behalf of the board
Mrs K M Hill
Finance Director and Company Secretary
6 August 2001

ACCOUNTING POLICIES

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

BASIS OF ACCOUNTING

The accounts are prepared on the historical cost basis modified to include the revaluation of certain land and buildings.

BASIS OF CONSOLIDATION

The Group accounts incorporate the accounts of Associated British Engineering plc and its subsidiary undertakings to 31 March. The Group accounts include the results of subsidiaries acquired or disposed of during the year from or to the effective date of acquisition or disposal.

GOODWILL

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill acquired is capitalised and amortised through the profit and loss account over its useful economic life.

TURNOVER

With the exception of long term contracts, turnover represents amounts invoiced for goods sold and services rendered, net of value added tax.

For long term contracts turnover represents the sales value of work done, according to the stage reached in the contract, calculated by reference to the total sales value of each contract.

STOCK

With the exception of long-term contracts, stocks of raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. Work in progress and finished goods include an appropriate allocation of overheads.

For long-term contracts, work in progress is valued at cost including attributable overheads, less amounts transferred to cost of sales relating to the turnover recognised on these contracts and related foreseeable losses.

GOVERNMENT GRANTS

Fixed assets purchased with the assistance of grants are recorded at their full cost with the corresponding grant included within accruals and deferred income. Grants received and receivable in respect of additions to fixed assets and which have been credited to deferred income are credited to the profit and loss account at the same rates at which the assets are depreciated.

ACCOUNTING POLICIES

LEASED ASSETS

The annual rentals on operating leases are charged to the profit and loss account on a straight-line basis over the lease term. Leasing agreements, which transfer to the Group substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

TANGIBLE FIXED ASSETS

Freehold land is not depreciated. Other fixed assets are depreciated over their estimated useful lives at the following annual rates applied to cost or valuation:

Freehold & long leasehold buildings	2-5 per cent
Short leasehold buildings	Over life of lease
Plant & Machinery	7½ - 33⅓ per cent

DEFERRED TAXATION

Provision is made for deferred taxation in respect of timing differences using the liability method to the extent that, in the opinion of the directors, a taxation liability is expected to crystallise.

FOREIGN CURRENCIES

The results of overseas companies are translated into sterling at the rates of exchange ruling at each month end. Assets and liabilities of overseas companies in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and consequential adjustments to balances are dealt with through reserves. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

PENSIONS

Contributions to the Group's defined benefit pension scheme are charged to the profit and loss account so as to spread the cost over the average service lives of the participating employees.

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GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2001

		Notes	2001 £000s	2000 £000s
Turnover	- Continuing operations	1	3,812	3,363
	- Discontinued operations		-	20,027
			3,812	23,390
Operating loss	- Continuing operations	2	(504)	(334)
	- Discontinued operations		-	(713)
			(504)	(1,047)
Exceptional costs on the sale of business		5a	-	(117)
Exceptional profit/(loss) on discontinued operations		5b	297	(1,618)
(Loss)/profit on ordinary activities before finance costs				
	- Continuing operations		(504)	(334)
	- Discontinued operations		297	(2,448)
			(207)	(2,782)
Net finance income/(costs)	- Continuing operations	6	51	125
	- Discontinued operations		-	(678)
			51	(553)
(Loss)/profit on ordinary activities before taxation				
	- Continuing operations		(453)	(209)
	- Discontinued operations		297	(3,126)
			(156)	(3,335)
Taxation		7	(5)	-
Loss on ordinary activities after taxation			(161)	(3,335)
Equity minority interest			-	(23)
Loss for the financial year			(161)	(3,358)
Non-equity dividends		8	(51)	(51)
Retained loss		20	(212)	(3,409)
Loss per ordinary share				
- Continuing operations		10	(39)p	(20)p
- Basic		10	(16)p	(260)p

The accounting policies on pages 8 and 9 and the notes on pages 15 to 29 form part of these accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2001 £000s	2000 £000s
Loss for the financial year	(161)	(3,358)
Foreign exchange adjustment	22	101
Unrealised loss on the revaluation of the fixed asset investment properties	-	(370)
Total recognised gains and losses for the year	(139)	(3,627)

The foreign exchange adjustment represents exchange gains during the year relating to the restatement of the balance sheet and results of Danway Limited, incorporated in the Cayman Islands, using the exchange rate at 31 March 2001 (2000 using the exchange rate at 31 March 2000).

NOTE OF HISTORICAL COST PROFITS AND LOSSES

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £000s	2000 £000s
Total recognised gains and losses for the year - as above	(139)	(3,627)
Goodwill previously eliminated against reserves	-	1,120
Dividends paid	-	(51)
Other reserves disposed of	-	(25)
Net decrease in shareholders' funds	(139)	(2,583)
Shareholders' funds at 1 April 2000	4,126	6,709
Shareholders' funds at 31 March 2001	3,987	4,126

GROUP BALANCE SHEET

AS AT 31 MARCH 2001

	Notes	2001 £000s	2000 £000s
FIXED ASSETS			
Tangible assets	11	734	724
CURRENT			
Stock	14	1,751	1,389
Properties held for sale		-	921
Debtors - amounts falling due within one year	15	1,051	1,685
Cash at bank and in hand		2,019	1,203
		4,821	5,198
Creditors - amounts falling due within one year	16	1,519	1,721
Net current assets		3,302	3,477
Total assets less current liabilities		4,036	4,201
Creditors - amounts falling due after one year	16	17	38
Provisions for liabilities and charges	18	32	37
Net assets		3,987	4,126
CAPITAL AND RESERVES			
Called up share capital	19	3,339	3,339
Share premium account		5,038	5,038
Other reserves		11	11
Profit and loss account	20	(4,401)	(4,262)
Equity shareholders' funds		3,224	3,414
Non-equity shareholders' funds		763	712
Total shareholders' funds		3,987	4,126

The accounting policies on pages 8 and 9 and the notes on pages 15 to 29 form part of these accounts.

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BALANCE SHEET

AS AT 31 MARCH 2001

	Notes	2001 £000s	2000 £000s
FIXED ASSETS			
Tangible assets	11	-	50
Investments	13	3,406	3,406
		3,406	3,456
CURRENT ASSETS			
Properties held for sale		-	921
Debtors - amounts falling due after one year	15	1,690	983
Debtors - amounts falling due within one year	15	25	1,052
Cash at bank and in hand		1,769	966
		3,484	3,922
Creditors - amounts falling due within one year	16	694	1,079
Net current assets		2,790	2,843
Total assets less current liabilities		6,196	6,299
Creditors - amounts falling due after one year	16	2,292	2,301
Provisions for liabilities and charges	18	32	37
Net assets		3,872	3,961
CAPITAL AND RESERVES			
Called up share capital	19	3,339	3,339
Share premium account		5,038	5,038
Other reserves		212	212
Profit and loss account	20	(4,717)	(4,628)
Equity shareholders' funds		3,109	3,249
Non-equity shareholders' funds		763	712
Total shareholders' funds		3,872	3,961

Approved by the board on 6 August 2001 and signed on its behalf by:

Mrs K M Hill, Director

R A Pearce Gould, Director

The accounting policies on pages 8 and 9 and the notes on pages 15 to 29 form part of these accounts.

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GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2001

	2001 £000s	2000 £000s
OPERATING ACTIVITIES		
Cash flow from operating activities	(755)	(498)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Finance income received	56	191
Finance costs paid	(3)	(702)
Finance cost element of finance lease rental payments	(2)	(42)
Preference dividends paid	-	(51)
Net cash flow from returns on investments and servicing of finance	51	(604)
TAXATION		
UK Taxation paid	-	(5)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of tangible fixed assets	(83)	(213)
Net proceeds on sale of tangible fixed assets	45	8
Net cash flow from capital expenditure and financial investment	(38)	(205)
ACQUISITIONS AND DISPOSALS		
Acquisition of Kelvin Diesels	(300)	-
Sale of the Middle East operations	121	6,507
Discontinued catering equipment operations	889	77
Properties held for sale	885	-
Net cash flow from disposals	1,595	6,584
Cash inflow before financing	853	5,272
FINANCING		
Decrease in debt	(12)	(384)
Capital element of finance lease repayments	(47)	(110)
	(59)	(494)
Increase in cash in the year	794	4,778

A detailed analysis is given in note 21.

NOTES TO THE ACCOUNTS

1 SEGMENTAL ANALYSIS

	Turnover		(Loss)/profit before taxation		Net assets	
	2001	2000	2001	2000	2001	2000
	£000s	£000s	£000s	£000s	£000s	£000s
British Polar Engines	3,812	3,363	(161)	53	2,304	2,007
Common expenses/ net assets	-	-	(343)	(387)	1,683	2,119
Continuing operations	3,812	3,363	(504)	(334)	3,987	4,126
Middle East operations	-	12,844	-	549	-	-
Catering equipment	-	7,183	-	(610)	-	-
Common expenses	-	-	-	(652)	-	-
Discontinued operations	-	20,027	-	(713)	-	-
Turnover/net assets	3,812	23,390			3,987	4,126
Operating loss			(504)	(1,047)		
Exceptional items:						
- Costs of sale			-	(117)		
- Discontinued operations			297	(1,618)		
Net finance income/(costs)			51	(553)		
Loss before taxation			(156)	(3,335)		

This year all turnover, profits and losses and net assets, other than those of the Cayman Islands, originate in the United Kingdom. During the year there were no inter-segment sales (2000: £nil)

Analysis of turnover by geographical destination:

	2001 Continuing £000s	2000 Continuing £000s	2000 Discontinued £000s
United Kingdom	2,295	1,916	6,722
Europe	671	486	65
Middle East	128	-	12,859
Far East and Australasia	250	155	26
Africa	16	-	335
North and South America	452	806	20
	3,812	3,363	20,027

NOTES TO THE ACCOUNTS

2 OPERATING LOSS

	2001 Continuing £000s	2000 Continuing £000s	2000 Discontinued £000s
Turnover	3,812	3,363	20,027
Changes in stocks of finished goods and work in progress	(323)	214	599
Raw materials and services	2,901	1,730	16,325
Loss on disposal of property	36	-	-
Staff costs (note 3)	1,500	1,547	3,145
Auditors' remuneration for audit (Company £20,000 (2000 £22,000))	36	38	18
Depreciation on tangible fixed assets			
- owned	122	101	218
- under finance leases	-	35	111
Deferred Government grant credit	(2)	(9)	-
Operating lease rentals - land and building	-	-	237
Operating lease rentals - plant and machinery	46	41	87
Net operating expenses	4,316	3,697	20,740
Operating loss	(504)	(334)	(713)
Discontinued operating loss	-	(713)	
	(504)	(1,047)	

An amount of £21,000 (2000 £40,000) was paid to the auditors in respect of the provision of non audit services during the year.

3 STAFF COSTS AND EMPLOYEES

	2001 Number	2000 Number
The average monthly number of persons employed by the Group, including executive directors, during the year was:		
Middle East Operations	-	716
Catering equipment	-	67
British Polar Engines	58	57
	58	840

	2001 £000s	2000 £000s
Staff costs for the above persons:		
Wages and salaries	1,285	4,326
Social security costs	107	204
Other pension costs	108	162
	1,500	4,692

NOTES TO THE ACCOUNTS

4 DIRECTORS' REMUNERATION

Details in respect of directors' remuneration are given in the report of the remuneration committee on page 36.

5 EXCEPTIONAL ITEMS

a) COSTS ON THE SALE OF BUSINESS

On 22 November 1999 the shareholders of the Company approved the sale of the Company's entire interest in the share capital of Danway LLC (Danway), the Group's Middle East business centered in Dubai in the United Arab Emirates. The loss of £117,000 is attributable to the costs associated with the transaction.

b) COSTS ON THE DISCONTINUED OPERATIONS

On 8 February 2000 the Company put its subsidiary, ABE Catering Equipment Limited, into administrative receivership resulting in a write off of £498,000 in 2000. Of this it has been possible to write back £297,000 in 2001. In addition, £1,120,000 of related goodwill previously eliminated against reserves was written off through the profit and loss account in 2000.

6. NET FINANCE COSTS

	2001 Continuing £000s	2000 Continuing £000s	2000 Discontinued £000s
Finance costs:			
On bank loans and overdrafts	(3)	(59)	(643)
On finance leases	(2)	(7)	(35)
	(5)	(66)	(678)
Other interest receivable	56	191	-
	51	125	(678)

7 TAXATION

	2001 £000s	2000 £000s
Coporation tax	5	-

The group has trading losses of approximately £650,000, surplus ACT of approximately £900,000 and capital losses of approximately £9 million available. These are available to set against future taxable trading profits, taxation liabilities and capital gains respectively. These amounts are subject to approval by the Inland Revenue.

NOTES TO THE ACCOUNTS

8 DIVIDENDS

	2001 £000s	2000 £000s
Dividends on non-equity shares		
Preference 7% (2000: paid)	39	39
Preference 8% (2000: paid)	12	12
	51	51

The company does not have distributable reserves and is, therefore, unable to pay the preference dividends. The cumulative amount of preference dividends unpaid at 31 March 2001 was £51,000 (2000 £ nil).

9 LOSS FOR THE FINANCIAL YEAR

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these accounts. The parent company's loss for the financial year was £89,000 (2000 loss £4,811,000) (see note 20).

10 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on:

	2001 £000s	2000 £000s
Loss after taxation and preference dividends:		
Continuing operations	(509)	(260)
Discontinued operations	297	(3,149)
	(212)	(3,409)
	Number	Number
Average number of ordinary shares in issue during the year	1,313,427	1,313,427

11 TANGIBLE FIXED ASSETS
GROUP

	Freehold land & buildings £000s	Plant & machinery £000s	Total £000s
Cost:			
At 31 March 2000	713	1,720	2,433
Additions	31	146	177
Disposals	-	(151)	(151)
At 31 March 2001	744	1,715	2,459
Depreciation:			
At 31 March 2000	331	1,378	1,709
Charge for the year	30	92	122
Disposals	-	(106)	(106)
At 31 March 2001	361	1,364	1,725
Net book value:			
At 31 March 2001	383	351	734
At 31 March 2000	382	342	724

Plant and machinery assets with a net book value of £6,000 (2000 £60,000) are held under finance leases.

COMPANY

	Plant & machinery: £000s
Cost:	
At 31 March 2000	112
Additions	2
Disposals	(114)
At 31 March 2001	-
Depreciation:	
At 31 March 2000	62
Charge for the year	7
Disposals	(69)
At 31 March 2001	-
Net book value:	
At 31 March 2001	-
At 31 March 2000	50

There are no plant and machinery assets held under finance leases (2000 £47,000).

NOTES TO THE ACCOUNTS

12 CAPITAL COMMITMENTS

The Group and Company had no capital commitments (2000 £nil).

13 FIXED ASSET INVESTMENTS – COMPANY SUBSIDIARY UNDERTAKINGS

	£000s
Cost and net book value at 1 April 2000 and 31 March 2001	3,406

The principal subsidiaries undertakings, both of which are wholly owned, are:-

Company	**Activity**	**Country of incorporation**
British Polar Engines Limited	Engineering	Great Britain
Danway Limited	Non-trading	Cayman Islands

14 STOCK - GROUP

	2001 £000s	2000 £000s
Raw materials	251	212
Work in progress	168	108
Finished goods	1,332	1,069
	1,751	1,389

The Company does not hold stock.

NOTES TO THE ACCOUNTS

15 DEBTORS

	Group 2001 £000s	Group 2000 £000s	Company 2001 £000s	Company 2000 £000s
Amounts falling due within one year:				
Trade debtors	974	510	-	-
Amounts due from group undertakings	-	-	20	102
Other debtors	39	1,168	4	943
Prepayments and accrued income	38	7	1	7
	1,051	1,685	25	1,052
Amounts falling due after one year:				
Amounts due from group undertakings	-	-	1,690	983
	1,051	1,685	1,715	2,035

16 CREDITORS

	Group 2001 £000s	Group 2000 £000s	Company 2001 £000s	Company 2000 £000s
Amounts falling due within one year:				
Bank loans	12	12	-	-
Obligations under finance leases	3	42	-	29
Trade creditors	812	497	-	-
Amounts due to group undertakings	-	-	420	39
Other taxation and social security	166	44	10	9
Other creditors	374	629	192	577
Accruals and deferred income	152	136	72	64
Provision for termination payments	-	361	-	361
	1,519	1,721	694	1,079

16 CREDITORS - Continued

	Group		Company	
	2001	2000	2001	2000
	£000s	£000s	£000s	£000s
Amounts falling due after one year:				
Bank loans	12	24	-	-
Obligations under finance leases	1	9	-	9
Amounts due to group undertakings	-	-	2,292	2,292
Other creditors	4	5	-	-
	17	38	2,292	2,301
Bank loans falling due after one year are repayable:				
Between 1 and 2 years	12	12	-	-
Between 2 and 5 years	-	12	-	-
	12	24	-	-
The net finance lease obligations are due:				
In one year or less	3	42	-	29
Between 1 and 2 years	1	6	-	6
Between 2 and 5 years	-	3	-	3
	4	51	-	38

17 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's financial instruments comprise of cash, some borrowings, and various items, such as trade debtors, trade creditors, etc, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has positive cash balances of £2 million at 31 March 2001.

Throughout the period under review, the Group has not traded in any financial instruments.

RISKS

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have been consistently applied throughout the period.

17 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS - Continued

INTEREST RATE RISK

The Group now finances its operations through a mixture of preference shares, cash balances and some borrowings. At the year-end 100 per cent (2000 100%) of the Group's borrowings were at a fixed rate of interest. The interest rate exposure of the financial liabilities of the Group as at 31 March 2001 and 31 March 2000 was as follows:

	2001 £000s	2000 £000s
Sterling		
- Preference shares	712	712
- Borrowings	28	87
	740	799

The interest rate of the preference shares is disclosed in note 19. The directors do not consider that the level of borrowings at 31 March 2001 expose the Group to significant risk, and have accordingly not calculated a weighted average interest rate or weighted average period for which interest rates are fixed.

The Group has no financial assets, other than short-term and long-term debtors and cash in bank.

LIQUIDITY RISK

The Group's liquidity is dependent on the cash balances available. The maturity profile of the Group's financial liabilities at 31 March 2001 and 31 March 2000 is set out in note 16.

FOREIGN CURRENCY RISK

Following the disposal of the Group's subsidiary in the Middle East, the Group no longer has any overseas trading subsidiaries. At 31 March 2001 the Group had approximately £168,000 held in a US Dollar account. The Group's sterling balance sheet is therefore affected by movements in the US Dollar. Generally sales are priced and invoiced to customers in sterling. All other monetary assets and monetary liabilities of the Group are denominated in sterling.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The directors consider that the fair values of the Group's financial instruments at 31 March 2001 and 31 March 2000 are not materially different from their book values.

18 PROVISIONS FOR LIABILITIES AND CHARGES

PENSIONS (note 25)	Group and Company £000s
At 1 April 2000	37
Profit and loss account	(5)
At 31 March 2001	32

DEFERRED TAXATION

The provision for deferred taxation required is as follows:

	Group		Company	
	2001 £000s	2000 £000s	2001 £000s	2000 £000s
Taxation deferred by capital allowances	-	24	-	18
Relief for losses and other timing differences	-	(24)	-	(18)
	-	-	-	-

The directors consider that there are currently no plans for the distribution of the retained reserves of the overseas subsidiary that would give rise to a UK corporation tax liability. Consequently no deferred tax provision is made in respect of such tax liability.

NOTES TO THE ACCOUNTS

19 CALLED UP SHARE CAPITAL

	Group and Company 2001 £000s	Group and Company 2000 £000s
Authorised:		
1,699,078 ordinary shares of £2 each	3,398	3,398
750,000 7% (formerly 4.9%) cumulative preference shares of £1 each	750	750
1,681,443 8% cumulative redeemable preference shares of £1 each	1,681	1,681
	5,829	5,829
Allotted, called up and fully paid:		
1,313,427 ordinary shares of £2 each	2,627	2,627
555,000 7% (formerly 4.9%) cumulative preference shares of £1 each	555	555
157,395 8% cumulative redeemable preference shares of £1 each	157	157
	3,339	3,339

Further to the Extraordinary General Meeting held on 1 September 1999 the ordinary shares have 200 votes per share.

The Company has the power to redeem the 8 per cent cumulative redeemable preference shares at par (together with arrears of dividends) at any time. The preference shares have a preferential right to return of capital on a winding up. All preference shares are non voting unless the dividends are six months in arrears or the resolution relates to the winding up of the Company or affects the rights attaching to them. Since the dividends are more than 6 months in arrears, the 8% cumulative redeemable preference shares of £1 each have 50 votes per share and the 7% cumulative preference shares of £1 each have 4 votes per share.

The Company operates an executive share option scheme under which options are granted with the guidance of the remuneration committee. On 6 January 2001 options over 1,500 ordinary shares were granted to 6 employees under the executive share option scheme at an exercise price of 200p per share. At 31 March 2001 the following options were unexercised.

Date of Grant	Dates exercisable	Price	Options
13th December 1991	Dec 1994 to Dec 2001	£8.00	480
11th July 1994	July 1997 to July 2004	£8.50	14,980
6th January 2001	Jan 2004 to Jan 2011	£2.00	1,500
			16,960

NOTES TO THE ACCOUNTS

20 PROFIT AND LOSS ACCOUNT

	Group £000s	Company £000s
At 1 April 2000	(4,262)	(4,628)
Foreign exchange adjustments	22	-
Retained loss	(212)	(140)
Cumulative preference dividends (see note 8)	51	51
At 31 March 2001	(4,401)	(4,717)

21 NOTES TO THE CASH FLOW STATEMENT

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

	2001 £000s	2000 £000s
Operating loss	(504)	(1,047)
Loss on disposal of property	36	-
Depreciation charges	122	465
Amount written off properties held for sale	-	50
Decrease in stocks	58	197
Increase in debtors	(291)	(821)
(Decrease)/increase in creditors	(171)	663
Decrease in pension provision	(5)	(5)
Net cash outflow from operating activities	(755)	(498)

21 NOTES TO THE CASH FLOW STATEMENT -Continued

Reconciliation of net cash flow to movement in net cash/(debt):

	2001 £000s	2000 £000s
Increase in cash in the year	794	4,778
Change in net debt	12	384
Capital element of finance lease payments	47	110
Disposals and closures	-	464
New finance leases	-	(56)
Foreign exchange difference	22	8
	875	5,688
Net debt at the beginning of the year	1,116	(4,572)
Net cash at the end of the year	1,991	1,116

Analysis of changes in net cash/(debt):

	2001 £000s	Cash flow £000s	Foreign exchange £000s	2000 £000s
Cash at bank and in hand	2,019	794	22	1,203
Debt due within one year	(12)	-	-	(12)
Debt due after one year	(12)	12	-	(24)
	(24)	12	-	(36)
Finance leases	(4)	47	-	(51)
Total	1,991	853	22	1,116

22 ACQUISITIONS

On 14 December 2000 the group acquired the fixed assets and business of Kelvin Diesels. The acquisition is analysed as follows:

	Fair value £000s
Fixed assets	94
Stock	420
Debtors	109
Creditors	(159)
	464
Consideration	
Cash	300
Deferred consideration (paid April 2001)	164
	464

The turnover of the Kelvin Diesel business from the date of acquisition to 31 March 2001 was £365,000. Due to the merging of this business with British Polar Engines it is not possible to determine a separate level of profitability.

23 CONTINGENT LIABILITIES

	Group		Company	
	2001 £000s	2000 £000s	2001 £000s	2000 £000s
Bankers indemnities	154	38	-	108

NOTES TO THE ACCOUNTS

24 COMMITMENTS UNDER OPERATING LEASES

At 31 March the Group has the following annual commitments under non-cancellable operating leases:

	Land and buildings		Other	
	2001	2000	2001	2000
	£000s	£000s	£000s	£000s
Expiring within one year	-	-	4	15
Expiring between two and five years inclusive	-	-	30	32
Expiring in more than five years	15	15	-	-
	15	15	34	47

The Company has a £15,000 annual commitment under a non-cancellable operating lease, which expires in more than 5 years (2000 £15,000).

25 PENSIONS

The Group operates a defined benefit pension scheme, holding the assets in a separate trustee administered fund. The total pension cost relating to the Group was £108,000 (2000 £121,000). This is stated after a reduction of £5,000 (2000 £5,000) representing the amortisation, over the expected average remaining service lives of the employees, of a provision made in previous years as a result of the preceding actuarial valuation. Costs are assessed with the advice of an independent qualified actuary using the projected unit method and charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group.

The principal actuarial assumptions used in the most recent actuarial valuation at 1 April 1999 are based upon price inflation of 2.75 per cent per annum, an investment return of 7.25 per cent per annum prior to retirement and 4.75 per cent per annum in retirement, pay growth of 4.5 per cent per annum including promotions and increases in present and future pensions at 2.5 per cent per annum.

Ionian Investment Management, a division of Ionian Corporate Finance, of which Mr S J Cockburn is a director and shareholder, manages the pension fund investments.

At the date of the latest actuarial valuation, the market value of the assets of the fund was £8,405,831 and the actuarial value of the assets was sufficient to cover 101 per cent of the benefits, which has accrued to members after allowing for expected future increases in earnings.

An amount of £32,000 (2000 £37,000) is included in provisions, which represents the excess of the accumulated pension cost over the payment of contributions to the pension fund.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by UK Company Law to prepare accounts for each financial year that 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 or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the accounts for the year ended 31 March 2001. The directors also confirm that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board
Mrs K M Hill
Finance Director and Secretary
6 August 2001

AUDITORS' REPORT

TO THE MEMBERS OF ASSOCIATED BRITISH ENGINEERING PLC

We have audited the financial statements on pages 8 to 29, which have been prepared under the accounting policies set out on pages 8 and 9.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 30, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed

We review whether the corporate governance statement on pages 33 to 35 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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.

AUDITORS' REPORT

TO THE MEMBERS OF ASSOCIATED BRITISH ENGINEERING PLC

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2001 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton
Registered Auditors
Chartered Accountants
Oxford
6 August 2001

Grant Thornton

CORPORATE GOVERNANCE

The maintenance of effective corporate governance is a key priority of the board and shown below are details of how the company has applied the Principles of Good Governance and Code of Best Practice (the Combined Code). The board of directors considers that the company has complied throughout the year with section 1 of the Combined Code with the following exceptions:

- the board has not conducted a review of the effectiveness of the group's system of internal controls as required by provision D.2.1 of the Code. This is considered further under the heading of internal control on page 35;
- the non-executive directors of the company have not been appointed for specific terms as required by provision A.6.1 of the Code;
- there is no formally appointed senior independent director. This is contrary to provision A.2.1; and
- every director should receive appropriate training on the first occasion that he or she is appointed. There is no formal director training programme. This is contrary to provision A.1.6.

In view of the size of the company, the fact that there are three non-executive directors on each of the Audit and Remuneration committees and that the majority of the board are non-executive directors, the board considers that this representation is appropriate.

BOARD OF DIRECTORS

The board, which meets at least six times a year, currently comprises one executive, the Chairman and two independent non-executive directors. The biographical details of the directors are set out on page 39.

The board has directors who have between them considerable and varied experience in the business world and the City and the board believes they are an effective independent body. Therefore a senior independent non-executive director has not been identified.

Details of the executive director's service contract is set out in the Remuneration Report on page 37. Under the Company's articles of association, at least one third of the directors (including, for avoidance of doubt, the executive director) retire from office each year. A retiring director is eligible for re-election.

The chairman is a non-executive director and there is a clear division of responsibility between the chairman and the finance director. The board retains full and executive control of the Company and has a formal schedule of matters in respect of which decisions are reserved to it, covering key areas, including strategy formulation, acquisitions or disposals, approval of budgets, financial results, board appointments and proposals for dividend payments.

There is a formal procedure by which any director may take professional advice in connection with his duties, at the company's expense.

AUDIT, REMUNERATION AND NOMINATIONS COMMITTEES

As appropriate, the board has delegated certain responsibilities to committees of the board which operate within clearly defined terms of reference. The standing committees of the board are an Audit, Remuneration and a Nominations Committee whose membership consists of the non-executive directors and are chaired by Mr R A Pearce Gould. Minutes of these committee meetings are available to all board members.

CORPORATE GOVERNANCE

AUDIT, REMUNERATION AND NOMINATIONS COMMITTEES – Continued

The Remuneration Committee, which comprises the three non-executive directors, meets at least once a year to decide the annual salary, bonus and benefits for the executive directors and other senior executives of the Group. The board as a whole determines the remuneration of the non-executive directors. A full report on remuneration policy and details of remuneration of each director can be found on page 36 to 38 inclusive.

The Audit Committee reviews internal controls and deals with accounting and financial reporting matters. It meets at least twice a year to review the annual and interim accounts before they are submitted to the board. The Committee also monitors proposed changes in accounting policy and discusses the accounting implications of major transactions.

The Nominations Committee brings to the board recommendations for the appointment of any new director.

RELATIONS WITH SHAREHOLDERS

The chairman's statement in the Annual Report contains a business review. An interim business review is also provided with the half-year announcement. Shareholders are encouraged to contact the Company between General Meetings.

The board seeks to ensure that its report and accounts and other financial statements provide a clear assessment of the Group's position.

INTERNAL CONTROL

The directors are responsible for the Group's system of internal controls. These controls can only provide reasonable but not absolute assurance that assets are safeguarded against material loss or unauthorised use, that proper accounting records are maintained and that the information used internally, or for publication, is accurate and reliable. The key procedures, which exist to provide internal control, are as follows:

- The Group's organisational structure has clear lines of responsibility. Operating and financial responsibilities for the subsidiary company is delegated to its board and there are set limits which apply to capital expenditure and significant contracts.
- A regular review is undertaken to review and assess the risks facing the trading subsidiary and to enhance the systems, which manage the key risks, identified. Local management establishes control procedures for each of the risks identified and reports whether the key controls have operated effectively.
- The Group has set accounting policies and financial and accounting procedures. The Group Finance Director and Chairman review the monthly financial information of the subsidiary and attend regular board meetings. The Group budget is approved by the board and is compiled from the individual operating company budgets. The board reviews the Group's actual and forecast results at least once a quarter.
- The acquisition or disposal of a business may not be completed without the approval of the board.

INTERNAL CONTROL – Continued

Through these mechanisms, Group performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

Nevertheless, the board considers that it is unable to state that it has fully complied during the year with the Code (D.2.1). The principle reasons for this are that the board has not finalised the following:

- The definition of the process to be adopted for its review of the effectiveness of internal control, including seeking regular assurance that the system was functioning effectively.
- The receipt and review of formal reports on internal control.

The board has considered the need for an internal audit function but has decided that the size of the company does not justify it at present. However, the board will keep the decision under annual review.

GOING CONCERN

After making appropriate enquiries, the directors have a reasonable expectation that the Group and Company 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.

REMUNERATION REPORT

The Remuneration Committee is comprised exclusively of non-executive directors. They are as follows:

D A H Brown
S J Cockburn
R A Pearce Gould

The Committee is satisfied that the Company has complied throughout the period with the Combined Code concerning the membership and operation of the Remuneration Committee and its remuneration policy.

In setting the policy for executive directors and the Group's other senior management it considers a number of factors including:

(a) the basic salaries and benefits available in comparable companies;
(b) the need to attract and retain personnel of an appropriate calibre; and
(c) the need to ensure individuals' commitment to the continued success of the Company by means of incentive schemes.

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

The non-executive directors each receive a fee for their services, which is agreed by the board after reviewing comparable organisations and appointments. None of the non-executive directors receive any pension or other benefits from the Company, nor do they participate in any of the bonus or incentive schemes or share option schemes, except Mr R A Pearce Gould who participates in a long term incentive scheme, details of which are set out in the directors' report on page 6.

The non-executive directors do not have service contracts with the Company. In accordance with the articles of association, each director (including, for avoidance of doubt, executive directors) retires from office at the third annual general meeting after the annual general meeting at which he was last elected. A retiring director is eligible for re-election.

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

The Company's remuneration policy for executive directors is to:

(a) have regard to the directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality; And
(b) link individual remuneration packages to the Group's long-term performance through the award of share options and incentive schemes.

PERFORMANCE RELATED INCENTIVE PLAN

The board introduced a performance related incentive plan in 1998 for Mrs K M Hill. Payments under the plans are related to the growth in profit before taxation.

A share option scheme was introduced in 1989. During the year it was decided to grant further options over 1,500 shares pursuant to the scheme to Mrs Hill and senior employees of British Polar Engines Limited.

Details of share options held by directors are set out in the Directors' report.

REMUNERATON REPORT

PENSIONS

Mrs K M Hill is a member of the Group's defined benefit pension scheme. The details of this scheme are set out in note 25.

CONTRACTS OF SERVICE AND REMUNERATION

On his resignation from office on 31 May 2000, Mr M J Barry received compensation for loss of office comprising payment in lieu of contractual notice of £213,930, contributions to his money purchase pension scheme of £78,457, compensation of £10,100 for loss of medical insurance cover and a motor car with a market value of £11,000.

Mrs K M Hill has a contract of service with the Company which can be terminated with a notice period of one year by either party. The Company considers that this is appropriate for the finance director of the Company.

Mr P I Janardanan resigned as a director of the Company on 31 May 2000.The Company has contractually agreed with Mr Janardanan that if the purchaser of Danway LLC terminates Mr Janardanan's employment within two years from the date of sale (13 October 1999), then the Company will pay to Mr Janardanan a sum equivalent to £280,000, reducing pro-rata over the two years from the date of sale, as compensation for loss of office.

The committee reviews each case of early termination individually in order to ensure compensation settlements are made which are appropriate to the circumstances

	Salary and Fees £000s	Benefits £000s	Other £000s	2001 Total £000s	2000 Total £000s
M J Barry	18	3	313	334	130
D A H Brown	10	-	-	10	-
S J Cockburn	10	-	-	10	10
J H Davies	9	-	10	19	15
K M Hill	66	11	-	77	77
P I Janardanan	-	-	-	-	63
R A Pearce Gould	25	-	-	25	1
	138	14	323	475	296

REMUNERATION REPORT

CONTRACTS OF SERVICE AND REMUNERATION – Continued

The Group's pension contribution to Mr M J Barry's money purchase pension scheme during the year was £87,764 (2000 £41,074) of which £78,457 is included within his compensation for loss of office, and included in other remuneration.

Mr J H Davies received an ex-gratia payment of £10,000 following his retirement from office.

Mrs K M Hill is a member of the Group's defined benefit pension scheme (note 25). During the year her pension increased by £1,200 per annum to give her accumulated accrued benefits of £11,000 per annum at 31 March 2001. The transfer value of the increase is £3,000 net of her own contributions. Benefits transferred in from schemes relating to previous employments are payable in addition. This accrued pension entitlement is the amount that would be paid each year on retirement based on service to the end of the current year. The increase in the additional pension earned during the year excludes any increase for inflation.

No other director received any pension entitlements from the Group in respect of the years ended 31 March 2001 and 2000. No director waived emoluments in respect of the years ended 31 March 2001 and 2000.

DIRECTORS, REGISTERED OFFICE AND ADVISERS

RUPERT PEARCE GOULD (50) was appointed a non-executive director on 13 March 2000 and became chairman of the board on 31 October 2000. He is chairman and chief executive of Cambridge Corporate Consultants Limited. He is also chairman of Newsfax International Limited and joint chairman of Home & Capital Trust Limited as well as being a non-executive director of other companies.

DAVID BROWN (48) became an independent non-executive director on 22 March 2000. He is the managing director of the Sabre Development Group, carrying out real estate development and financing focused on Russia. He has previously been a company secretary and director of two fully listed companies and general counsel on the Canary Wharf Development. He is a non-practicing qualified solicitor.

STEPHEN COCKBURN (61) has been an independent non-executive director since 1979. He is chairman of the Ionian Group Limited, one of whose subsidiaries manages the investments in the Group's pension fund (see note 25). He is also chairman of Archimedes Investment Trust plc, managing director of The Investment Company plc and a director of seven other listed Investment Trusts.

KIRSTEN HILL (37) is a member of the Institute of Chartered Accountants in England and Wales and joined the Group in 1990. She became the Group's Finance Director in 1996.

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A·B·E

NOTICE OF MEETING

Notice is hereby given that the eighty ninth Annual General Meeting of Associated British Engineering plc will be held at Grant Thornton, 1 Westminster Way, Oxford, OX2 OPZ on Monday 17 September 2001 at 11.30 am for the purpose of transacting the following business:

ORDINARY BUSINESS

1. To receive and adopt the directors' report and accounts for the year ended 31 March 2001 (Resolution 1).

2. To re-elect Mr S J Cockburn as a director following retirement by rotation (Resolution 2).

3. To re-elect Mrs K M Hill as a director following retirement by rotation (Resolution 3).

4. To re-appoint Grant Thornton as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors (Resolution 4).

SPECIAL BUSINESS

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

5. That the directors of the Company be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (within the meaning of section 94 (2) of the Companies Act 1985) for cash pursuant to authority conferred by Resolution 4 which was set out in the notice of the annual general meeting of the company convened for 1 September 1999 and passed at such meeting as if Section 89 (1) of the Companies Act 1985 did not apply to such allotment, provided that this authority shall: -

(a) expire on the later of 1 December 2002 or the conclusion of the annual general meeting of the Company next following this meeting save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot equity securities in pursuance of any such offer or agreement as if this authority had not expired; and

(b) be limited to the allotment of equity securities:-

(i) in connection with a rights issue in favour of the holders of ordinary shares in the capital of the Company on the relevant register on a fixed record date in proportion (as nearly as practicable) to their respective holdings and/or rights subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws, or the requirements of any recognised regulatory body or stock exchange, of any territory; and

NOTICE OF MEETING

(ii) (otherwise than pursuant to (i) above) up to an aggregate nominal amount not exceeding £262,684 (Resolution 5).

By order of the board
Mrs K M Hill
Finance Director and Secretary
6 August 2001

Each holder of ordinary shares entitled to vote on a resolution, on a show of hands has one vote if present in person and on a poll, if present in person or by proxy, has 200 votes for every ordinary share held by him.

Each holder of 7 per cent preference shares entitled to vote on a resolution, on a show of hands has one vote if present in person and on a poll, if present in person or by proxy, has four votes for every 7 per cent preference share held by him.

Each holder of 8 per cent cumulative redeemable preference shares entitled to vote on a resolution, on a show of hands has one vote if present in person and, on a poll if present in person or by proxy, has 50 votes for every 8 per cent cumulative redeemable preference share held by him.

A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him; a proxy need not also be a member. Proxy forms to be effective at the meeting must be deposited at the offices of the Company's registrars, Computershare Investor Services PLC, P.O. Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 0XG not later than 48 hours before the time fixed for the meeting. Appointment of a proxy will not preclude a member from attending and voting in person at the annual general meeting.

The register of directors' shareholdings and transactions will be available for inspection at the registered office of the Company from the date hereof until the date of the annual general meeting during usual business hours and at the place of the annual general meeting for fifteen minutes prior to and during the annual general meeting. The directors' service contracts are also available for inspection at the registered office of the Company at all times.

Pursuant to regulation 34 of the Uncertificated Securities Regulations 1995, the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the ordinary shares of the Company by no later than 11.30 am on Saturday 15 September 2001. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

EXPLANATORY NOTES

Resolution 5: Your directors also require additional authority from shareholders to allot shares or grant rights over shares where they propose to do so for cash and otherwise than to existing shareholders pro rata to their holdings. The authority granted at the last annual general meeting is due to expire on 1 December 2001. Accordingly, Resolution No. 5 will be proposed as a special resolution to grant such authority. Apart from rights issue, the authority will be limited to the issue of shares up to an aggregate nominal value of £262,684 (being ten per cent of the issued ordinary share capital at 31 March 2001). If given, this authority will expire on the earlier of 1 December 2002 or at the conclusion of the annual general meeting in 2002.