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Chairman's Statement

"After a torrid 1998/99, we look for a more stable, growing business in the new financial year"

1998/99 was the year that saw both deep disappointment in operating performance and significant progress towards future improvement. The factors affecting our business were both external and internal: some of our businesses, such as Cameron and Spooner, continued to be deeply affected by the global depression in demand for capital equipment in the paper industry. Other of our businesses which have prospered from buoyant demand in the Far East in previous years, such as Cameron, Dixon and Dickinson Legg, saw demand drop to virtually nothing in that region. The deep recession in the South African construction industry, brought on by 25% interest rates, coupled with the collapse of the Rand, generated £538,000 losses in our South African distribution operation, Blackwood Hodge, and led to the decision to liquidate that business and write off our investment.

But some of the problems were of our own making. The merger of Dixon and Cameron was poorly managed at the local level. The subsequent changes in management and independent investigations unearthed a string of failures in policy, practice and procedure. This led to significant write downs of both an operational and non-operational nature.

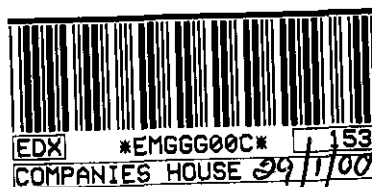
Paradoxically, those very problems led to some major improvements. Our management team has been significantly strengthened by the addition of new management talent and the searching analysis of the problems at Dixon-Cameron has resulted in a much tighter control environment, which has been applied across the Group.

The acquisition in October of 1998 of the business and certain assets of the Tobacco Division of GBE International Group Plc was one of the highlights of the year, providing us with a strong and stable spares business which has met all expectations. The World Class Manufacturing initiative launched earlier this year in several of the companies is really beginning to bear fruit and the introduction of an EVA based management compensation system is focusing management attention on the creation of shareholder value.

Results

Group turnover from continuing operations at £67.0m and the operating loss (before exceptional items) at £1.9m were principally affected by substantial losses and write downs at Dixon-Cameron, and the losses in the first half of the year at Spooner. Earnings per share (excluding exceptional items) dropped to 4.5p loss from 1.2p profit for the previous year.

Dickinson Controls, our systems integration business, achieved increased sales and operating profit for the ninth consecutive year. The results of Wincanton Engineering, the soft food and dairy equipment producer, slipped somewhat from the previous financial year. Our primary tobacco equipment producer, Dickinson Legg (renamed following the acquisition of the "Legg" trademark in the GBE purchase), was a solid contributor, in spite of a soft first half. Spooner, manufacturers of air convection drying systems, suffered badly in the first half but made a significant recovery to a near breakeven



Chairman's Statement

position in the second half. Strong demand for Dixon's coating machinery did not result in the anticipated profitability because of production problems associated with the transfer of manufacturing from Letchworth to Taunton in the Dixon-Cameron merger. The Cameron part of that operation – makers of slitters and rewinders predominantly for the paper industry – suffered as a result of its over-dependence on that depressed sector.

As a result of the losses, restructuring costs and the acquisition of the GBE business, borrowings at 30th June 1999 were £18.1m, representing 75% of net assets. Net interest costs were £1.6m, compared with £1.7m in the previous year. These losses and the exceptional write offs caused certain of the Group's banking covenants to be breached. They have subsequently been re-established at mutually agreed levels with our principal bankers, NatWest and Bank of Scotland.

The exceptional losses of £7.1m compare with an exceptional gain of £3.6m last year. These losses were principally attributed to the liquidation of the South African business (£1.6m), revaluation of assets (£1.5m) and restructuring costs (£2.2m).

Dividend

The Directors have decided not to recommend the payment of a final ordinary dividend and have also announced that the preference share dividend, payable last July, has been deferred.

Prospects

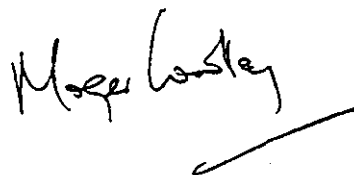
In last year's statement, I made reference to the problems in the Asian and paper industry markets and the inhibiting effect of Sterling's strength on our margins.

Regrettably those warnings proved to be all too true. Only now are we beginning to see some improved activity in Asia (political problems in areas such as Indonesia notwithstanding) and we expect to see no significant uptake in the paper industry until the middle of year 2000 at the earliest.

The massive restructuring of the global tobacco industry, evidenced most clearly by mergers such as Japan Tobacco/R J Reynolds and BAT/Rothmans, has had an inhibiting effect on the capital expenditure plans of the whole industry as new relationships are defined. At the same time, the industry continues to suffer from global litigation problems.

There is, however, reason for cautious optimism principally due to actions we have taken internally. The senior management team has been significantly strengthened. Our Wincanton operation is enjoying some spectacular successes in the United States. Dickinson Legg's new US company is already profitable after four months of operation. Spooner has redirected its selling efforts towards new non-paper markets and has enjoyed a record order intake since the beginning of this calendar year. Dickinson Controls is heading towards another record year and is investing in new locations. We have secured a number of major contracts and entered 1999/2000 with an order book 18% higher than a year earlier. The World Class Manufacturing initiative is underway and extending its reach.

After a torrid 1998/99, we look for a more stable, growing business in the new financial year.



J. M. Woolley
Chairman

Chief Executive's Review

Brunel Holdings plc is now a precisely focused group operating in only two closely related areas: process equipment and process control. Most of our businesses have either world class or world leading technology and we are working hard to improve our manufacturing and customer service. Two of our key end user markets – paper and tobacco – offer no immediate prospect of growth, but we have redirected our efforts into new markets, both technically and geographically.

PRIMARY TOBACCO PROCESSING EQUIPMENT

Dickinson Legg

Dickinson Legg had its second best year in turnover and a solid year in operating profit in spite of the difficulties in the tobacco business. These results were significantly enhanced by the acquisition of GBE's tobacco business, even though that business only contributed for eight months of the year, and significant integration/start up costs were involved. The second half was, in fact, much stronger than the first.

In light of the consolidation of the tobacco industry, we are now in a period in which there are fewer massive projects to be won and we find ourselves needing to be much more nimble, doing retrofit, refurbishment and service projects all over the world. The fourth quarter of 1998/99 saw very soft order intake levels, so the new management moved quickly to reduce manning levels by the end of June. Some of this reduction represented the final results of consolidating GBE and Dickinson on the Winchester site and a smaller location in Andover to manufacture and source the spares business.

As indicated in the Chairman's Statement, the GBE acquisition has done exactly what we hoped it would do, filling out our product line and establishing a strong sales and service business base. It has taken longer than expected to reduce the backlog of demand for GBE products, but we are now beginning to provide reasonable customer service and can aspire to establish a world class system in the months to come.

The GBE acquisition did not include its US associate company, so Dickinson Legg Inc. was established in Richmond, Virginia. The business commenced trading in February 1999, is growing at a rapid rate and is already trading profitably.

We announced last year that we had formed a joint venture with John Fowler (India) Limited to manufacture primary equipment in Bangalore in Southern India. I am pleased to report that construction of the factory is virtually complete and we will begin equipping the factory with machinery as soon as the joint venture is successful in securing a major contract (which we anticipate shortly). This will allow us to supply not only the Indian sub-continent but will also act as a low cost manufacturing base for our less technical products worldwide.

PROCESS CONTROL SYSTEMS INTEGRATION

Dickinson Control Systems

This business is the largest and most successful independent systems integrator in the UK. Its clients include some of the best known and most demanding industrial companies in Britain in markets such as pharmaceuticals, water, brewing, tobacco and food.

Sales were up 7% over last year and profits up 8%. All three branches – Winchester, Manchester and Coventry – are profitable operations and the order book is very strong.

The management team at Dickinson Control Systems has accepted the challenge of even more rapid growth and we have expanded with a new operation in Scotland and the opening of an office in Richmond, Virginia (at the premises of Dickinson Legg Inc.). Dickinson Control Systems' strength is attributable entirely to the quality of its people and this more rapid expansion will allow greater opportunity for personal and professional growth.

Chief Executive's Review

STAINLESS STEEL FOOD PROCESSING EQUIPMENT

Wincanton Engineering

1998/99 was a real breakthrough year for Wincanton. The new Sherborne factory was opened in September 1998 and it is both an outstanding production facility and a real showcase for our global customers. Just as importantly, the decision to establish direct representation in the United States was vindicated through our success in securing our first substantial contracts. Wincanton has broadened its participation in the cheese industry through the introduction late in 1998/99 of a range of cheese vats that promise to set new standards and complement their industry leading position in cheese towers. Progress continues to be made in the soft food processing area.

Wincanton is a world class player in the manufacture of hard cheese making equipment. Its success in the USA gives us confidence that this business has now moved to a new level of performance with substantial growth opportunities ahead of it.

SPECIALIST COATING EQUIPMENT

SLITTERS AND REWINDERS

T. H. Dixon & Co.

Cameron Equipment and Dixon-Cameron US

As indicated in the Chairman's Statement, 1998/99 was not a successful year for Dixon-Cameron. Hindsight has proven that the amalgamation of T H Dixon and Cameron Equipment's manufacturing and administrative operations on a single site in Taunton was ill-advised and ill-managed. Project management, manufacturing control and administration all suffered and the situation was exacerbated by too many examples of bad management judgement.

The problems were intensified by the continuing absence of any real demand for the Cameron slitters and rewinders developed to serve the paper industry. In this, Cameron was no different to many of its direct competitors, but it lacked the products that others had developed to attack more attractive markets, such as those for film, foil and non-woven materials.

The market for Dixon's coating and lamination technology remained buoyant throughout much of the year and increased sales levels were achieved. Project execution, however, was poor and cost overruns resulted in some losses.

As we neared the end of the 1998/99 financial year, all of the bitter pills had been swallowed and a completely new top management team was in place. They took the hard decisions to radically reduce fixed costs and they established far more rigorous controls and far more competent systems. Development of new Cameron machines to service non-traditional areas has been accelerated and we are beginning to see the fruits of that effort. The sales operation has been reinvigorated and some important new projects have been won, although market demand remains severely depressed.

Efforts are now underway to reinvigorate and re-emphasise the Dixon and Cameron brand names in all of the markets that we serve. They have a great heritage but execution, on time delivery and customer service will determine the winners. We remain convinced that the Dixon and Cameron product offerings have a real place in Brunel's process equipment range.

DRYING SYSTEMS

Spooner Industries and Spooner Industries US

1998/99 started very badly for both Spooner businesses. As with Cameron, the companies were too dependent on the paper industry and the first half of the year saw substantial losses. The situation began to change, though, as the companies refocused their efforts on new markets – particularly metal coating, where a number of significant orders began to be won. A new Managing Director joined the UK team in November and instilled a fresh enthusiasm. Spooner concluded a groundbreaking co-operation agreement with one of the largest paper machine manufacturers in the world and a jointly developed pilot line was opened in Germany in the spring of 1999.

Chief Executive's Review

Order intake jumped in the early part of 1999 and has remained high every month since then. At this point, the year's sales budget is virtually covered, albeit at highly competitive margins. Recognising the impact of the strong Pound, Spooner's management committed themselves to the World Class Manufacturing initiative and real progress has been made both to reduce costs and to collapse manufacturing cycle times. In the US, we are now beginning to see a recovery after almost 18 months of depressed demand. This improvement also came about due to a refocusing of engineering and selling effort to markets more attractive than the traditional paper industry served by Spooner inc.

Efforts are now underway for Spooner – once one of the most respected names in bakery ovens – to re-enter the food business in a joint venture with one of the largest food machinery manufacturers in the world.

PROPERTY

After very little progress in reducing the property stock in 1997/98, real movement occurred in 1998/99 – and that progress continues. Most importantly, we completed the sale of the unused Ware, Hertfordshire property in the last quarter of 1998/99 at virtually book value: £2.7m. A second property was sold in September 1999 for £0.74m and we are now confident that a third £1.1m property should be sold before the end of this calendar year.

In total, we look to be on track to meet the projection made in the last annual report that "the £8.9m surplus property portfolio will be converted into cash over the next two years."

EVA

An EVA based performance measurement was introduced with effect from 1st January 1999. A target was set for the Group based upon a study of shareholder expectations of the EVA growth incorporated into the Group's market value and in the

valuation of industry peers. The study was carried out by Stern Stewart. This Group target was then allocated to the subsidiary companies. Senior management bonuses across the Group are dependent on the achievement of these targets.

In the first six month period of the EVA scheme three of the five principal operating subsidiaries achieved their EVA targets. However, the substantial losses incurred at Dixon-Cameron were sufficient to ensure that the Group did not achieve its overall target. It is interesting to note that the closure of Blackwood Hodge South Africa had a substantial positive EVA impact due to the elimination of its ongoing losses.

CONCLUSION

1998/99 was a tough year for the Group, but we came out of it stronger in many ways. We have established (or re-established) strong procedures and management control systems. We have put in place a much stronger management team. We have eliminated a distribution business that was never core and could never be a contributor. We have added an excellent business to our tobacco machinery operation and we have extended our geographical reach in both tobacco and process control systems.

Today, Brunel is a tightly focused group of companies specialising in process equipment united by a world class process control automation business. We have committed ourselves to growing this business organically, by acquisition and by joint venture. Our goal is increased shareholder value and the entire management team is both motivated and rewarded by achievement of that single goal.

R. J. Petersen
Chief Executive

Financial Review

Introduction

The format of the profit and loss account remains the same as last year with exceptional items being specifically highlighted. On the balance sheet, goodwill arising on acquisitions is now capitalised in accordance with FRS10, but no adjustment has been made to reinstate previously written off goodwill. In accordance with FRS12 details of warranty provisions are now shown within provisions for liabilities and charges.

Additional disclosures required relating to financial instruments, borrowings, interest and foreign exchange are covered in this financial review and in note 19 to the financial statements.

Operating Results

The year's results have been significantly affected by the under performance of Dixon-Cameron, the Group's slitter-rewinder/coater business. Turnover in this business was only 52% of that achieved in 1998. Failure of local management to recognise this low level of turnover soon enough and size the business accordingly and the significant breaches of policy, practice and procedure that were uncovered has meant that Dixon-Cameron reported an operating loss (before exceptional items) of £4.8 million.

The turnover and operating profit of the Group's continuing operations can be analysed as follows:

| | Turnover (£'000) | |
|------------------|----------------------------|---------------|
| | (before exceptional items) | |
| | 1999 | 1998 |
| Dixon-Cameron | 15,046 | 29,084 |
| Other businesses | 51,994 | 48,264 |
| | <u>67,040</u> | <u>77,348</u> |
| | Operating Profit (£'000) | |
| | (before exceptional items) | |
| | 1999 | 1998 |
| Dixon-Cameron | (4,774) | 1,369 |
| Other businesses | 2,843 | 3,625 |
| | <u>(1,931)</u> | <u>4,994</u> |

Excluding Dixon-Cameron, turnover in the Group's other businesses increased by 8% whilst operating profit reduced by 22%. The purchase of the tobacco division of GBE in October 1998 was the principal factor for this increase in turnover. However, due to its amalgamation with Dickinson Engineering (now called Dickinson Legg) it was not possible to separately identify the turnover and profit generated from this business.

In June 1999 a trading statement was made that forecast a loss of £8.5 million for the year. The actual loss was £11.1 million. The principal reasons for this £2.6 million increase relate to the Board's view at the year-end on the carrying value of a number of assets. The following write-downs were made:

| | |
|---------------------------------------|------------|
| Taunton freehold site | £m |
| Surplus properties | 1.0 |
| Stock machines at Dixon-Cameron | 0.5 |
| Development machine at Dickinson Legg | 0.7 |
| | <u>0.4</u> |
| | <u>2.6</u> |

The disposal of Brunel Africa in June 1999 and the liquidation of Blackwood Hodge South Africa in March 1999 has focused the Group solely on its Design Engineering businesses.

The other activities sector comprises the Head Office Company, BM Estates and the SSAP24 pension adjustment.

Exceptional Items

Exceptional losses of £7.1m have been incurred this year against an exceptional profit of £3.6m in 1998. Of this £2.1m relates to losses on the disposal of discontinued operations. This principally relates to the liquidation of Blackwood Hodge South Africa and the sale of Brunel Africa. Although the assets of Blackwood Hodge South Africa have been fully written off in these accounts it is possible that there will be a small payment out to creditors on the final liquidation.

The remaining exceptional items of £4.9m which are shown within operating profit are explained in note 3 to the financial statements.

Interest

Net interest costs were £1.6m (1998: £1.7m). Included within this amount is interest paid on the Group's newly issued convertible unsecured loan stock.

Taxation

Despite the significant losses that have occurred this year there is a tax charge of £158,000 in the profit and loss account. This tax charge comprises a credit of £244,000 in relation to corporation tax losses being carried back to prior years, a deferred tax credit of £191,000 and the writing off of £593,000 ACT previously carried on the Group's balance sheet. With the abolition of ACT, the introduction of shadow ACT and the losses incurred, a prudent view was taken to write off all the ACT carried on the Group's balance sheet, other than that which can be utilised against the 1999 tax liability.

Dividends

Preference dividends of £1,380,000 were paid during the year. The preference dividend due on 1st July 1999 was accrued for but was not paid on that date. The directors have decided to defer the payment of this dividend until the trading position of the Company improves.

The Board is not recommending the payment of an ordinary dividend.

Earnings per share

The loss per share calculated in accordance with FRS14 was 10.3p (1998: 4.2p earnings). The loss per share before exceptional items was 4.5p (1998: 1.2p earnings).

The exercise of shares options, conversion of the preference shares or conversion of the unsecured loan stock would not result in any dilution and thus no diluted earnings per share figure is stated.

Financial Review

Properties

During the year three properties held for resale were sold for £2,950,000 at a loss of £50,000. In addition, a number of properties were written down by £482,000 to reflect their current expected realisable values. These amounts are shown as exceptional items within operating profit.

Subsequent to the year-end a further property has been sold for £740,000 at a profit of £7,000.

Acquisition

On 2nd October 1998, the Group acquired through its subsidiary, Dickinson Engineering Limited, the business and certain of the assets of the primary tobacco division of GBE International Group plc (in administrative receivership) for £4.5m. This was funded by the way of £3m cash and £1.5m of Unsecured Convertible Loan Notes 2000. The transaction incurred £519,000 of expenses. Details of the assets acquired and the resultant fair value adjustments are given in note 11 to the financial statements. The principal assets acquired were the Legg trade name, intellectual property and parts stock. A full count was taken of the parts stock and a fair value adjustment was made in relation to the parts that were saleable in the future. This assessment showed there were £750,000 of useable parts valued at cost, against which a £400,000 provision was made to reflect the ageing of these parts.

The overall transaction resulted in goodwill of £4.2m which has been capitalised and is being written off over its estimated useful economic life of 20 years.

Capital Expenditure

Capital expenditure totalled £2.6m in the year of which £1.3m related to the purchase of a freehold site for Wincanton. This site was subject to a sale and leaseback in May 1999 which raised £1.9m in cash.

The remaining £1.3m principally relates to the Group's on-going development of its CAD systems and information systems.

Research and Development

During the year the Group has continued the development of new products within its Design Engineering businesses. At 30th June 1999 the capitalised costs of new product development totalled £182,000. These costs are shown as intangible assets.

Financing

The cash outflow from operating activities was £8.5m (1998: £0.5m). Capital expenditure, tax and financial investment cash outflow was £3.2m in 1999, compared to £1.9m in 1998.

Acquisitions and disposals involved a net cash inflow of £0.7m (1998: £21.0m inflow). Overall, cash outflow from the Group was £6.6m (1998: £18.1m inflow).

At 30th June 1999 loans and finance lease obligations were £19.1m and the Group held cash of £1.0m. Net borrowings, which increased by £10.0m during the year to £18.1m, represent 75% of shareholders' funds (1998: 22%).

As a result of the losses of Dixon-Cameron certain of the Group's banking covenants were breached during the year. These covenants related to a five year term loan provided by National Westminster Bank Plc and the Bank of Scotland. New covenants have been established in relation to these term loans. The term loan represents £5,225,000 of the outstanding borrowings at 30th June 1999 and is repayable in quarterly instalments by 31st December 2003.

The borrowing powers of the Directors are limited to three times capital and reserves, as defined in the Company's Articles of Association. At 30th June 1999 the limit was £68.5m. The Directors confirm that the Group can meet its short-term requirements from the existing borrowing facilities.

Treasury Activities

The Group's treasury operations are managed in accordance with policies established by the Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to raise finance and to manage risk. The Group does not engage in speculative activity.

The principal financial risks faced by the Group relate to interest rate, exchange rate and counterparty risk.

Finance and interest rate risk

The Group is financed by a combination of equity, retained reserves, bank borrowings, finance leases and loan notes. Individual subsidiaries are financed through a combination of external debt, and loan and equity finance from the Company.

The Company fixes its term loans for periods between one month and six months at fixed rates of interest. Interest rate hedging derivatives have been considered by the Board but are not currently used.

Foreign currency risk

The Group continues to operate a risk averse policy to foreign exchange exposures. Contract and trading transactions in non-local currencies are hedged as soon as they are reasonably certain as to timing and amount. US dollar borrowings are used as a hedge against US net assets. The results of overseas subsidiaries are translated into sterling at average exchange rates with no cover taken against possible fluctuations.

D. J. Loftus
Group Finance Director

Directors and Advisers

Directors

J.M. Woolley B.Sc. (*Non-Executive Chairman*)
R.J. Petersen, B.Sc. (appointed 5th October 1998)
D.J. Loftus, B.A., F.C.A., M.B.A.
B.B. Stevenson, F.C.A. (*Non-Executive*)
T.J. Swete, F.C.A. (*Non-Executive*) (appointed
1st December 1998)

Secretary

J.A.G. King, B.A., F.C.I.S.

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Directors' Profiles

Moger Woolley

Non-Executive Chairman

Spent 30 years to November 1989 working for DRG plc where he became Chief Executive. He is currently Chairman of API Group PLC and Bristol Water Holdings plc and is a non-executive director of Staveley Industries PLC. He joined the Board in October 1992, is a member of the Board's audit committee and chairman of the Board's remuneration committee. Age 64.

Barry Stevenson

Non-executive Director

Previously Chief Executive of Canadian Overseas Packaging Industries Limited (1990-93), he was Finance Director of DRG plc (1982-90) and Cape Industries (1974-82). He joined the Board in January 1995 and is a member of the Board's remuneration committee and chairman of the audit committee. Age 60.

Ron Petersen

Chief Executive

Joined Brunel as Chief Executive in October 1998. He was Chief Executive of Bridon PLC from 1993 to 1997 and Chief Executive Officer of Insituform Group plc from 1992 to 1993. Previously he worked for 24 years for Armstrong World Industries. Age 53.

Trevor Swete

Non-executive Director

Joined the Board in December 1998, and is a member of the Board's remuneration and audit committees. He is a director of Postern Limited, Postern Fund Management Limited, PFM General Partner Limited and Postern Executive Group Limited. He also holds various other non-executive directorships. Age 54.

David Loftus

Group Finance Director

Joined Brunel in September 1990, became Group Financial Controller before being appointed Group Finance Director in July 1996. Earlier in his career he worked for Chartered Accountants Spicer and Oppenheim and the Marley Tile Company Limited. Age 38.

Directors' Report

The Directors present the ninetieth Annual Report and the financial statements for the year ended 30th June 1999.

Results and Dividends

The results of the Group for the year are set out on page 20.

The Directors do not recommend the payment of any ordinary dividend in view of the Group's results for the year. The payment of the preference dividend due on 1st July 1999 was deferred.

A loss of £12,653,000 has been transferred from reserves.

Review of the Business and Principal Activities

Brunel Holdings plc acts as a holding company co-ordinating the activities of its subsidiaries which were, during the year ended 30th June 1999, primarily engaged in design and manufacturing engineering, distribution and other associated activities.

A review of the development of the business during the year and details of an acquisition made during the year (see Note 11 on page 33) appear in the Chief Executive's Review on pages 3 to 5.

Political and Charitable Contributions

During the year the Group made no donations for charitable purposes, and no contributions to political parties (1998: Nil).

Directors

The following Directors held office at 30th June 1999 and against their names are shown their beneficial interests in the Company's shares as defined in the Companies Act 1985:

| | 30th June 1999 | | 1st July 1998 | |
|----------------|-------------------|-----------------|-------------------|-----------------|
| | Preference Shares | Ordinary Shares | Preference Shares | Ordinary Shares |
| J.M. Woolley | 50,000 | 270,000 | 50,000 | 70,000 |
| R.J. Petersen | - | - | - | - |
| D.J. Loftus | - | 112,000 | - | 12,000 |
| B.B. Stevenson | - | - | - | - |
| T.J. Swete | - | - | - | - |

The interests of the Directors under the Company's share option schemes are shown in Note 29 to the financial statements on page 47.

Mr T.C. Walker was a Director of the Company from 1st July 1998 until he resigned on 5th October 1998, and Mr B.M. Barrett was a Director of the Company from 1st July 1998 until 25th June 1999 when he was formally removed from the Board. However, Mr Barrett effectively ceased to act as a Director after 31st March 1999.

Mr R.J. Petersen is beneficially interested in £150,000 of the Company's 6.5% Convertible Unsecured Loan Notes 2000, which is convertible into 3,333,333 ordinary shares in the Company at his option before 30th November 2000. Clients of PFM General Management Limited, of which Mr T.J. Swete is a director, are beneficially interested in £1,350,000 of the Company's 6.5% Convertible Unsecured Loan Notes 2000, which is convertible into 30,000,000 ordinary shares in the Company at their option before 30th November 2000. These Loan Notes were issued as a direct consequence of the funding arrangements shareholders approved at the 1998 Annual General Meeting for the acquisition of the primary tobacco processing division of GBE International Group plc (in administrative receivership). This acquisition was completed on 2nd October 1998 and at that date neither Mr Petersen nor Mr Swete were Directors of the Company.

Except as stated above, none of the Directors had any other interests during the year in any shares in the Company or in any of its subsidiary companies.

Since 30th June 1999 there have been no changes in the Directors' interests in the Company's ordinary or preference shares.

During the year the Company maintained directors' and officers' insurance against liabilities incurred in the course of their duties, to the extent permitted by the Companies Act.

The Director retiring by rotation is Mr D.J. Loftus. He is eligible and offers himself for re-election. Mr T.J. Swete, who has been appointed a Director since the last Annual General Meeting, will be proposed for election. Brief biographical information of both these directors can be found on page 9.

Mr R.J. Petersen and Mr D.J. Loftus have service contracts with the Company with one-year notice periods. None of the non-executive directors have a service contract with the Company.

Directors' Report

Statement of Corporate Governance

The Board fully supports the recommendations of "The Combined Code – Principles of Good Governance and Code of Best Practice" ("The Combined Code") which was appended to the London Stock Exchange Listing Rules in 1998. The Directors report that, based upon the information below and that included under Executive Remuneration Policy on pages 14 to 15, the Company has complied throughout the period with the provisions set out in Section 1 of the Combined Code with the exception that Mr J.M. Woolley's appointment is not for a specified period.

The Board

The Board consists of Executive and Non-executive Directors who meet regularly to consider matters specifically reserved for its attention and to monitor the performance of the Group. It sets the strategic direction of the Group.

The role of Chairman and Chief Executive are separate. The Board considers Mr J.M. Woolley and Mr B.B. Stevenson as independent non-executives. The Board is aware that Mr T.J. Swete was nominated by Postern Fund Management Limited to be a Non-executive Director of the Company.

The Board has confirmed the responsibilities of both the Chairman and the Chief Executive and formalised the arrangements for access by Directors to the Company Secretary and independent professional advice and approved a fixed period of appointment for new Non-executive Directors.

Board Committees

The Audit and Remuneration Committees (chaired by Mr B.B. Stevenson and Mr J.M. Woolley respectively) are comprised solely of Non-executive Directors.

The terms of reference of the Audit Committee include reviewing the Group's internal controls, published financial reports for statutory compliance and standards of best practice, and recommending appropriate disclosure to the Board. It also meets with the auditors to review the audit plan, and reviews annually the services of the Group's auditors, to ensure that an objective and professional relationship is maintained.

The terms of reference for the Remuneration Committee include the setting of remuneration policy and remuneration of Executive Directors. The Board has reported on Executive Directors' remuneration in the Remuneration Committee Report on pages 14 to 17 and within Note 29 to the financial statements on page 47.

The Remuneration Committee recommends all executive and non-executive appointments to the Board. Any proposal by the Committee will be discussed and ratified by the full Board.

Going Concern

It should be recognised that any consideration about the foreseeable future involves making a judgement, at a particular point in time, about future events that are inherently uncertain. 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, the Directors continue to adopt the going concern basis in preparing the accounts.

Internal Financial Controls

The Directors are responsible for ensuring that the Company maintains a system of internal financial controls, including suitable monitoring procedures. The system is designed to ensure the maintenance of proper accounting records and the reliability of the financial information used within the business or for publication, but any such system can only provide reasonable, and not absolute, assurance against misstatement or loss.

The Company's internal financial control and monitoring procedures include:

- (a) clear responsibilities on the part of line and financial management for the maintenance of good financial controls and the production of accurate and timely financial management information;
- (b) the control of key financial risks through clearly laid down authorisation levels and proper segregation (so far as is practicable) of accounting duties;
- (c) detailed monthly budgeting and reporting of trading results, balance sheets and cash flows, with regular review by management of variances from budgets;

Directors' Report

(d) reporting on compliance with internal financial controls and procedures by group internal audit and review of reports by external auditors. These reports are also reviewed by the Audit Committee (comprising three Non-executive Directors) prior to the issue of the interim and annual reports.

The Audit Committee has reviewed the effectiveness of the system of internal financial controls for the period covered by the accounts.

The Directors have noted the requirement of paragraph D.2.1 of the Combined Code that the report on internal controls should cover all controls, including financial, operational and compliance controls as well as risk management. During the year the Company complied with paragraph 12.43A(b) of the Listing Rules of the London Stock Exchange by meeting the current obligation to report only on internal financial controls. The Directors have noted the publication of "Internal Control: Guidance for Directors on the Combined Code", published on 27th September 1999, and expect to report positively in accordance with the new requirements for the year ending 30th June 2000.

Relations with Shareholders

The Directors meet regularly with and present to institutional shareholders to foster a mutual understanding of objectives. The Directors encourage the participation of private shareholders at the Annual General Meeting.

Year 2000

The Group has continued to assess the business risks resulting from the Year 2000 issue throughout this financial year. An ongoing review procedure across the Group has ensured that priority is given to those systems which could cause a significant financial or legal impact on the Group's business if they were to fail.

The Year 2000 issue may create a risk from third parties with whom the Group deals on financial and business transactions worldwide. The nature of the problem is such that the Group cannot be certain of avoiding business disruption, particularly where it is reliant upon third parties.

No material additional costs were incurred or are expected in implementing the Group's Year 2000 action plan, as this is part of the ongoing upgrading of current systems.

European Monetary Union

The Group has assessed the potential impact of Economic Monetary Union and at present no specific action is deemed necessary. However, the situation continues to be monitored on a regular basis.

Substantial Shareholdings

Details of substantial shareholdings notified to the Company are set out in Note 28 to the financial statements.

Share Capital

77 new ordinary shares in the Company were issued during the year, following the conversion of 162 of the Company's convertible cumulative redeemable preference shares.

At the forthcoming Annual General Meeting a resolution will be proposed to authorise the Directors to allot securities for cash, disapplying the pre-emption provisions of the Companies Act 1985. Details are included in the Notice of the Annual General Meeting sent to shareholders with this Report and Accounts.

Save-As-You-Earn Share Option Scheme

This scheme is made available to most employees of the Group in the UK (their eligibility being determined by a minimum period of service) and helps the Group by generating a closer identity with, and loyalty to, the Group. The rules of the scheme reflect current legislation and best practice.

A copy of the rules of the scheme is available on request and will be available at the Annual General Meeting.

No invitations to take up options under the scheme were issued to employees during the year.

Executive Share Option Schemes

Shareholders approved at the 1998 Annual General Meeting the establishment of three executive share option schemes. On 30th March 1999 options over 2,376,000 ordinary shares in the Company were granted to 36 of the Group's senior executives under the Company's Share Option Plan, and options over 2,720,000 ordinary shares in the Company were granted to 37 senior executives under the Company's Executive Share Option Scheme ("the

Directors' Report

Scheme"). These options are normally exercisable between the third and tenth anniversary of the grant provided that the Company achieves an increase in its earnings per share over a three year period exceeding RPI plus 10%.

On the same date, super options over 4,559,000 ordinary shares in the Company were issued to 11 senior executives under the Scheme. These options are normally exercisable between the fifth and tenth anniversary of the grant, provided that the Company's total shareholder return to ordinary shareholders over a five year period is within the top quartile of performance where the Company is measured against a peer group of (currently) 19 listed engineering companies.

No options were issued during the year under the Company's Phantom Option Scheme, although Mr Petersen holds phantom options over 4,075,000 ordinary shares in the Company which were issued pursuant to his contract of employment.

A copy of the rules of these executive share option schemes is available on request and will be available at the Annual General Meeting.

Employees

The Group gives autonomy to its operating subsidiaries and makes management accountable for their own actions, whilst developing their awareness of the Group's overall objectives. Each subsidiary is responsible for the development of employee involvement and communication policies which are appropriate to its own particular needs and in line with accepted practices in its country of operation.

The Group aims to ensure that no employee or potential employee receives less favourable treatment on the grounds of sex, marital status, colour, race, nationality, religious beliefs or disability. Selection and promotion are based on the suitability of an individual's skills, aptitude and experience for the job. Having special concern for employees who become disabled, all practical measures are taken to ensure that disabled persons are placed in jobs suited to their individual circumstances.

Health, Safety and the Environment

The Group takes seriously its responsibilities to employees, customers and the environment. It requires each operating subsidiary to maintain its own health, safety and environment policies, and to

implement good working practices and procedures so as to ensure that its operations and products comply with the appropriate law, regulations and standards. In conjunction with an independent consultancy the Group conducts detailed risk management surveys of each site on a regular basis covering health, safety and environmental aspects.

Payment Policy

The Company generally agrees terms and conditions with suppliers before business takes place, and its policy is to pay agreed invoices in accordance with those terms of payment. At the year end the Company had an average of 55 days purchases outstanding in trade creditors, and the Group had an average of 68 days.

Articles of Association

The opportunity is being taken at the forthcoming Annual General Meeting to propose some amendments to the Company's Articles of Association. Resolutions 6 and 7 in the Notice of the Annual General Meeting (which is being sent to ordinary shareholders with this Report & Accounts) contains these proposed amendments, which are of two types and are therefore contained in separate resolutions. The proposed amendments in Resolution 6 will bring the Articles into line with current Stock Exchange requirements; those in Resolution 7 will assist the efficient operation of the Group. These amendments, all of which are commonly found in the articles of association of listed companies, will serve to bring the Company's Articles of Association into line with current practice. An explanation of each amendment is set out in the letter to shareholders accompanying the Notice of the Annual General Meeting.

Auditors

A resolution to re-appoint PricewaterhouseCoopers as auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 19th October 1999 and signed on its behalf by

J.A.G. King
Secretary



Remuneration Committee Report

Remuneration Policy

The policy of the Remuneration Committee concerning the remuneration of executive directors and the level and constituent elements of their remuneration is set out below. The Remuneration Committee will consult with the Chief Executive, in particular on other Executive Directors' remuneration. No director participates in, or votes on, any discussion relating to his own remuneration.

Non-executive Directors

It is the current policy of the Committee to appoint new Non-executive Directors for an initial period of three years, which may be renewed for a further three years thereafter. Non-executive Director appointments, as with all directors, are subject to election and re-election at the relevant annual general meetings.

Mr Woolley's appointment as a Non-executive Director did not include any specified time period, and he has served as a Non-executive Director and as Chairman for seven years.

With the exception of Mr Woolley, in the event of early termination for whatever reason the other Non-executive Directors are not entitled to any compensation. The remuneration of Non-executive Directors is determined by the Board as a whole. All Non-executive Directors are paid a sum which takes into account the amount of work undertaken by them as members of the Board and its various sub-committees, but do not receive any profit related pay, share options, bonuses or pension entitlement from the Company or any of its subsidiaries. None of the Non-executive Directors have a service agreement with the Company.

Remuneration of Executive Directors and senior executives

As a sub-committee of the Board, the role of the Remuneration Committee is to establish Board policy in respect of terms of employment including remuneration packages in detail for Executive Directors and in principle for certain other senior executives. The Committee, with its remuneration packages, seeks to attract retain and motivate Executive Directors of the right calibre and to encourage them in the enhancement of the Company's performance. In setting both the policy related to, and the levels of remuneration and benefits for, executive directors, the Committee takes full account of market data, sourced from a well established and highly respected nation-wide benefit survey, which reflects practice across the industrial and service sectors in which the Group operates.

Mr Petersen's contract of employment provides a basic annual salary of £175,000, participation in the performance related incentive bonus scheme described in paragraph (B) below, and a notice period of one year. Mr Petersen has been granted phantom options over 7,000,000 ordinary shares subject to the same performance criteria as apply to the Company's executive share option schemes. During the year, 2,925,000 of these phantom options were replaced by options over 2,925,000 ordinary shares granted to Mr Petersen under those schemes.

The principal components of the Group's remuneration packages for Executive Directors are as follows:

A. Basic Salary

The basic salary for each Executive Director is determined by the Committee taking into account market data relating to companies of similar size and complexity as that of Brunel and the performance of the individual.

Remuneration Committee Report

B. Performance Related Bonuses

The Executive Directors are entitled to bonuses under the Company's Economic Value Added ("EVA") bonus scheme which is applied across the senior managers of the Company's subsidiaries as well. For achievement of the target (an annual increase in EVA established at the outset with the assistance of independent consultants) a fixed percentage of the director's basic salary is declared as a bonus. For Mr Petersen the percentage is 60%; for Mr Loftus it is 50%. The bonus is uncapped but the annual increase in profits has to be sufficient to justify not only the appropriate level of bonus payment but also the costs of paying the bonus itself. The targets have been set until 30th June 2002, and in return for participation in this scheme, each participant's basic salary will not normally be increased throughout this period. The declared bonus (whether positive or negative) is paid into a bonus bank. Only one third of any positive balance in the bonus bank is paid out each year. No bonuses were paid to directors in respect of the year and both Mr Petersen and Mr Loftus have negative bonus bank balances at the beginning of the new financial year.

C. Share Options

At the 1998 Annual General Meeting Shareholders approved the establishment of an Inland Revenue approved share option plan ("the Plan"), an unapproved share option scheme ("the Scheme") and a phantom share option scheme ("the Phantom Scheme").

Further information is contained in the Directors' Report on page 13. Details of the options granted under these schemes to the Directors of the Company can be found in Note 29 to the financial statements on page 47.

Policy on External Appointments

The Company recognises that its Executive Directors may be invited to become non-executive directors of other companies and that exposure to such non-executive duties can broaden their experience and knowledge, which will be to the benefit of Brunel. Subject to Board approval (which will not be given if the proposed appointment is with a competing company or would otherwise lead to a conflict of interest) Executive Directors are allowed to accept one non-executive appointment and to retain the fees paid.

Policy on Contracts of Service

It is the intention of the Board to implement service contracts with a one year notice period for future appointments of Executive Directors. Brunel has applied, and intends to continue to apply, a fair but robust principle of mitigation in the payment of compensation on the termination of the employment of any Executive Director.

Remuneration Committee Report

Pension Contributions

All Executive Directors are eligible for membership of the Brunel Senior Executives Pension Scheme, which is Inland Revenue approved. The scheme is non-contributory for the director and provides for a pension on the basis of 1/30th of final salary for every year of service for Mr Petersen and 1/45th for Mr Loftus. In addition the Company is paying 25% of the difference between Mr Petersen's basic salary and the Government's earnings cap (some £21,000 a year) into a Funded Unapproved Retirement Benefit Scheme for Mr Petersen's benefit.

Defined benefits accrued and payable on retirement for Directors holding office during the year are shown in the table below:

| | <i>R.J. Petersen</i> (Note 1) | <i>D.J. Loftus</i> | <i>B.M. Barrett</i> (Note 2) | <i>T.C. Walker</i> (Note 2) |
|---|----------------------------------|-----------------------|---------------------------------|--------------------------------|
| Normal Retirement Age | 60 | 65 | 65 | 60 |
| Age at 30th June 1999 | 52 | 38 | 56 | 58 |
| Accrued pension at 30th June 1999 | £2,265 p.a. | £13,189 p.a. | £39,293 p.a. | £28,690 p.a. |
| Accrued related spouse's pension at 30th June 1999 | £1,510 p.a. | £7,472 p.a. | £26,195 p.a. | £19,127 p.a. |
| Increase in accrued pension during the year – net of inflation – (the accrual rate for the additional year's service is based upon pensionable pay at the end of the year) | £2,265 p.a. | £1,988 p.a. | £1,808 p.a. | £1,329 p.a. |
| Increase in related spouse's pension – net of inflation | £1,510 p.a. | £1,299 p.a. | £1,205 p.a. | £886 p.a. |
| Escalation (see note 3) | 4% p.a. guaranteed | 4% p.a. guaranteed | 4% p.a. guaranteed | 4% p.a. guaranteed |

Notes :

(1) from date of appointment until 30th June 1999

(2) from 1st July 1998 until date of resignation

(3) Pensions accrued before 6th April 1997 receive annual increases guaranteed to be at least 4% p.a. In addition the amount of pension which exceeds the member's Guaranteed Minimum Pension will be increased each year by 50% of the amount (if any) by which LPI increases exceed 4%. Pensions accrued on or after 6th April 1997 increase in payment in line with LPI increases subject to a minimum of 4% p.a. LPI increases are defined as increases in line with the Retail Price Index subject to a maximum of 5% in any one year.

Other Benefits

The executive directors also have other taxable benefits provided by the Company such as a suitable company car and the payment of its operating expenses (including fuel), and membership of a private medical insurance scheme.

Remuneration Committee Report

Remuneration of Directors

The remuneration of the Directors for the years to 30th June 1999 and 1998 was (£'000s):

| | Basic Salary | | Benefits | | Bonus | | Total | |
|---------------------------------------|--------------|------------|-----------|-----------|----------|----------|------------|------------|
| | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 |
| Executive Directors | | | | | | | | |
| R.J. Petersen (from 5th October 1998) | 130 | – | 6 | – | – | – | 136 | – |
| T.C. Walker (to 5th October 1998) | 39 | 145 | 13 | 11 | – | – | 52 | 156 |
| D.J. Loftus | 97 | 90 | 9 | 8 | – | – | 106 | 98 |
| B.M. Barrett (to 25th June 1999) | 101 | 103 | 6 | 7 | – | – | 107 | 110 |
| Non-executive Directors | | | | | | | | |
| J.M. Woolley | 45 | 47 | 13 | 12 | – | – | 58 | 59 |
| R.M. Miles (to 24th November 1998) | 8 | 20 | – | – | – | – | 8 | 20 |
| B.B. Stevenson | 20 | 20 | 2 | 2 | – | – | 22 | 22 |
| T.J. Swete (from 1st December 1998) | 12 | – | – | – | – | – | 12 | – |
| | <u>452</u> | <u>425</u> | <u>49</u> | <u>40</u> | <u>–</u> | <u>–</u> | <u>501</u> | <u>465</u> |

In addition to the above, a provision of £240,000 has been made in respect of the termination of Mr B.M. Barrett's contract of employment. Of this amount, £30,000 had been paid up to 30th June 1999, and to date £70,000 has been paid. The provision represents the full cost of terminating Mr Barrett's two year notice period. At the time of writing, discussions are underway with Mr Barrett to mitigate this payment.

Any bonus payments made by the Company are not pensionable.

The highest paid director had accrued pension rights of £2,265 as at 30th June 1999.

J.M. Woolley

Chairman

Remuneration Committee

Statement of Directors' Responsibilities

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

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

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

To the shareholders of Brunel Holdings plc

We have audited the financial statements on pages 20 to 47.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report, including as described on page 18 to the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 11 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its internal controls.

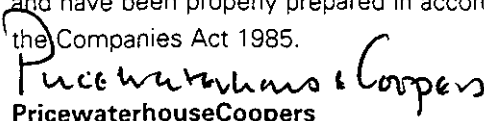
Basis of Audit Opinion

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 at 30th June 1999 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers

Bristol

Chartered Accountants and Registered Auditors

19th October 1999

Group Profit and Loss Account

for the year ended 30th June 1999

| | Note | 1999 | | | 1998 | | |
|--|-------|--|------------------------------|-----------------|--|------------------------------|---------------|
| | | Before exceptional items £000 | Exceptional items £000 | Total £000 | Before exceptional items £000 | Exceptional items £000 | Total £000 |
| Turnover | | | | | | | |
| Continuing operations | | 67,040 | (1,515) | 65,525 | 77,348 | - | 77,348 |
| Discontinued operations | | 6,613 | - | 6,613 | 22,348 | - | 22,348 |
| Total turnover | 1&2 | <u>73,653</u> | <u>(1,515)</u> | <u>72,138</u> | <u>99,696</u> | <u>-</u> | <u>99,696</u> |
| Operating (loss)/profit | | | | | | | |
| Continuing operations | | (1,931) | (4,932) | (6,863) | 4,994 | (2,128) | 2,866 |
| Discontinued operations | | (508) | - | (508) | 11 | - | 11 |
| Total operating (loss)/profit | 1,2&3 | <u>(2,439)</u> | <u>(4,932)</u> | <u>(7,371)</u> | <u>5,005</u> | <u>(2,128)</u> | <u>2,877</u> |
| Exceptional items | | | | | | | |
| (Loss)/profit on termination/disposal of discontinued operations | 3 | - | (2,154) | (2,154) | - | 4,979 | 4,979 |
| Profit on sale of property in continuing operation | 3 | - | - | - | - | 750 | 750 |
| (Loss)/profit on ordinary activities before interest | | | | | | | |
| Interest receivable and similar income | 4 | 56 | - | 56 | 174 | - | 174 |
| Interest payable and similar charges | 4 | (1,646) | - | (1,646) | (1,863) | - | (1,863) |
| (Loss)/profit on ordinary activities before taxation | | | | | | | |
| Taxation on (loss)/profit on ordinary activities | 7 | (158) | - | (158) | (478) | 126 | (352) |
| (Loss)/profit for the financial year | | | | | | | |
| Dividends: equity shares | 9 | - | - | - | (612) | - | (612) |
| non-equity shares | 9 | (1,380) | - | (1,380) | (1,380) | - | (1,380) |
| Retained (deficit)/profit for the financial year transferred (from)/to reserves | | | | | | | |
| | 22 | <u>(5,567)</u> | <u>(7,086)</u> | <u>(12,653)</u> | <u>846</u> | <u>3,727</u> | <u>4,573</u> |
| (Loss)/earnings per share | | | | | | | |
| | 10 | <u>(4.5)p</u> | | <u>(10.3)p</u> | 1.2p | | 4.2p |

The notes on pages 25 to 47 form part of these financial statements.

Group Balance Sheet

as at 30th June 1999

| | Note | 1999 £000 | 1999 £000 | 1998 £000 | 1998 £000 |
|--|------|---------------|---------------|---------------|---------------|
| Fixed assets | | | | | |
| Intangible assets | 11 | | 5,251 | | 997 |
| Tangible assets | 12 | | 13,258 | | 16,021 |
| Investments | 13 | | 282 | | - |
| | | | <u>18,791</u> | | <u>17,018</u> |
| Current assets | | | | | |
| Stock | 14 | 8,376 | | 9,479 | |
| Debtors | 15 | 16,858 | | 20,901 | |
| Pension fund prepayment (recoverable after more than one year) | 16 | 21,464 | | 20,407 | |
| Properties held for resale | 17 | 5,388 | | 8,870 | |
| Cash at bank and in hand | | 953 | | 2,221 | |
| | | <u>53,039</u> | | <u>61,878</u> | |
| Current liabilities | | | | | |
| Creditors – amounts falling due within one year | 18 | 39,667 | | 37,065 | |
| Net current assets | | | <u>13,372</u> | | <u>24,813</u> |
| Total assets less current liabilities | | | <u>32,163</u> | | <u>41,831</u> |
| Creditors – amounts falling due after more than one year | 18 | | 6,524 | | 2,186 |
| | | | <u>25,639</u> | | <u>39,645</u> |
| Provisions for liabilities and charges | 20 | | 1,462 | | 2,792 |
| | | | <u>24,177</u> | | <u>36,853</u> |
| Capital and reserves | | | | | |
| Called up share capital | 21 | | 18,243 | | 18,243 |
| Share premium account | 22 | | 64,244 | | 64,244 |
| Other reserves | 22 | | 83,592 | | 83,592 |
| Profit and loss account | 22 | | (143,256) | | (130,580) |
| Shareholders' funds | | | | | |
| (including non-equity interests) | 23 | | 22,823 | | 35,499 |
| Minority interests (non-equity) | 24 | | 1,354 | | 1,354 |
| | | | <u>24,177</u> | | <u>36,853</u> |

Approved by the Board on 19th October 1999 and signed on its behalf by

J.M. Woolley }
D.J. Loftus } Directors

D. Loftus

J.M. Woolley

The notes on pages 25 to 47 form part of these financial statements.

Statement of Total Recognised Gains and Losses

for the year ended 30th June 1999

| | Note | Group | | Company | |
|--|------|-----------------|--------------|--------------|----------------|
| | | 1999 £000 | 1998 £000 | 1999 £000 | 1998 £000 |
| (Loss)/profit for the financial year | | (11,273) | 6,565 | (942) | (1,029) |
| Currency translation differences on foreign currency net investments | 22 | (23) | (769) | 139 | (281) |
| Total recognised gains and losses relating to the year | | (11,296) | 5,796 | (803) | (1,310) |

There is no material difference between the actual profits of the Company and the Group and their profits on an historical cost basis.

The notes on pages 25 to 47 form part of these financial statements.

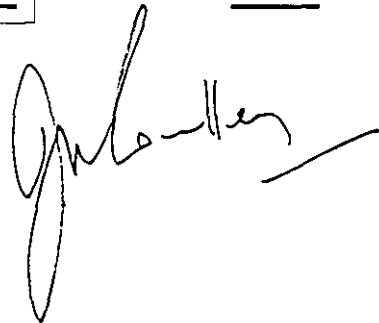
Company Balance Sheet

as at 30th June 1999

| | Note | 1999 £000 | 1999 £000 | 1998 £000 | 1998 £000 |
|---|------|--------------|-----------------|--------------|----------------|
| Fixed assets | | | | | |
| Tangible assets | 12 | | 119 | | 145 |
| Investments | 13 | | 94,460 | | 92,346 |
| | | | <u>94,579</u> | | <u>92,491</u> |
| Current assets | | | | | |
| Debtors | 15 | 964 | | 2,171 | |
| Cash at bank and in hand | | 3 | | 166 | |
| | | <u>967</u> | | <u>2,337</u> | |
| Current liabilities | | | | | |
| Creditors – amounts falling due within one year | 18 | 12,117 | | 9,755 | |
| | | | <u>(11,150)</u> | | <u>(7,418)</u> |
| Total assets less current liabilities | | | <u>83,429</u> | | <u>85,073</u> |
| Creditors – amounts falling due after more than one year | 18 | | 539 | | - |
| | | | <u>82,890</u> | | <u>85,073</u> |
| Capital and reserves | | | | | |
| Called up share capital | 21 | | 18,243 | | 18,243 |
| Share premium account | 22 | | 64,244 | | 64,244 |
| Profit and loss account | 22 | | 403 | | 2,586 |
| | | | <u>82,890</u> | | <u>85,073</u> |
| Shareholders' funds (including non-equity interests) | 23 | | <u>82,890</u> | | <u>85,073</u> |

Approved by the Board on 19th October 1999 and signed on its behalf by

J.M. Woolley }
D.J. Loftus } Directors

The notes on pages 25 to 47 form part of these financial statements.

Group Cash Flow Statement

for the year ended 30th June 1999

| | Note | 1999 £000 | 1999 £000 | 1998 £000 | 1998 £000 |
|--|------|--------------|--------------|--------------|--------------|
| Net cash outflow from operating activities | A | | (8,462) | | (465) |
| Returns on investments and servicing of finance | | | | | |
| Interest received | | 101 | | 133 | |
| Interest paid | | (1,446) | | (1,855) | |
| Interest element of finance lease rental payments | | (104) | | (99) | |
| Dividends paid – non-equity | | (1,380) | | (1,380) | |
| Net cash outflow from returns on investments and servicing of finance | | | (2,829) | | (3,201) |
| Taxation | | | - | | (587) |
| Capital expenditure | | | | | |
| Development costs incurred | | (182) | | - | |
| Purchase of tangible fixed assets | | (2,598) | | (2,550) | |
| Sale of tangible fixed assets | | 471 | | 1,156 | |
| Sale and leaseback of properties | | 1,920 | | 3,285 | |
| | | | (389) | | 1,891 |
| Acquisitions and disposals | | | | | |
| Investments in overseas operation | | (282) | | - | |
| Acquisition of business | F | (3,519) | | - | |
| Sale of properties held for resale | | 2,950 | | 1,422 | |
| Sale of businesses | E | 1,576 | | 19,576 | |
| Equity dividends paid | | | 725 | | 20,998 |
| | | | (612) | | (612) |
| Financing | | | | | |
| Inception of new finance leases | B | 131 | | 465 | |
| Capital element of finance lease rental payments | B | (349) | | (372) | |
| New bank loans | B | 5,225 | | - | |
| | | | 5,007 | | 93 |
| (Decrease)/increase in cash | B | | (6,560) | | 18,117 |

The notes on pages 25 and 26 form part of this group cash flow statement.

Notes to the Group Cash Flow Statement

for the year ended 30th June 1999

A Reconciliation of operating (loss)/profit to net cash outflow from operating activities

| | 1999 | 1998 |
|---|----------------|--------------|
| | £000 | £000 |
| Operating (loss)/profit | (7,371) | 2,877 |
| Revaluation of freehold property | 1,000 | - |
| Provision for onerous contract | - | 1,400 |
| Provision for termination costs | - | 320 |
| Movement on pension prepayment | (1,057) | (704) |
| Depreciation charges | 1,192 | 1,421 |
| Loss on disposal of properties held for resale | 532 | 38 |
| (Increase)/decrease in stocks | (1,566) | 887 |
| Decrease/(increase) in debtors | 937 | (1,904) |
| (Decrease) in creditors | (1,913) | (3,137) |
| Exchange adjustment | (32) | (399) |
| | <u>(8,278)</u> | <u>799</u> |
| Net cash outflow in respect of reorganisation costs | (184) | (1,264) |
| Net cash outflow from operating activities | <u>(8,462)</u> | <u>(465)</u> |

B Reconciliation to net debt

| | 1999 | 1998 |
|---|-----------------|----------------|
| | £000 | £000 |
| (Decrease)/increase in cash in the period | (6,560) | 18,117 |
| Reduction in lease finance | 349 | 372 |
| Increase in bank loans | (5,225) | - |
| Decrease/(increase) in bills of exchange discounted | 2,794 | (1,193) |
| | <u>(8,642)</u> | <u>17,296</u> |
| Change in net debt from cashflows | (8,642) | 17,296 |
| Finance leases disposed of with subsidiaries | 216 | 1,454 |
| Issue of 6.5% convertible unsecured loan notes 2000 | (1,500) | - |
| New finance leases | (131) | (465) |
| Translation difference | 16 | (2) |
| | <u>(10,041)</u> | <u>18,283</u> |
| Movement in net debt in the period | (10,041) | 18,283 |
| Net debt at 1st July | (8,027) | (26,310) |
| | <u>(18,068)</u> | <u>(8,027)</u> |

C Analysis of net debt

| | 1st July 1998 | Cash flow | Disposals | Other non-cash items | Exchange movement | 30th June 1999 |
|---|------------------|-----------------|--------------|----------------------------|----------------------|-------------------|
| Cash at bank and in hand | 2,221 | (2,184) | 901 | - | 15 | 953 |
| Overdrafts | (4,957) | (5,867) | 590 | - | (3) | (10,237) |
| Bank loans less than 1 year | - | (1,100) | - | - | - | (1,100) |
| Bank loans more than 1 year | - | (4,125) | - | - | - | (4,125) |
| 6.5% unsecured convertible loan notes 2000 | - | - | - | (1,500) | - | (1,500) |
| Loan notes | (1,590) | - | - | - | - | (1,590) |
| Finance leases | (907) | 349 | 216 | (131) | 4 | (469) |
| Bills of exchange discounted | (2,794) | 2,794 | - | - | - | - |
| | <u>(8,027)</u> | <u>(10,133)</u> | <u>1,707</u> | <u>(1,631)</u> | <u>16</u> | <u>(18,068)</u> |

Notes to the Group Cash Flow Statement

for the year ended 30th June 1999

D Disposal of businesses

| | 1999 £000 | 1998 £000 |
|-------------------------------|--------------|---------------|
| Net assets disposed of | | |
| Tangible fixed assets | 1,174 | 6,804 |
| Intangible fixed assets | - | 27 |
| Stock | 3,213 | 6,396 |
| Debtors | 2,927 | 10,966 |
| Creditors | (3,690) | (8,963) |
| Bank borrowings | (1,491) | - |
| Finance leases | (216) | (1,454) |
| | <u>1,917</u> | <u>13,776</u> |
| (Loss)/profit on disposal | (1,720) | 5,800 |
| | <u>197</u> | <u>19,576</u> |
| Satisfied by: | | |
| Cash | 85 | 19,576 |
| Deferred consideration | 112 | - |
| | <u>197</u> | <u>19,576</u> |

The above disposals relate to the sale of Brunel Africa Limited in June 1999 and the liquidation of Blackwood Hodge South Africa Limited in March 1999.

E Analysis of net inflow of cash and cash equivalents in respect of the disposal of businesses

| | 1999 £000 | 1998 £000 |
|---|--------------|---------------|
| Cash consideration | 85 | 19,576 |
| Bank balances of businesses disposed of | 1,491 | - |
| | <u>1,576</u> | <u>19,576</u> |

F Purchase of business

| | 1999 £000 | 1998 £000 |
|---|--------------|--------------|
| Net assets purchased | | |
| Tangible fixed assets | 226 | - |
| Stocks | 544 | - |
| | <u>770</u> | <u>-</u> |
| Goodwill arising | 4,249 | - |
| | <u>5,019</u> | <u>-</u> |
| Satisfied by: | | |
| Cash | 3,519 | - |
| Issue of 6.5% convertible unsecured loan notes 2000 | 1,500 | - |
| | <u>5,019</u> | <u>-</u> |

Accounting Policies

Basis of accounting

The financial statements for the Group are prepared under the historical cost convention, as modified for the revaluation of certain assets, and comply with applicable accounting standards. The principal accounting policies adopted are described below.

Consolidation

The consolidated financial statements include the financial statements of the holding company and its subsidiaries. Results of subsidiary undertakings acquired during the financial year are included in group profit from the effective date of acquisition and those of companies disposed of are included up to the effective date of disposal. For this purpose the net assets of newly acquired subsidiaries are incorporated in the financial statements on the basis of the fair value to the Group. In previous periods any goodwill represented by the excess of the consideration paid over the fair value of the net assets acquired at the date of acquisition was eliminated against reserves on consolidation, to be written off through the profit and loss account on the subsequent disposal to which the business relates. From 1st July 1998, in accordance with Financial Reporting Standard No. 10, such goodwill has been included on the balance sheet and is being amortised over its useful economic life.

Turnover

Turnover comprises amounts receivable in the ordinary course of business in respect of goods sold and services provided to third parties, income from property sales and developments, and rents receivable, excluding Value Added Tax.

Turnover on long-term contracts is recognised according to the stage reached in the contract by reference to the value of the work done with the corresponding amount being included in debtors. An estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty.

Intangible fixed assets

Intellectual property and goodwill are stated at cost less depreciation charged, on a straight line basis, over their anticipated useful lives, which is estimated to be 20 years.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation less depreciation charged at the following annual rates:

| | | | |
|----------------------|----------------------------|-------------------------------|------------|
| Freehold buildings | 1½% | Plant, equipment and vehicles | 10% to 33% |
| Leasehold properties | over the term of the lease | | |

The cost of mineral rights is amortised over the expected extraction period.

Development expenditure

Development expenditure relating to specific projects intended for commercial exploitation is carried forward. Such expenditure is amortised over the period expected to benefit. Expenditure on pure and applied research is written off as incurred.

Leased assets

The cost of assets held under finance leases is included under tangible assets, and depreciation is provided in accordance with the Group's accounting policy for the class of asset concerned. The interest cost is charged to profit and loss account over the term of the lease on the basis of the capital element outstanding. The capital element of future lease payments is included in creditors. The cost of operating leases is charged to the profit and loss account as incurred.

Taxation

Provision is made for deferred taxation using the liability method on all material timing differences, where it is probable that a liability will arise in the foreseeable future.

Stock

Stock, work in progress and finished goods are stated on consistent bases at the lower of cost, including production overheads, and net realisable value.

Pension costs

Pension contributions are determined in accordance with the advice of independent actuaries. In accordance with Statement of Standard Accounting Practice No. 24 pension costs are charged to the profit and loss account so as to spread the cost over the employees' working life with the Group.

Foreign currencies

Trading profits or losses of overseas subsidiary companies are translated into sterling at the average rates ruling during the year. Assets and liabilities expressed in currencies other than sterling are translated at year end exchange rates. Profits and losses arising from the repayment or restatement of foreign currency borrowings used to finance foreign equity investments, and resulting from restatement of overseas net assets, are identified as movements on reserves. All other exchange differences (including those arising from currency conversions in the normal course of trading) are dealt with through the profit and loss account.

Notes to the Financial Statements

1. Profit and loss account analysis

| | <i>Continuing</i> | | 1999 | <i>Discontinued</i> | | 1998 |
|--|-------------------|-------------|-----------------------|---------------------|-------------|-----------------------|
| | <i>£000</i> | <i>£000</i> | Total £000 | <i>£000</i> | <i>£000</i> | Total £000 |
| Turnover | 67,040 | 6,613 | 73,653 | 77,348 | 22,348 | 99,696 |
| Cost of sales | (54,398) | (5,602) | (60,000) | (58,350) | (16,929) | (75,279) |
| Distribution costs | (8,023) | - | (8,023) | (7,517) | - | (7,517) |
| Administrative expenses | (6,550) | (1,519) | (8,069) | (6,487) | (5,408) | (11,895) |
| Operating (loss)/profit before exceptional items | (1,931) | (508) | (2,439) | 4,994 | 11 | 5,005 |

Continuing operations include the results of the tobacco division of GBE International Group plc from 2nd October 1998. The post acquisition results are not readily separable from the results of the existing operations of Dickinson Legg Limited.

2. Segmental reporting

| | <i>Turnover</i> | | <i>Operating (loss)/profit before exceptional items</i> | | <i>Net assets</i> | |
|-------------------------|----------------------|---------------|---|--------------|----------------------|---------------|
| | 1999 £000 | 1998 £000 | 1999 £000 | 1998 £000 | 1999 £000 | 1998 £000 |
| By business segment: | | | | | | |
| Design Engineering | 62,974 | 75,112 | (2,340) | 5,269 | 14,098 | 18,472 |
| Other activities | 4,066 | 2,236 | 409 | (275) | 9,663 | 14,762 |
| Continuing operations | 67,040 | 77,348 | (1,931) | 4,994 | 23,761 | 33,234 |
| Discontinued operations | 6,613 | 22,348 | (508) | 11 | 416 | 3,619 |
| | 73,653 | 99,696 | (2,439) | 5,005 | 24,177 | 36,853 |

| | <i>Turnover</i> | | <i>Operating (loss)/profit before exceptional items</i> | | <i>Net assets</i> | |
|---------------------------|----------------------|---------------|---|--------------|----------------------|---------------|
| | 1999 £000 | 1998 £000 | 1999 £000 | 1998 £000 | 1999 £000 | 1998 £000 |
| Geographical (by origin): | | | | | | |
| United Kingdom | | | | | | |
| Trading activities | 59,785 | 68,197 | (1,586) | 5,461 | 15,946 | 19,112 |
| Other activities | 4,066 | 2,236 | 409 | (275) | 9,663 | 14,762 |
| United States of America | 3,189 | 6,915 | (754) | (192) | (1,848) | (640) |
| | 67,040 | 77,348 | (1,931) | 4,994 | 23,761 | 33,234 |
| Discontinued operations | 6,613 | 22,348 | (508) | 11 | 416 | 3,619 |
| | 73,653 | 99,696 | (2,439) | 5,005 | 24,177 | 36,853 |

Geographical (by destination):

| | 1999 £000 | 1998 £000 |
|--------------------------|----------------------|---------------|
| United Kingdom | 28,438 | 26,738 |
| United States of America | 16,371 | 16,713 |
| Rest of the World | 22,231 | 33,897 |
| Continuing operations | 67,040 | 77,348 |
| Discontinued operations | 6,613 | 22,348 |
| | 73,653 | 99,696 |

Notes to the Financial Statements

3. Exceptional items

| | Notes | 1999 £000 | 1998 £000 |
|---|-------|----------------|----------------|
| Exceptional items within operating profit: | | | |
| Cost of onerous property contract | i) | (250) | (1,400) |
| Restructuring costs | ii) | (2,245) | (728) |
| Provision for termination costs of Mr B.M. Barrett | iii) | (240) | - |
| Reversal of profit taken on uncertain contract | iv) | (485) | - |
| Loss on disposal/write down of properties held for resale | v) | (532) | - |
| Professional fees for Dixon-Cameron investigation | vi) | (180) | - |
| Freehold property write down | vii) | (1,000) | - |
| | | <u>(4,932)</u> | <u>(2,128)</u> |
| (Loss)/profit on disposal of discontinued operations | viii) | (2,154) | 4,979 |
| | | <u>(2,154)</u> | <u>4,979</u> |
| Profit on sale of property in continuing operation | | - | 750 |
| Total exceptional items | | <u>(7,086)</u> | <u>3,601</u> |

- i) A loss of £250,000 was incurred in 1999 for the surrender of a property lease. This lease did not expire until 2015 and had annual rentals of £67,000 plus service charges. In 1998 the loss related to a provision made against a contract to purchase the Company's head office premises in Chippenham.
- ii) As part of the re-organisation of the Group, restructuring costs totalling £2,245,000 were incurred during the year, principally following the integration of the GBE business into Dickinson Legg and the merger of the Cameron Equipment and TH Dixon businesses.
- iii) A provision was made in March 1999 to cover the costs of terminating Mr B.M. Barrett's service contract.
- iv) In the year ended 30th June 1998 an order was taken by TH Dixon for the supply of two machines to China. At 30th June 1998 the machines were partially complete and in accordance with SSAP9, turnover of £1,515,000 and profit £485,000 were recognised in that year. However the customer has not yet decided to proceed with the order and as a result the turnover and profit previously taken have been reversed.
- v) A loss was incurred during the year following the sale of surplus properties. In addition, certain properties were written down to their estimated net realisable values at 30th June 1999 (see note 17).
- vi) A provision has been made for the cost of professional fees in relation to the investigations carried out following the losses made at Dixon-Cameron.
- vii) The Dixon-Cameron site at Taunton has been written down by £1,000,000 following a valuation by GVA Grimley during the year on a current open market value basis rather than an existing use basis.
- viii) A loss of £1,629,000 was incurred on the liquidation of Blackwood Hodge South Africa and the sale of Brunel Africa resulted in a loss of £91,000. A provision of £250,000 was made for the write down of assets at Marshaide to realisable values, following the decision to cease the subsidiary's operations. In addition costs of £184,000 were incurred on legal costs in relation to a previously owned subsidiary.

Notes to the Financial Statements

4. (Loss)/profit on ordinary activities before taxation

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

| | 1999 £000 | 1998 £000 |
|--|--------------|--------------|
| Depreciation : | | |
| intangible assets (note 11) | 177 | 54 |
| tangible assets (note 12) | 1,015 | 1,367 |
| Research and development expenditure | 189 | 165 |
| Operating lease rentals | 1,840 | 2,008 |
| Pension prepayment movement (note 16) | (1,057) | (704) |
| Loss on disposal/write down of properties held for resale (note 17) | 532 | 38 |
| Auditors remuneration | 112 | 132 |
| Non-audit fees paid to auditors | 76 | 173 |
| | <u>1,471</u> | <u>1,764</u> |
| Included in auditors remuneration of £112,000 (1998: £132,000) is an amount of £37,000 (1998: £36,000) payable to the auditors of Brunel Holdings plc. | | |
| Interest on bank loans and overdrafts repayable within five years | 1,471 | 1,764 |
| Interest on finance leases | 104 | 99 |
| Interest on Convertible Unsecured Loan Notes 2000 | 71 | - |
| | <u>1,646</u> | <u>1,863</u> |
| Interest receivable and similar income | (56) | (174) |

5. Employees

| | 1999 No | 1998 No |
|---|---------------|---------------|
| Actual number of employees as at 30th June: | | |
| Continuing operations | 791 | 957 |
| Average number of employees during the year : | | |
| Continuing operations | 827 | 1,012 |
| Discontinued operations | 142 | 74 |
| | <u>969</u> | <u>1,086</u> |
| Staff costs during the year amounted to: | £000 | £000 |
| Wages and salaries | 21,582 | 23,206 |
| Social security costs | 1,877 | 1,929 |
| Other pension costs - overseas operations | 66 | 105 |
| | <u>23,525</u> | <u>25,240</u> |

Notes to the Financial Statements

6. Emoluments of directors

| | 1999 | 1998 |
|---------------------------------|------------|------------|
| | £000 | £000 |
| Management remuneration | 401 | 364 |
| Non-executive remuneration | 100 | 101 |
| | <u>501</u> | <u>465</u> |
| Compensation for loss of office | 262 | 320 |
| | <u>763</u> | <u>785</u> |

Included in the above is an amount of £12,000 paid to Postern Executive Group Limited for the provision of Mr T.J. Swete's services. The compensation for loss of office includes a provision of £240,000 for the termination costs of Mr B.M. Barrett's contract of employment and compensation of £22,000 payable to Mr T.C. Walker in addition to that provided at 30th June 1998.

| | | |
|---|----------|----------|
| Emoluments of the Chairman | £57,727 | £58,992 |
| Emoluments of the highest paid director | £136,029 | £156,004 |

Additional disclosure in respect of individual directors is given in the Remuneration Committee Report on pages 16 and 17 and in respect of share options in note 29.

7. Taxation

| | 1999 | 1998 |
|--|--------------|------------|
| | £000 | £000 |
| UK Corporation tax (at 30.75%, 1998 - 31%) | - | 423 |
| Overprovision in respect of prior years | (244) | - |
| Overseas taxation | - | 35 |
| | <u>(244)</u> | <u>458</u> |
| Current taxation | (244) | 458 |
| ACT written off | 593 | 300 |
| Deferred taxation (note 20) | (191) | (406) |
| | <u>158</u> | <u>352</u> |

8. Loss for the financial year

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements.

Of the Group loss for the financial year after taxation, a loss of £942,000 (1998: £1,029,000 loss) is dealt with in the financial statements of the parent company.

9. Dividends

| | 1999 | | 1998 | |
|------------------------------|-----------------|--------------|-----------------|--------------|
| | Pence per share | £000 | Pence per share | £000 |
| Equity ordinary shares: | | | | |
| Interim paid | - | - | - | - |
| Final proposed | - | - | 0.5 | 612 |
| | <u>-</u> | <u>-</u> | <u>0.5</u> | <u>612</u> |
| Non-equity preference shares | | 1,380 | | 1,380 |
| | | <u>1,380</u> | | <u>1,992</u> |

Notes to the Financial Statements

| 10. (Loss)/earnings per share | 1999 | 1998 |
|--|------------------------|-----------------|
| (Loss)/profit for the financial year (£'000) | (11,273) | 6,565 |
| Preference dividends (£'000) | (1,380) | (1,380) |
| | <u>(12,653)</u> | <u>5,185</u> |
| Weighted average number of shares in issue (000) | <u>122,433</u> | <u>122,433</u> |
| (Loss)/earnings per share (pence) | <u>(10.3)</u> | <u>4.2</u> |
| | | |
| Adjusted (loss)/earnings per share | 1999 | 1998 |
| | £000 | £000 |
| (Loss)/profit for the financial year | (11,273) | 6,565 |
| Preference dividends | (1,380) | (1,380) |
| Operating exceptional items | 4,932 | 2,128 |
| Loss/(profit) on disposal of discontinued operations | 2,154 | (4,979) |
| Profit on sale of property in continuing operation | - | (750) |
| Tax effect of exceptional items | - | (126) |
| Adjusted (loss)/profit for the financial year | <u>(5,567)</u> | <u>1,458</u> |
| | | |
| | 1999 | 1998 |
| | Pence per share | Pence per share |
| Adjusted (loss)/earnings per share before exceptional items | <u>(4.5)</u> | <u>1.2</u> |
| | | |
| Exercise of share options, conversion of the preference shares or conversion of the 6.5% convertible unsecured loan notes 2000 would not result in any dilution in earnings per share. | | |

11. Intangible fixed assets

| | <i>Goodwill</i> | <i>Development costs</i> | <i>Intellectual property</i> | <i>Total</i> |
|----------------------------|-----------------|--------------------------|------------------------------|--------------|
| | £000 | £000 | £000 | £000 |
| Cost at 1st July 1998 | - | - | 1,452 | 1,452 |
| Costs incurred in the year | - | 182 | - | 182 |
| Acquisition | 4,249 | - | - | 4,249 |
| | <u>4,249</u> | <u>182</u> | <u>1,452</u> | <u>5,883</u> |

Notes to the Financial Statements

11. Intangible fixed assets (continued)

| | <i>Goodwill</i> | <i>Development costs</i> | <i>Intellectual property</i> | <i>Total</i> |
|--|-----------------|--------------------------|------------------------------|--------------|
| | £000 | £000 | £000 | £000 |
| Depreciation as at 1st July 1998 | -- | -- | 455 | 455 |
| Charge for the year | 106 | -- | 71 | 177 |
| As at 30th June 1999 | 106 | -- | 526 | 632 |
| Net book value as at 30th June 1999 | 4,143 | 182 | 926 | 5,251 |
| Net book value as at 30th June 1998 | -- | -- | 997 | 997 |

Goodwill arising on acquisition

On 2nd October 1998, the Group acquired the business and certain of the assets of the primary tobacco division of GBE International Group Plc (in administrative receivership), for £4.5 million.

The analysis of net assets acquired and the fair value to the Group is as follows:

| | <i>Book value on acquisition</i> | <i>Adjustments</i> | <i>Fair value to Group</i> |
|---------------------|----------------------------------|--------------------|----------------------------|
| | £000 | £000 | £000 |
| Fixed assets | | | |
| Plant and machinery | 551 | (325) | 226 |
| Office equipment | 268 | (268) | -- |
| | <u>819</u> | <u>(593)</u> | <u>226</u> |
| Stock | | | |
| Parts | 2,440 | (2,090) | 350 |
| Work in progress | 241 | (172) | 69 |
| Finished goods | 279 | (154) | 125 |
| | <u>2,960</u> | <u>(2,416)</u> | <u>544</u> |
| Total | <u>3,779</u> | <u>(3,009)</u> | <u>770</u> |
| | | | £000 |
| | Consideration | | 4,500 |
| | Acquisition expenses | | 519 |
| | | | <u>5,019</u> |
| | Fair value of assets acquired | | (770) |
| | | | <u>4,249</u> |
| | Goodwill arising | | <u>4,249</u> |

Fair value adjustments were made to write down assets to their net realisable value. Explanation of the major fair value adjustment to parts stock is given in the Financial Review on page 7.

Notes to the Financial Statements

12. Tangible fixed assets

| Group | Land & buildings | Plant, equipment & vehicles | | Total |
|--|------------------|-----------------------------|----------------|---------------|
| | £000 | owned £000 | leased £000 | |
| Cost or valuation as at 1st July 1998 | 13,989 | 8,100 | 2,679 | 24,768 |
| Additions | 1,277 | 1,190 | 131 | 2,598 |
| Acquisition of assets of GBE | – | 226 | – | 226 |
| Exchange adjustments | (12) | 8 | 3 | (1) |
| Revaluation in the year | (1,000) | – | – | (1,000) |
| Disposals | (2,980) | (982) | (406) | (4,368) |
| Disposal of subsidiaries | (861) | (597) | – | (1,458) |
| As at 30th June 1999 | 10,413 | 7,945 | 2,407 | 20,765 |
| Depreciation as at 1st July 1998 | 1,383 | 5,446 | 1,918 | 8,747 |
| Charge for the year | 171 | 671 | 173 | 1,015 |
| Exchange adjustments | 1 | 5 | – | 6 |
| Disposals | (767) | (922) | (288) | (1,977) |
| Disposal of subsidiaries | (2) | (282) | – | (284) |
| As at 30th June 1999 | 786 | 4,918 | 1,803 | 7,507 |
| Net book value as at 30th June 1999 | 9,627 | 3,027 | 604 | 13,258 |
| Net book value as at 30th June 1998 | 12,606 | 2,654 | 761 | 16,021 |

Note:

- (i) Principal land and buildings were revalued in 1988 by an independent surveyor, on the basis of open market value in existing use or depreciated replacement cost as appropriate. At 30th June 1993 the valuation of certain properties was updated by the Directors.
- (ii) One property was valued by GVA Grimley, Chartered Surveyors during the year and as a consequence the Directors have devalued this property by £1,000,000 during the year to represent its current open market value rather than its value in existing use.
- (iii) Included within land and buildings are mineral rights with a net book value of £5,591,000 (1998: £5,623,000).

Company

| | Plant & equipment owned £000 |
|--|------------------------------------|
| Cost as at 1st July 1998 | 457 |
| Additions | 15 |
| As at 30th June 1999 | 472 |
| Depreciation as at 1st July 1998 | 312 |
| Charge for the year | 41 |
| As at 30th June 1999 | 353 |
| Net book value as at 30th June 1999 | 119 |
| Net book value as at 30th June 1998 | 145 |

Notes to the Financial Statements

12. Tangible fixed assets (continued)

| | Group | |
|---|---------------|---------------|
| | 1999 | 1998 |
| | £000 | £000 |
| Land and buildings comprise at net book value: | | |
| Freehold | 3,318 | 6,219 |
| Long leasehold | 5,845 | 6,027 |
| Short leasehold | 464 | 360 |
| | <u>9,627</u> | <u>12,606</u> |
| The cost or valuation of buildings may be analysed as follows: | | |
| At valuation | 3,531 | 2,500 |
| At cost | 6,882 | 11,489 |
| | <u>10,413</u> | <u>13,989</u> |
| If stated under historical cost principles the comparable amounts for the total of land and buildings would be: | | |
| Cost to the Group | 13,134 | 15,710 |
| Accumulated depreciation | (786) | (1,383) |
| | <u>12,348</u> | <u>14,327</u> |

13. Investments

Group

The Group has made an investment of £282,000 in a joint venture, Dickinson Fowler Limited, a company in India in which the Group has a 50% interest. The investment represents 50% of the costs incurred up to 30th June 1999 for the building of a factory in India. This company has not yet commenced trading and has no other assets or liabilities.

Company

| | Shares in Group Undertakings | Loans to Group Undertakings | Total |
|-------------------------------------|------------------------------------|-----------------------------------|---------------|
| | £000 | £000 | £000 |
| As at 1st July 1998 | 39,003 | 53,343 | 92,346 |
| Disposal of subsidiary undertakings | - | (553) | (553) |
| Inter Group movements | - | 2,667 | 2,667 |
| As at 30th June 1999 | <u>39,003</u> | <u>55,457</u> | <u>94,460</u> |

The principal subsidiary undertakings are shown on page 48.

14. Stock

| | Group | |
|-------------------------------------|---------------|---------------|
| | 1999 | 1998 |
| | £000 | £000 |
| Raw materials and consumables | 932 | 978 |
| Work in progress | 10,634 | 6,513 |
| Finished goods and goods for resale | 1,904 | 5,257 |
| | <u>13,470</u> | <u>12,748</u> |
| Contract stage payments | (5,094) | (3,269) |
| | <u>8,376</u> | <u>9,479</u> |

There is no material difference between replacement cost and book value of stock.

Notes to the Financial Statements

15. Debtors

| | Group | | Company | |
|---------------------------------------|---------------|---------------|--------------|--------------|
| | 1999 £000 | 1998 £000 | 1999 £000 | 1998 £000 |
| Amounts falling due within one year : | | | | |
| Trade debtors | 12,801 | 17,001 | 80 | 67 |
| Amounts recoverable on contracts | 1,312 | 457 | - | - |
| Amounts owed by group undertakings | - | - | 134 | 628 |
| Recoverable advance corporation tax | 102 | 235 | 102 | 235 |
| Other debtors | 1,445 | 1,703 | 571 | 1,165 |
| Prepayments and accrued income | 1,198 | 1,505 | 77 | 76 |
| | <u>16,858</u> | <u>20,901</u> | <u>964</u> | <u>2,171</u> |

16. Pension fund prepayment

| | Group | |
|---|---------------|---------------|
| | 1999 £000 | 1998 £000 |
| As at 1st July | 20,407 | 19,703 |
| Credit taken to profit and loss account (note 26) | 1,057 | 704 |
| As at 30th June | <u>21,464</u> | <u>20,407</u> |

17. Properties held for resale

| | Group | |
|---------------------------------|--------------|--------------|
| | 1999 £000 | 1998 £000 |
| As at 1st July | 8,870 | 9,180 |
| Disposal proceeds | (2,950) | (1,422) |
| Write down to realisable values | (482) | - |
| Loss on disposal | (50) | (38) |
| Transfers from fixed assets | - | 1,150 |
| As at 30th June | <u>5,388</u> | <u>8,870</u> |

Notes to the Financial Statements

18. Creditors

| | Group | | Company | |
|---|---------------|---------------|---------------|--------------|
| | 1999 £000 | 1998 £000 | 1999 £000 | 1998 £000 |
| Amounts falling due within one year : | | | | |
| Bank loans and overdrafts | 11,337 | 4,957 | 6,793 | 6,377 |
| 6.5% unsecured convertible loan notes 2000 | 1,500 | - | 1,500 | - |
| Payments received on account | 5,247 | 3,807 | - | - |
| Trade creditors | 10,211 | 13,789 | 690 | 587 |
| <i>Bills of exchange discounted with recourse</i> | - | 2,794 | - | - |
| Proposed dividends | 690 | 1,302 | 690 | 1,302 |
| Amounts due to group undertakings | - | - | 16 | 847 |
| Advance corporation tax | 345 | 172 | 345 | 172 |
| Corporation tax | 165 | 218 | 421 | - |
| Other taxation and social security payable | 1,538 | 1,300 | 7 | 26 |
| Obligations under finance leases | 199 | 311 | - | - |
| Other creditors | 3,683 | 2,817 | 1,546 | 419 |
| Accruals | 4,752 | 5,598 | 109 | 25 |
| | <u>39,667</u> | <u>37,065</u> | <u>12,117</u> | <u>9,755</u> |
| Amounts falling due after more than one year : | | | | |
| Other creditors | 539 | - | 539 | - |
| Loan notes | 1,590 | 1,590 | - | - |
| Obligations under finance leases (1-2 years) | 154 | 303 | - | - |
| Obligations under finance leases (2-5 years) | 116 | 293 | - | - |
| Bank loans (1-2 years) | 1,100 | - | - | - |
| Bank loans (2-5 years) | 3,025 | - | - | - |
| | <u>6,524</u> | <u>2,186</u> | <u>539</u> | <u>-</u> |

19. Financial instruments

| a) Summary of Borrowings | Notes | Group | | Company | |
|---|-----------|---------------|---------------|---------------|---------------|
| | | 1999 £000 | 1998 £000 | 1999 £000 | 1998 £000 |
| Financial assets | | | | | |
| Cash at bank | | 953 | 2,221 | 3 | 166 |
| Financial liabilities | | | | | |
| Bank overdrafts | (i) | 10,237 | 4,957 | 6,793 | 6,377 |
| Bank loans | (i) | 5,225 | - | - | - |
| 6.5% unsecured convertible loan notes 2000 | (ii) | 1,500 | - | 1,500 | - |
| Loan note | (i)&(iii) | 1,590 | 1,590 | - | - |
| Finance lease obligations | | 469 | 907 | - | - |
| <i>Bills of exchange discounted with recourse</i> | | - | 2,794 | - | - |
| Convertible cumulative redeemable preference shares | | 30,000 | 30,000 | 30,000 | 30,000 |
| | | <u>49,021</u> | <u>40,248</u> | <u>38,293</u> | <u>36,377</u> |
| Net borrowings (excluding preference shares) | | <u>18,068</u> | <u>8,027</u> | <u>8,290</u> | <u>6,211</u> |

Notes to the Financial Statements

19. Financial instruments (continued)

- i) Of the above bank loans, overdrafts and loan note £17,046,000 (1998: £5,899,000) was secured on the assets of the Group at 30th June 1999. The bank loans represent five year committed facilities, which commenced on 29th December 1998. These loans are repayable by equal quarterly instalments of £275,000.
- ii) The 6.5% unsecured convertible loan notes 2000 were issued in December 1998 to acquire Recordhandle Limited, an acquisition vehicle which was set up in October 1998 to purchase the business and certain assets of the primary tobacco processing division of GBE International Group plc. The rights of these loan notes are as follows:
- a) Income – interest at the rate of 6.5% p.a. (net of any requirement to deduct tax), paid twice yearly in arrears on 1st July and 2nd January.
- b) Conversion – at the option of the Noteholder, upon 14 days' notice the Company is obliged to issue new ordinary shares at the rate of 1 new share for every 4.5p of nominal value of the Notes being converted. If the Company shall make any capitalisation issue (including a capitalisation of profits or reserves, any distribution of capital to shareholders, the issue of any other securities to shareholders by way of rights or options, and the issue for cash of securities carrying the right to convert or exchange into the Company's ordinary shares), the conversion rights attaching to the Notes shall be adjusted in due proportion. If, whilst the Notes remain capable of being converted, an offer is made for the Company's ordinary shares the Company must advise all Noteholders within seven days and (if an acceptable alternative arrangement cannot be made available) allow the Noteholders to either convert or require payment at par.
- c) Redemption or Purchase – the Company is obliged to repay all Notes at par on the second anniversary of their being issued (i.e. 2nd December 2000), except to the extent that the Notes have not previously been converted, repaid or purchased. A Noteholder has the right to require the Company to repay at par if at least 30 days' notice before the relevant interest payment date is given. The Company can buy any Notes at any time.
- d) Voting – the Company may at any time, and shall at the request of the holders of at least 10% by nominal value of the Notes, convene a meeting of the Noteholders. A majority of 75% of the votes cast is required for the passing of any extraordinary resolution: for other resolutions, a simple majority is required.
- iii) The loan note represents a variable rate redeemable guaranteed loan note which expires in October 2000. Interest is paid at base rate bi-annually and the loan note holder has the option to extend the note when it expires. The loan note is secured by a bank guarantee.
- iv) Financial assets and liabilities exclude short term debtors and creditors.

b) Maturity of financial liabilities

The maturity profile of the Group's and the Company's financial liabilities at 30th June 1999 was as follows:

| | Group | | Company | |
|----------------------------|---------------|---------------|---------------|---------------|
| | 1999 £000 | 1998 £000 | 1999 £000 | 1998 £000 |
| Analysis of repayments: | | | | |
| Repayable within one year | 13,036 | 8,062 | 8,293 | 6,377 |
| Between one and two years | 2,844 | 1,893 | - | - |
| Between two and five years | 3,141 | 293 | - | - |
| After five years | 30,000 | 30,000 | 30,000 | 30,000 |
| | <u>49,021</u> | <u>40,248</u> | <u>38,293</u> | <u>36,377</u> |

Notes to the Financial Statements

19. Financial instruments (continued)

c) Interest rate and currency profile of financial assets and liabilities

Assets held as part of the financing arrangements of the Group

| | Group | |
|--------------------|-------|-------|
| | 1999 | 1998 |
| | £000 | £000 |
| Sterling | 808 | 1,378 |
| US Dollar | 145 | 771 |
| Botswana Pula | - | 12 |
| South African Rand | - | 60 |
| | 953 | 2,221 |

All amounts are held in current accounts for the purposes of day to day trading and are at floating rates of interest.

Liabilities held as part of the financing arrangements of the Group

| | | |
|---|-----------|-----------|
| Sterling | 48,613 | 39,359 |
| US Dollar | 408 | 825 |
| Botswana Pula | - | 64 |
| South African Rand | - | - |
| | 49,021 | 40,248 |
| Floating rate financial liabilities | 17,052 | 6,547 |
| Fixed rate financial liabilities | 31,969 | 33,701 |
| | 49,021 | 40,248 |
| Fixed rate financial liabilities | | |
| Weighted average interest rate | 5.0% | 5.2% |
| Weighted average period for which rate is fixed | 6.2 years | 5.9 years |

It is assumed for the purposes of this note that the convertible unsecured loan notes will not be converted prior to 2nd December 2000 and the convertible cumulative redeemable preference shares will not be converted prior to 31st December 2005.

Other creditors of £536,000 due in greater than one year are payable between one and two years from the balance sheet date and are non-interest bearing.

The floating rate financial liabilities comprise:

- (i) bank borrowings bearing interest at rates related to base rate.
- (ii) bank loans bearing interest at rates fixed in advance for periods up to 6 months, related to the London Inter-Bank Offered Rate (LIBOR).
- (iii) loan notes bearing interest at base rate.

d) Currency profile of net monetary assets and liabilities

Net monetary assets and liabilities of Group companies that are not denominated in their functional currency are managed using forward contracts. Hence there are no material exchange and losses that give rise to credits or charges to the profit and loss account.

As explained in the financial review on page 7, the group's objective in managing the currency exposures arising from its investment overseas is to maintain a level of borrowings in that currency to act as a natural hedge.

Any gains and losses arising from such currency exposures are recognised through reserves (see note 22).

Notes to the Financial Statements

19. Financial instruments (continued)

e) **Fair value of financial assets and liabilities**

Other than shown below there are no differences between the book value of the Group's financial assets and liabilities and their fair values.

| | 1999 | | 1998 | |
|---|--------------------|--------------------|--------------------|--------------------|
| | Book value £000 | Fair value £000 | Book value £000 | Fair value £000 |
| Derivative financial instruments | | | | |
| Convertible cumulative redeemable preference shares | 30,000 | 14,101 | 30,000 | 19,351 |
| Forward currency contracts | - | 70 | - | (55) |

f) **Hedging currency exposures**

As explained in the financial review the Group uses derivative financial instruments to manage certain currency exposures. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. An analysis of these unrecognised gains and losses are as follows:

| | Gains £000 | Losses £000 | Total net gains/(losses) £000 |
|--|---------------|----------------|-------------------------------------|
| Unrecognised gains and losses on hedges: | | | |
| At 1st July 1998 | - | (55) | (55) |
| of which recognised in the current year | - | 55 | 55 |
| | - | - | - |
| Arising and not recognised in current year | 78 | (8) | 70 |
| At 30th June 1999 | 78 | (8) | 70 |
| Expected to be recognised | | | |
| In the next year | 69 | 8 | 61 |
| Thereafter | 9 | - | 9 |
| | 78 | 8 | 70 |

Notes to the Financial Statements

20. Provisions for liabilities and charges

| | <i>Deferred Reorganisation</i> | | <i>Warranty</i> | <i>Other</i> | <i>Total</i> |
|--------------------------|--------------------------------|------------------|------------------|-------------------|--------------|
| | <i>taxation</i> | <i>provision</i> | <i>provision</i> | <i>provisions</i> | |
| | £000 | £000 | £000 | £000 | £000 |
| At 1st July 1998 | 393 | 35 | 964 | 1,400 | 2,792 |
| Created in period | - | - | 867 | 536 | 1,403 |
| Utilised | - | (35) | (412) | (1,885) | (2,332) |
| Released | (191) | - | (210) | - | (401) |
| At 30th June 1999 | 202 | - | 1,209 | 51 | 1,462 |

- i) In accordance with FRS 12, warranty provisions have been reclassified from other creditors. These provisions are made in relation to contractual warranty obligations.
- ii) Other provisions at 30th June 1999 relate to costs on the closure of Marshaide. During the year, the Brunel Holdings Pension Scheme completed the sale of the Company's head office at Chippenham, thus realising the £1.4m loss provided for in 1998. Of this amount, £1.26m is now included in other creditors.

| Deferred tax | Provided | | Unprovided | |
|--|-----------------|-------------|-------------------|--------------|
| | 1999 | 1998 | 1999 | 1998 |
| | £000 | £000 | £000 | £000 |
| Capital allowances in excess of depreciation | 471 | 424 | (18) | (25) |
| Other timing differences | 97 | 304 | (388) | (306) |
| Losses available for offset | (366) | (335) | (4,345) | (2,999) |
| Pension prepayment | - | - | 6,439 | 6,122 |
| | 202 | 393 | 1,688 | 2,792 |

No deferred tax liability is expected to arise in the foreseeable future on realisation of revalued properties held as fixed assets, and accordingly this is not provided or quantified.

Company

| | <i>Other provisions</i> |
|--------------------------------------|-------------------------|
| | £000 |
| At 1st July 1998 | - |
| Allocated to the Company in the year | 1,400 |
| Created in period | 286 |
| Transferred to creditors | (1,686) |
| At 30th June 1999 | - |

Notes to the Financial Statements

21. Share capital

| | 1999 £000 | 1998 £000 |
|--|---------------|---------------|
| Authorised: | | |
| 600,102,028 ordinary shares of 1p each | 6,001 | - |
| 170,200,000 ordinary shares of 10p each | - | 17,020 |
| 1,101,897,972 deferred shares of 1p each | 11,019 | - |
| 42,000,000 convertible cumulative redeemable preference shares of 20p each (1998: 42,000,000) | 8,400 | 8,400 |
| | <u>25,420</u> | <u>25,420</u> |
| Allotted, issued and fully paid: | | |
| 122,433,185 ordinary shares of 1p each | 1,224 | - |
| 122,433,108 ordinary shares of 10p each | - | 12,243 |
| 1,101,897,972 deferred shares of 1p each | 11,019 | - |
| 30,001,625 convertible cumulative redeemable preference shares of 20p each (1998: 30,001,787) | 6,000 | 6,000 |
| | <u>18,243</u> | <u>18,243</u> |

During the year to 30th June 1999, no new ordinary shares were issued by the Company under the Company's executive or savings-related share option schemes, but 77 new ordinary shares were issued on the conversion of 162 convertible cumulative redeemable preference shares.

At 30th June 1999, ordinary share options were exercisable as follows:

- (i) under the Company's Share Option Plan over 2,310,000 ordinary shares (1998: Nil) at 5.5p per share,
- (ii) under the Company's Executive Share Option Scheme over 650,000 ordinary shares (1998: Nil) at 5.75p per share, and
- (iii) under the Company's Executive Share Option Scheme over 2,016,000 ordinary shares at 5.5p per share (1998: 1,416,219 ordinary shares under the previous executive share option scheme).

In addition, at the same date super options were exercisable under the Company's Executive Share Option Scheme over 4,559,000 ordinary shares (1998: Nil) at 5.75p and 5.5p per share.

No options have been issued by the Company under its Phantom Option Scheme, but Mr Petersen is entitled to a phantom option over 4,075,000 ordinary shares at 9p per share under his contract of employment.

Ordinary options are exercisable at dates between 2002 and 2009 and super options at dates between 2004 and 2009, and in both cases are normally subject to the achievement of specified performance criteria as described in the Directors' Report on page 13.

At 30th June 1999, savings-related share options were exercisable over 943,566 ordinary shares (1998: 1,248,888) at dates between 1999 and 2002 at 62p and 39p per share.

Notes to the Financial Statements

21. Share capital (continued)

During the year, shareholders approved a capital reorganisation whereby the nominal value of the ordinary shares was reduced from 10p a share to 1p a share. As a consequence, the same number of ordinary shares remained in issue with the same rights and privileges as before and nine times as many deferred shares were created. The deferred shares carry no rights.

FRS 4 requires an analysis and a summary of the rights of the Company's non-equity shares. The Company's *convertible cumulative redeemable preference shares of 20p each* ("the preference shares") are non-equity shares. The rights attaching to these shares include:

- i) *Income* – a preferential dividend of 4.6p per share per year to be paid out of the profits available for distribution and which are resolved to be distributed. Dividends are normally paid on 1st July and 2nd January each year. Dividends are cumulative.
- ii) *Conversion* – these preference shares may be converted at the option of the holder by application to the Company received in a 28 day period ending (usually) on 30th November each year on the basis of 47.62 ordinary shares in the Company for every 100 preference shares offered for conversion. The right to convert expires after 30th November 2000.
- iii) *Redemption* – the Company has the right on 28 days notice at any time between 2nd January 2001 and 31st December 2005 to redeem in whole or in part any of the preference shares still outstanding for £1 per share plus all arrears of, and accrued, dividends. On 31st December 2005, the Company has to redeem all outstanding preference shares on the same basis.
- iv) *Priority* – the preference shares rank before the Company's ordinary shares on a return of capital on a winding up with any distribution going first to satisfy any arrears of, and accrued, dividends and then to pay £1 per preference share to the holders thereof. After the ordinary shareholders have then been paid in full their paid up or credited share capital, the participation of the holders of the preference shares in any subsequent distribution depends on whether the winding up commenced on or before the end of the last conversion period in 2000.
- v) *Voting* – holders of preference shares have the right to receive notice of each General Meeting of the Company, but not to attend, speak or vote thereat unless either (a) the preferential dividend is more than six months in arrears; (b) a resolution is proposed to abrogate, vary or modify any of the rights and privileges attaching to the preference shares; or (c) the winding up of the Company is proposed. On these occasions, each holder present at the meeting has one vote and on a poll each preference share has one vote.
- vi) *Other rights* – if the Company makes a rights issue, the holders of preference shares are entitled to participate as if their conversion rights had been exercised. Any capitalisation of profits or reserves by the Company must have an equal impact on the conversion rate applicable to the preference shares. If a successful offer is made for the Company's ordinary shares, the holders of the preference shares shall have a 6 week period in which to convert their preference shares into ordinary shares at a rate of 48.78 ordinary shares for every 100 preference shares offered for the conversion. The Company shall not issue any equity share capital not in all respects uniform to its existing ordinary shares, nor any further preference shares not identical in all respects to the existing preference shares.

More details of the rights and privileges attaching to the preference shares are contained in the Company's Articles of Association.

Notes to the Financial Statements

22. Reserves

| Group | Share premium £000 | Other reserves £000 | Profit and loss £000 | Total £000 |
|-----------------------------|-----------------------|------------------------|-------------------------|---------------|
| As at 1st July 1998 | 64,244 | 83,592 | (130,580) | 17,256 |
| Loss retained for the year | - | - | (12,653) | (12,653) |
| Exchange adjustments | - | - | (23) | (23) |
| As at 30th June 1999 | 64,244 | 83,592 | (143,256) | 4,580 |

| | |
|--|--------------|
| Goodwill written off | £000 |
| Gross amount written off post 23rd December 1989 | 81,794 |
| Less disposals to date | (73,661) |
| | <u>8,133</u> |

Company

| | Share premium £000 | Profit and loss £000 | Total £000 |
|-----------------------------|-----------------------|-------------------------|---------------|
| As at 1st July 1998 | 64,244 | 2,586 | 66,830 |
| Loss retained for the year | - | (2,322) | (2,322) |
| Exchange adjustments | - | 139 | 139 |
| As at 30th June 1999 | 64,244 | 403 | 64,647 |

23. Reconciliation of movement in shareholders' funds

| | Group | | Company | |
|---|-----------------|---------------|----------------|----------------|
| | 1999 £000 | 1998 £000 | 1999 £000 | 1998 £000 |
| (Loss)/profit for the financial year | (11,273) | 6,565 | (942) | (1,029) |
| Dividends | (1,380) | (1,992) | (1,380) | (1,992) |
| | <u>(12,653)</u> | <u>4,573</u> | <u>(2,322)</u> | <u>(3,021)</u> |
| Exchange adjustments | (23) | (769) | 139 | (281) |
| Net (reduction)/increase in shareholders' funds | (12,676) | 3,804 | (2,183) | (3,302) |
| Opening shareholders' funds | 35,499 | 31,695 | 85,073 | 88,375 |
| Closing shareholders' funds | 22,823 | 35,499 | 82,890 | 85,073 |
| Represented by: | | | | |
| Equity interests | (7,179) | 5,497 | 52,888 | 55,071 |
| Non-equity interests | 30,002 | 30,002 | 30,002 | 30,002 |
| | <u>22,823</u> | <u>35,499</u> | <u>82,890</u> | <u>85,073</u> |

Notes to the Financial Statements

24. Minority interests

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 1999 £000 | 1998 £000 | 1999 £000 | 1998 £000 |
| Blackwood Hodge plc: preference shares (non-equity interest) | <u>1,354</u> | <u>1,354</u> | <u>-</u> | <u>-</u> |

The Blackwood Hodge plc preference shares comprise:

| | |
|-----------|---|
| 265,911 | 4.7% cumulative preference shares of £1 each (1998: 265,911) |
| 1,087,854 | 5.75% cumulative preference shares of £1 each (1998: 1,087,854) |

25. Commitments

| | Group | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 1999 £000 | 1998 £000 | 1999 £000 | 1998 £000 |
| (a) Capital commitments contracted for | <u>-</u> | <u>2,491</u> | <u>-</u> | <u>1,300</u> |

| | Group | | Company | |
|---------------------------------------|---------------------------------------|-----------------------|---------------------------------------|-----------------------|
| | <i>Land and buildings</i> £000 | <i>Others</i> £000 | <i>Land and buildings</i> £000 | <i>Others</i> £000 |
| (b) Operating leases | | | | |
| Annual commitments at 30th June 1999: | | | | |
| Expiring within one year | 87 | 110 | - | - |
| Expiring in the second to fifth years | 406 | 343 | - | 69 |
| Expiring after more than five years | 1,371 | - | 150 | - |
| | <u>1,864</u> | <u>453</u> | <u>150</u> | <u>69</u> |
| Annual commitments at 30th June 1998: | | | | |
| Expiring within one year | 16 | 178 | - | 18 |
| Expiring in the second to fifth years | 481 | 318 | 243 | 31 |
| Expiring after more than five years | 1,353 | - | - | - |
| | <u>1,850</u> | <u>496</u> | <u>243</u> | <u>49</u> |

Notes to the Financial Statements

26. Pension schemes

The Group operates one major scheme covering all UK based companies which is of the defined benefit type, with the assets held in a separate trustee - administered fund.

An actuarial review of the UK scheme was undertaken as at 1st April 1998. For the purposes of SSAP24, the principal actuarial assumptions are based upon an investment return of 9.5% per annum, pay growth of 7.5%, and dividend growth of 6.5%. The dividend growth assumption was 5.5% in 1998 and was changed following the abolition of ACT. During the year a credit of £1,057,000 has been taken to the profit and loss account. This represents a regular cost of £1,274,000, a variation credit of £392,000 and a notional interest credit of £1,939,000.

At the date of the last actuarial review, which was completed using the projected unit method, the actuarial value of the scheme assets on an ongoing basis was £96.1 million. The actuarial value of the assets is 110 % of the value of accrued benefits, after allowing for expected future increases in earnings.

27. Contingent liabilities

Brunei Holdings plc or the Group have the following contingent liabilities which have not been provided in the balance sheet since no actual liability is expected to arise:

(i) Unpaid Preference Dividends

As set out in note 24, Blackwood Hodge plc has two classes of cumulative preference shares in issue. There are arrears of dividends totalling £656,000 (1998: £581,000) in respect of these shares. In the opinion of the Directors payment of these arrears and future dividends is remote in view of the substantial deficit on the distributable reserves of Blackwood Hodge plc.

(ii) Bonds and Guarantees

The Group had at 30th June 1999 outstanding bank guarantees in respect of advance payments, performance and other bonds totalling £7,521,000 (1998: £7,584,000). This amount had been counter-indemnified by the Company.

(iii) Subsidiary company borrowings

At 30th June 1999 the Company had provided guarantees covering £438,000 (1998: £567,000) of the subsidiary company finance leases. In addition the Company had provided guarantees covering subsidiary company bank indebtedness. At 30th June 1999 the value of this indebtedness was £8,666,000 (1998: £1,130,000).

In addition both the Company and the Group have given indemnities and warranties to the purchasers of businesses from certain group companies in respect of which no material liabilities are expected to arise. The Group has received notification of a potential warranty claim of \$3 million in relation to the sale of a subsidiary. The Directors are unable to assess the validity of this claim, but do not expect any material liabilities to arise in respect of this claim.

Notes to the Financial Statements

28. Substantial shareholdings

At 19th October 1999 the Company has been advised of the following shareholdings amounting to 3% or more of the issued ordinary share capital of the Company:-

| <i>Company having interest</i> | <i>No of Ordinary shares</i> | <i>% of issued ordinary shares</i> |
|--------------------------------------|------------------------------|------------------------------------|
| Prudential Corporation plc | 28,170,490 | 23.0 |
| Schroder Recovery Unit Trust Limited | 10,461,135 | 8.5 |
| Edinburgh Small Companies Trust plc | 4,050,000 | 3.3 |
| Van Heyst Investment b.v. | 3,895,425 | 3.2 |

29. Directors' share option interests

| <i>Name</i> | <i>Options at 1st July 1998</i> | <i>Options granted</i> | <i>Options lapsed</i> | <i>Options exercised</i> | <i>Options at 30th June 1999</i> | <i>Subscription price</i> | <i>Normal period of exercise</i> |
|--|---------------------------------|------------------------|-----------------------|--------------------------|----------------------------------|---------------------------|----------------------------------|
| Executive share option scheme | | | | | | | |
| R. J. Petersen - ordinary options | - | 650,000 | - | - | 650,000 | 5.75p | 2002 - 2009 |
| R. J. Petersen - super options | - | 2,925,000 | - | - | 2,925,000 | 5.75p | 2004 - 2009 |
| D. J. Loftus - ordinary options | 6,193 | - | (6,193) | - | - | | |
| D. J. Loftus - ordinary options | 10,000 | - | (10,000) | - | - | | |
| D. J. Loftus - ordinary options | 50,000 | - | (50,000) | - | - | | |
| D. J. Loftus - ordinary options | - | 220,000 | - | - | 220,000 | 5.5p | 2002 - 2009 |
| D. J. Loftus - super options | - | 514,000 | - | - | 514,000 | 5.5p | 2004 - 2009 |
| Company share option plan | | | | | | | |
| D. J. Loftus - ordinary options | - | 66,000 | - | - | 66,000 | 5.5p | 2002 - 2009 |
| Savings-related share option scheme | | | | | | | |
| D. J. Loftus | 44,230 | - | - | - | 44,230 | 39.0p | 2000 |

The mid market price of the ordinary shares was 4.25p at 30th June 1999. During the year it reached a high of 10p and a low of 4.25p.

More details on these options are contained in the Directors' Report (see page 13).

In addition to the above, Mr Petersen holds phantom share options over 4,075,000 ordinary shares at an exercise price of 9p per share, which were granted pursuant to his contract of employment. The Company has not issued any phantom options under its Phantom Option Scheme.

30. Related party transactions

During the year £129,000 was paid to Postern Executive Group Limited in respect of consultancy, interim management services and investigation work. Mr T. J. Swete, a Non-Executive Director, is also a director of that company. Of this amount £38,000 was outstanding at 30th June 1999. There were no such transactions in the previous year.

Principal Subsidiary Undertakings

At 30th June 1999 the Company held directly or indirectly 100% (unless otherwise shown) of the issued ordinary share capital of the following major subsidiaries, all of which (unless otherwise shown) were incorporated, registered and operate in England and Wales. Directly owned subsidiaries are marked by an asterisk.

BM Estates Limited*; property investment and management company

Cameron Equipment Limited; manufacturer of slitting and rewinding equipment

Contractors' Aggregates Limited*; sand and gravel extractor

Dickinson Control Systems Limited; systems integrator

Dickinson Legg Limited; manufacturer of processing equipment for the tobacco industry

Dickinson Legg Inc.; USA; supplier of spare parts to the tobacco industry

Dixon-Cameron Inc.; USA; supplier of slitting and rewinding and coating equipment

Spooner Industries Limited; manufacturer of dryers and associated equipment for various industries

Spooner Industries Inc.; USA; sale of dryers and associated equipment

T H Dixon & Co. Limited; manufacturer of high precision coating machinery for various industries

Wincanton Engineering Limited; manufacturer of stainless steel equipment for the food and dairy industries

Five Year Record

| | 1995 | 1996 | 1997 | 1998 | 1999 |
|--|--------------|---------------|--------------|-------------|---------------|
| Turnover (£m) | | | | | |
| Continuing operations | 47.1 | 73.3 | 77.2 | 77.3 | 65.5 |
| Discontinued operations | 125.6 | 115.0 | 65.0 | 22.4 | 6.6 |
| Total | 172.7 | 188.3 | 142.2 | 99.7 | 72.1 |
| Operating profit/(loss) (£m) | | | | | |
| Continuing operations | 2.0 | 4.6 | 5.3 | 2.9 | (6.9) |
| Discontinued operations | 6.2 | 2.4 | 2.1 | - | (0.5) |
| Total | 8.2 | 7.0 | 7.4 | 2.9 | (7.4) |
| Operating profit/(loss) (before exceptional items) (£m) | | | | | |
| Continuing operations | 2.0 | 2.8 | 5.3 | 5.0 | (1.9) |
| Discontinued operations | 6.2 | 2.4 | 2.1 | - | (0.5) |
| Total | 8.2 | 5.2 | 7.4 | 5.0 | (2.4) |
| Pre-tax profit/(loss) (£m) | 17.0 | (20.9) | (5.4) | 6.9 | (11.1) |
| Earnings/(loss) per share (FRS 3 basis) (pence) | 13.7 | (17.8) | (6.0) | 4.2 | (10.3) |
| Earnings/(loss) per share (adjusted basis) (pence) | 2.6 | 1.3 | 1.8 | 1.2 | (4.5) |
| Dividends per ordinary share (pence) | 0.5 | 0.5 | 0.5 | 0.5 | 0.0 |
| Net assets (£m) | 60.0 | 42.6 | 33.0 | 36.9 | 24.2 |