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Report and Accounts 2002

BRUNEL
HOLDINGS *plc*



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COMPANIES HOUSE

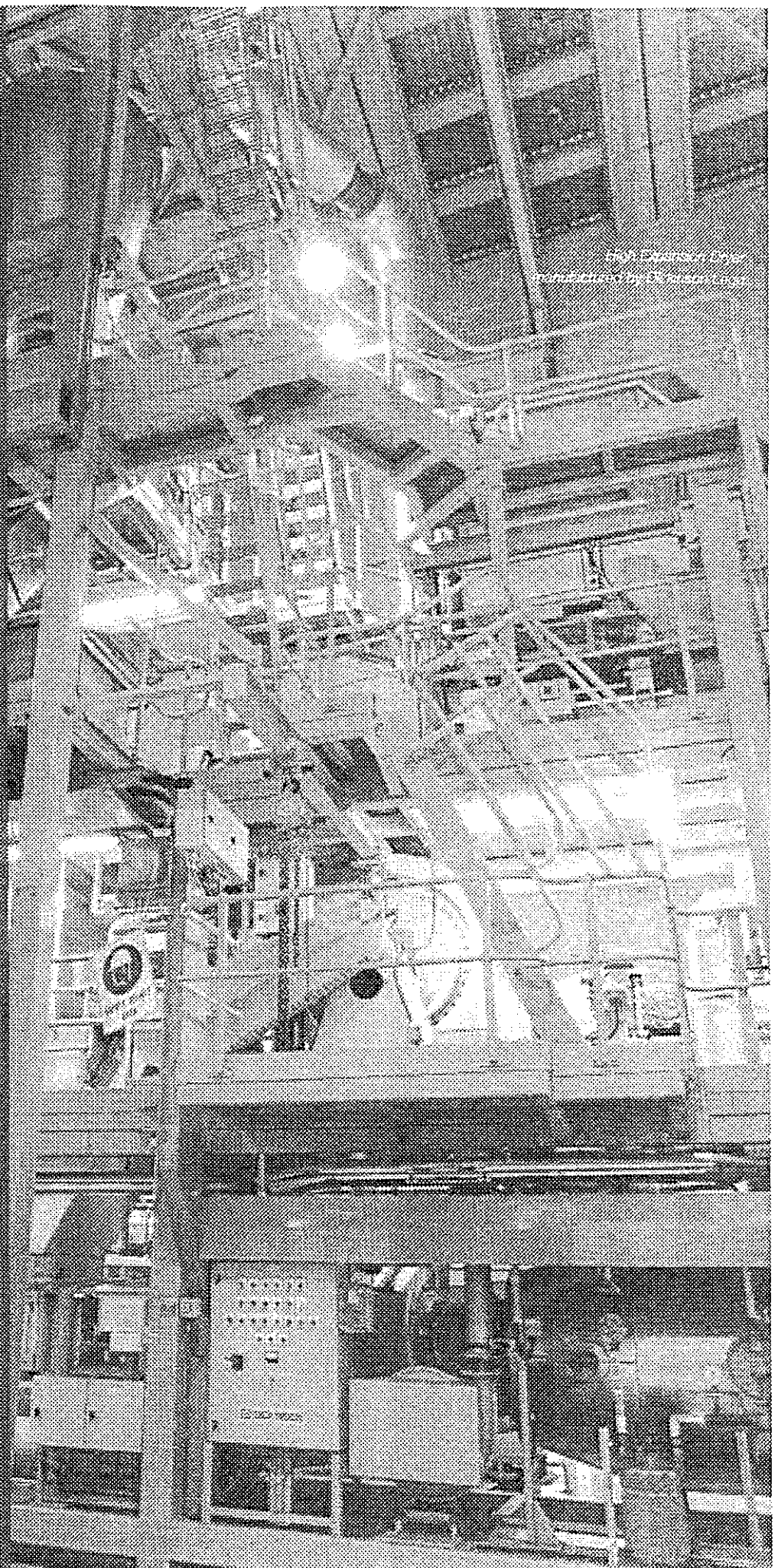
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*Non-Executive Director
Transition to the Chairperson*



Corporate Highlights

- Group turnover of continuing operations up 24% to £56.0m
- Group operating profit of continuing operations (before exceptionals) up 61% to £6.4m
- Net borrowings reduced to £3.9m, down 52%
- Disposal of loss making Elite-Cameron
- Announcement of proposed transaction with Guinness Peat Group

Financial Summary	Year to 30th June 2002 £m	Year to 30th June 2001 £m
Group Turnover: continuing operations	56.0	45.0
Group operating profit: continuing operations (before exceptionals)	6.4	4.0
Group operating profit: continuing operations (after exceptionals)	4.5	1.0
Net borrowings	(3.9)	(8.1)

The announcement of the proposed transaction with the Guinness Peat Group is a significant step forward in enhancing Brunel shareholder value.

After being appointed Non-Executive Chairman in February 2001, I took over as Executive Chairman in November 2001 on the departure of the Group's Chief Executive. Since that date we have been working on the structure of the transaction with the Guinness Peat Group, delivering an excellent profit from the Group's principal operating company, Dickinson Legg, and disposing of the Group's interest in the loss making Elite Cameron.

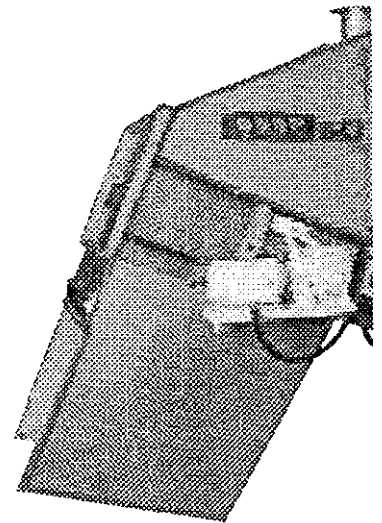
The announcement of the proposed transaction with the Guinness Peat Group is a significant step forward in enhancing Brunel shareholder value. If the transaction is approved by shareholders of both companies, Brunel shareholders will receive a shareholding in Dickinson Legg Group plc, the

new holding company for Dickinson Legg Limited and Spooner Industries Limited. In addition, they will retain a shareholding in Brunel, which will become the enlarged Guinness Peat Group. Full details of the transaction and the AIM listing of Dickinson Legg Group plc have been sent to all shareholders.

Results

Group turnover from continuing operations at £56.0m was 24% higher than the previous year mainly as a result of the large Samsung Korean contract won by Dickinson Legg in 2001. Group operating profit of £6.4m from continuing operations (before exceptional items) represented a 61% increase over the previous year.

Net borrowings at the year end were £3.9m, compared with £8.1m at the start and represent 19% of net assets. The reduction was aided by the sale of surplus properties during the year amounting to £1.5m and is another significant step towards keeping the Group's indebtedness at acceptable levels.

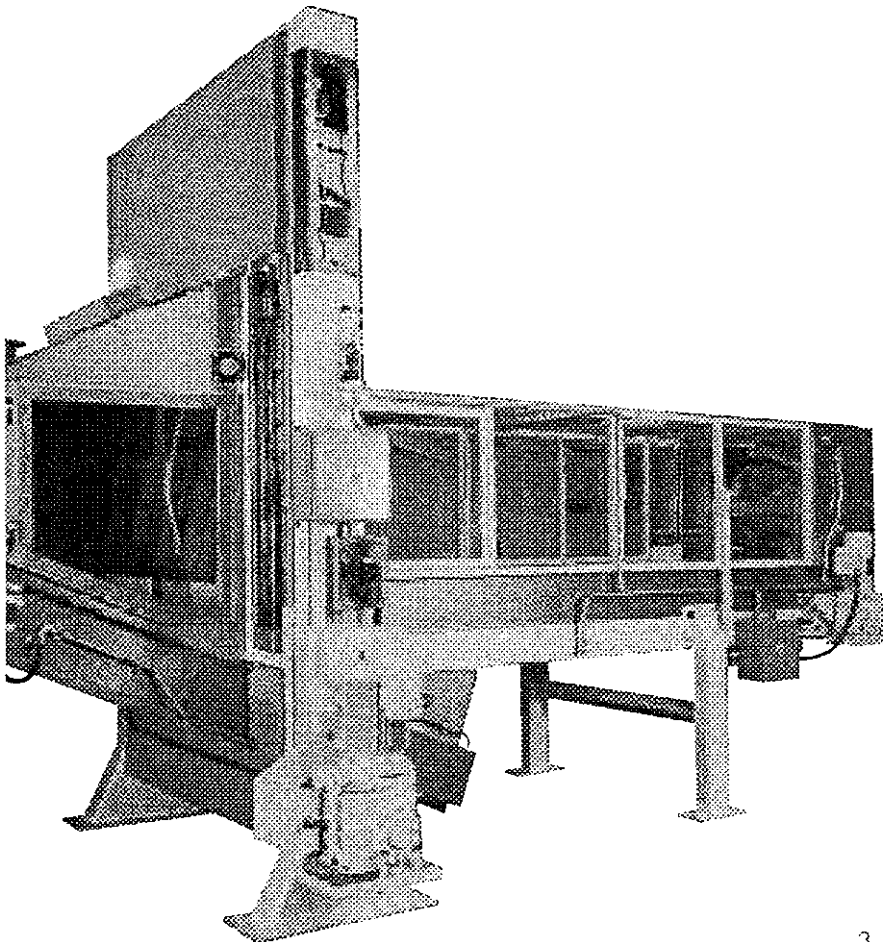


**PRIMARY TOBACCO PROCESSING
EQUIPMENT:
Dickinson Legg**

Dickinson Legg is the principal operating business in the Group and 2001/02 was the most successful year in its history. The winning of two large orders from Korea in 2001 has helped the business achieve a 34% increase in turnover and a 60% increase in operating profit (before exceptional items).

The company has recently appointed a new Managing Director, Tom Mackie, who has been tasked with driving the business forward, improving its efficiencies and critically reappraising all aspects of its operations.

Product development continues to be a key success factor for the future of the company. The Expanded Shredded Stem (ESS) system developed by R J Reynolds of the United States is being marketed exclusively on a global basis by Dickinson Legg. This product is starting to be accepted world-wide and orders have already been taken for a number of lines. On the downside, however, a development project the company has been working on for several years has failed to meet expectations and the capitalised development costs of £587k have been written off this year, although some benefit may yet come from this project.



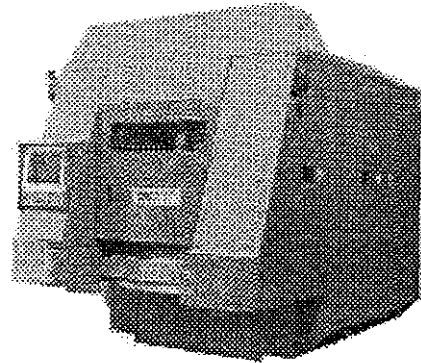
Dickinson Legg is the principal operating business in the Group and 2001/02 was the most successful year in its history.

*Vertical Bale Slicer
designed and manufactured by
Dickinson Legg*

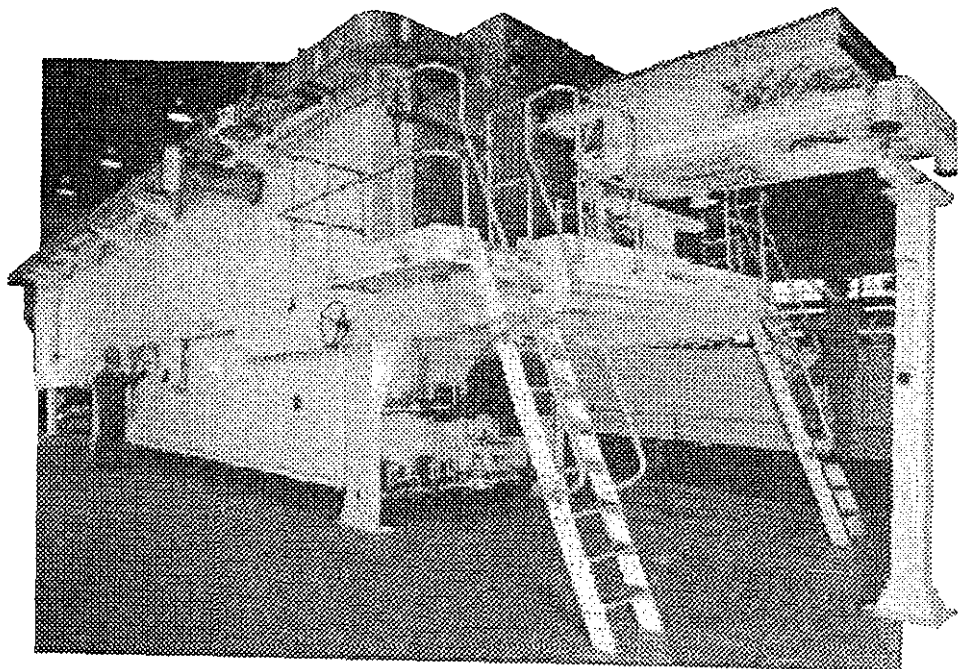
Chairman's Statement

Our spares and wear parts business – based in Andover, Hampshire and Richmond, Virginia – performed well. Maintaining a high service level in this business is vital to ensure we compete successfully against "pirate" suppliers throughout the world. A new initiative is being launched – the customer care programme - which is designed to increase services to customers and the revenues from them.

The company's joint venture manufacturing facility in Bangalore, India – Dickinson Fowler - commenced trading during the year, achieved reasonable volumes, good quality and delivered a small profit. This company provides us with a strategic base for low cost manufacture and is likely to form an increasingly important part of our business.



*RC6 Cutter
designed and manufactured by
Dickinson Legg*



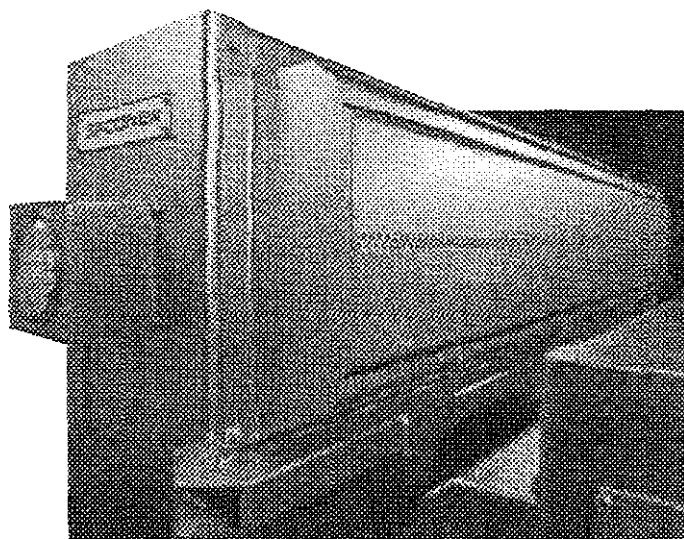
*XL Tobacco Dryer
designed and manufactured by
Dickinson Legg*

WEB PROCESSING EQUIPMENT:

Spooner Industries

As stated in my Interim Statement, Spooner Industries' order book was below normal levels and the company was affected by the global slowdown in economic activity. Despite this, the company was just in profit which is an advance on the previous year but is of course not an acceptable level of performance. It is encouraging to report that the new financial year has started well for this company.

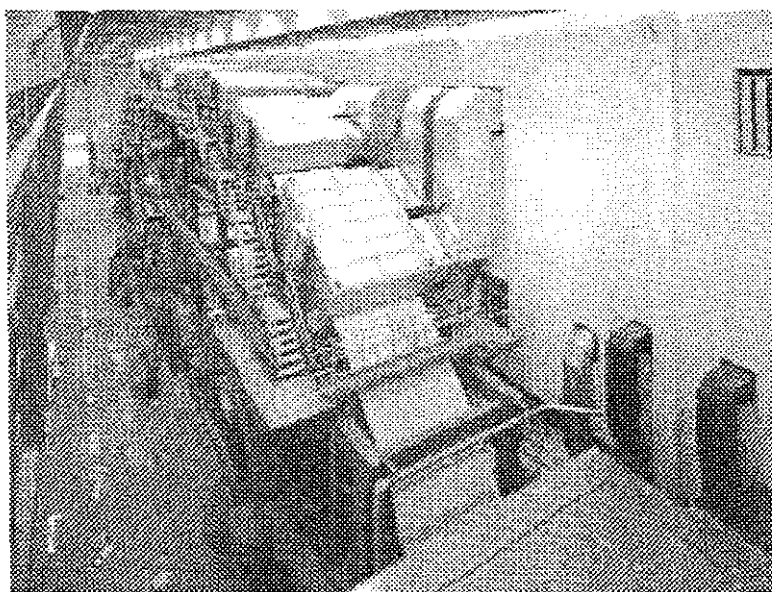
The company continues its expansion into the food industry with its experience in drying and baking technology and, more recently, spiral coolers.



Spooner nozzle technology for a galvanizing line

Spooner has had a very high order intake in recent months and is expected to make a substantial advance in profitability

13 Air Flotation Dryers for the paper industry for thermal sensitive coatings designed and manufactured by Spooner Industries



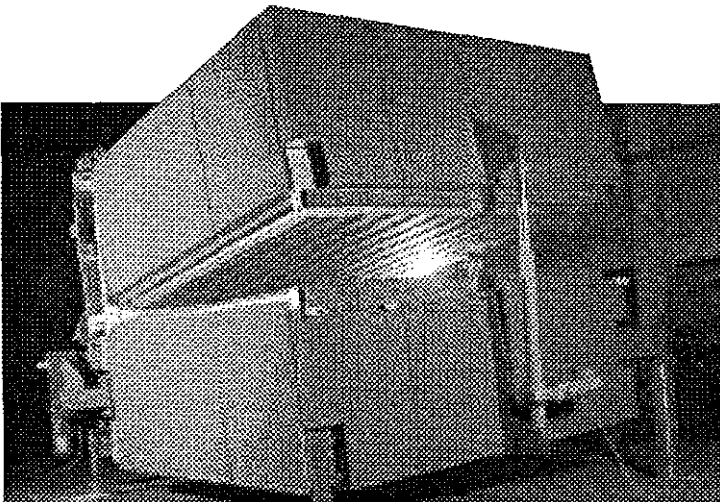
Chairman's Statement

Dividend

It is not possible for the Directors to propose a final dividend because Brunel has no distributable reserves, and in any event the Board considers it more important to improve further the financial health of the Company. It is worth noting that the proposed demerged company will commence without the negative distributable reserves in Brunel.

Prospects

Dickinson Legg started the new year with a more normal order book without the benefit of the exceptional £14m Samsung order in hand in June 2001 and few new orders were received in the early months. Order prospects are reasonable however and the spares business continues to trade well. There is increasing evidence of margins coming under pressure from continental European competitors which is not helped by the continuing strength of Sterling against the Euro but which progressively will be offset by manufacture in our joint venture and procurement from alternative low cost overseas suppliers.



Spooner has had a very high order intake in recent months and is expected to make a substantial advance in profitability.

The Group has commenced making employer pension contributions which will add a significant cost burden and this combined with a more normal year from Dickinson Legg should result in a reasonable year.

The proposed demerged company will have the same trading prospects as those I have indicated for Brunel, but in addition it will benefit from not incurring certain costs and liabilities which will remain with Brunel.

Finally, I would also like to thank all the Group's employees for their hard work and commitment to making it a successful year. In particular I would like to thank David Loftus, Group Finance Director, and Alan King, Company Secretary, for all their hard work and dedication to the Group over the years. They will both be leaving the Group on completion of the proposed transaction with Guinness Peat Group and I take this opportunity of wishing them well for the future.

B B Stevenson

Chairman

An HPC Dryer for the paper industry designed and manufactured by Spooner Industries

Introduction

Other than the adoption of FRS 19 relating to deferred taxation, there have been no changes in accounting policies during the year.

Operating Results

The Group's results show a total operating profit (before exceptionals) of £6.5m (2001: £2.8m). This is due to a very strong performance from Dickinson Legg, which has benefited this year from two large Korean orders won in 2001.

● Continuing operations

Turnover and Group operating profit (before exceptionals) have both increased compared to the prior year, by £11.0m (24%) and £2.4m (61%) respectively, with the main contributor Dickinson Legg, increasing turnover by 34% and operating profit by 60%. The Web business of Spooner saw a small increase in turnover but managed to turn the £0.3m loss of the previous year into a small profit. Operating profit (after exceptionals) was £4.5m compared to the prior year of £1.0m.

● Discontinued operations

During the year the Group disposed of its interest in Elite Cameron Limited. This business made a loss of £266,000 in the first half and the Group's 52.5% shareholding was sold on 25th January 2002 for £250,000.

Discontinued operations also contain the results of Marshaide Limited, a gravel pit operator which ceased business during the year and Cameron Equipment which ceased trading: a profit of £369,000 was generated by the release of excess provisions in these businesses.

Exceptional Items

During the year, the Group sold its interest in Elite Cameron at a net loss of £356,000 (before deducting goodwill of £567,000 written off in prior years).

Exceptional items within operating profit principally include:

- (a) Restructuring costs of £678,000 which includes redundancy costs relating to the termination of the head office activities at Chippenham. These include £100,000 paid as compensation for loss of office to Mr R J Petersen and an accrual of £390,000 for the redundancy payment arising from the proposed closure of the corporate head office in Chippenham.
- (b) Costs of £768,000 borne up to 30th June 2002 in relation to the proposed transaction with the Guinness Peat Group.
- (c) The write off of £587,000 of development costs in Dickinson Legg on a project where recent trials have provided inconclusive results.

Full details of the exceptional items are given in note 3 to the financial statements.

Interest

Net interest costs were £0.6m (2001: £2.5m). Included within this amount is interest and repayment premium paid on the Group's 6.5% unsecured loan notes of £141,000. These loan notes were repaid in November 2001. The 2001 figures included a one off exceptional arrangement fee paid to the Group's previous bankers.

Taxation

Overall a tax charge of £431,000 (2001: £684,000 credit) is shown in the profit and loss account. The adoption of FRS 19 has meant that the prior year's tax charge has been restated by two factors. Firstly, £350,000 of Advance Corporation Tax ("ACT") has been put on the balance sheet as at 30th June 2001 and £600,000 as at 30th June 2002. This is due to its recoverability against future profits. Secondly, FRS 19 states that a deferred tax provision has to be established in relation to the pension prepayment calculated in accordance with SSAP 24. Hence a £6,682,000 deferred tax provision has been included at 30th June 2002

and the prior year's provisions have been restated accordingly. In addition a deferred tax asset in relation to the timing differences of £247,000 (2001: £341,000) is carried in the balance sheet on the basis that it will reverse in the immediate future.

With the downsizing of the Group and the elimination of loss making subsidiaries the ability to use brought forward tax losses has now been reduced and the Group became a tax payer during the year. However, previously written off ACT has reduced the amount of taxation payable.

Dividends

The Board is not recommending the payment of an ordinary dividend as the Company has insufficient distributable reserves.

Earnings Per Share

The earnings per share calculated in accordance with FRS 14 was 7.1p (2001 restated: 23.6p loss). The earnings per share before exceptional items was 16.0p (2001 restated: 8.8p).

Properties

During the year five properties held for resale were sold for £1,504,000 at a profit of £25,000. This leaves only two properties remaining with a combined book value of £600,000.

Capital Expenditure

Capital expenditure totalled £0.3m in the year, which principally relates to the Group's ongoing development of its CAD and information systems.

Research and Development

During the year the Group has continued the development of new products within its businesses. At 30th June 2001 the capitalised costs of new product development totalled £394,000 and further costs of £193,000 were incurred and capitalised during the year. However,

recent trials of this machinery have provided inconclusive results and the total capitalised costs have been written off through the profit and loss account as an exceptional item. In addition, development costs in relation to other projects of £307,000 (2001: £375,000) were written off through the profit and loss account.

Pensions

The Group operates a defined benefit pension scheme. Under SSAP 24 a prepayment of £22.1m is recognised on the balance sheet. However, it must be noted that the transitional disclosures required by FRS 17 (see note 26) show a pension liability of £14.8m as at 30th June 2002.

Financing

The cash inflow from operating activities was £4.4m (2001: £1.3m – outflow). Finance servicing costs have reduced significantly during the period from £2.6m to £0.8m. This is due to the lower level of overall debt and the payment of a £1m arrangement fee to the Group's previous bankers in 2001.

Acquisitions and disposals resulted in a net cash outflow of £0.3m (2001: £9.7m inflow). Overall, cash inflow for the Group was £2.6m (2001: £3.6m).

At 30th June 2002, overdrafts, loan notes and finance lease obligations were £4.1m and the Group held cash of £0.2m. Net borrowings, which decreased by £4.2m during the year to £3.9m, represent 19% of net assets (2001: 46%).

During the year the Group negotiated new banking facilities with Lloyds TSB. These new facilities are on demand and are not subject to financial covenants.

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 2002 the limit was £60.5m.

Financial Review

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 related to interest rate and exchange rate 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.

Interest rate hedging derivatives are regularly considered by the Board but are not currently used nor were they used during the year.

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. 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' Profiles and Advisers

Directors

B. B. Stevenson, F.C.A. (*Executive Chairman*)
D. J. Loftus, B.A., F.C.A., M.B.A.
T. J. Swete, F.C.A. (*Non-Executive*)
J. M. Woolley B.Sc. (*Non-Executive*)

Secretary

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

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Chippenham,
Wiltshire SN15 1EE
Tel. 01249-656263

Registered Number 103548

Registrars and Transfer Office

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PO Box 82,
The Pavilions,
Bridgwater Road,
Bristol BS99 7NH

Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors,
31 Great George Street,
Bristol BS1 5QD

Bankers

Lloyds TSB Bank plc
Canons House
Canons Way
Bristol BS99 7LB

Solicitors

Osborne Clarke
2 Temple Back East
Temple Quay
Bristol BS1 6EG

Financial Advisers

Robert W Baird Limited
Mint House
77 Mansell Street
London E1 8AF

Barry Stevenson

Executive Chairman

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, was appointed chairman in February 2001 and is a member of the Board's remuneration committee and chairman of the audit committee. Age 63.

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 41.

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 57.

Moger Woolley

Non-executive Director

Spent 30 years to November 1989 working for DRG plc where he became Chief Executive. He is currently Chairman of Bristol Water Holdings plc. He joined the Board in October 1992, and is a member of the Board's audit committee and chairman of the Board's remuneration committee. Age 67.

The Directors present their Annual Report and the financial statements for the year ended 30th June 2002.

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 as the Group does not have sufficient distributable reserves. A profit of £2.5m has been transferred to 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 2002, primarily engaged in the design, manufacture and sale of process equipment.

A review of the development of the business during the year appears in the Executive Chairman's Statement on pages 2 to 6.

Political and Charitable Contributions

During the year the Group made no donations for charitable purposes, and no contributions to political parties (2001: Nil).

Directors

The following Directors held office at 30th June 2002 and against their names are shown their beneficial interests in the Company's shares as defined in the Companies Act 1985:

	30th June 2002 Ordinary Shares	1st July 2001 Ordinary Shares
B. B. Stevenson	Nil	Nil
D. J. Loftus	4,843	4,843
T. J. Swete	Nil	Nil
J. M. Woolley	61,674	61,674

The interests of the Directors under the Company's share option schemes are shown in Note 28 to the financial statements on page 46.

Clients of PFM General Management Limited, of which Mr T.J. Swete is a director, were beneficially interested in £1,350,000 of the Company's 6.5%

Unsecured Loan Notes 2001. These notes matured and were repaid on 30th November 2001, but the holders of these Notes also hold warrants valid until 30 November 2002 to subscribe for up to 2.7 % of the Company's issued ordinary share capital at a price of 38.28p per share.

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 2002, there have been no changes in the Directors' interests in the Company's ordinary 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. Brief biographical information of this director can be found on page 10.

Mr D. J. Loftus has a service contract with the Company with a one-year notice period. None of the other directors has a service contract with the Company.

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"). The Directors report that, based upon the information below and that included under Executive Remuneration Policy on pages 15 to 17, the Company has substantially complied throughout the period with the provisions set out in Section 1 of the Combined Code except as regards (i) the appointment of Mr J.M. Woolley is not for a specified period, (ii) the role of Chairman and Chief Executive is now combined with Mr B. B. Stevenson now acting as Executive Chairman, and (iii) one of the members of the Audit Committee, Mr B. B. Stevenson, is now an Executive Director. This situation arose when Mr R. J. Petersen, the previous Chief Executive, left the Company's employ in November 2001, but the Board hopes to appoint a new Chief Executive soon, after which Mr Stevenson will revert to being a non-executive director.

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 Executive Chairman combines the function of Chairman and Chief Executive. Given the reduced size of the Group over recent years, this is considered to be an acceptable arrangement for the Company pending the appointment of a new Chief Executive. The Board considers Mr J.M. Woolley to be the senior independent Non-executive Director.

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 (which will remain combined whilst Mr B. B. Stevenson continues to act as Executive Chairman), and has formalised the arrangements for access by Directors to 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 of Non-executive Directors and the Executive Chairman.

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 internal and external 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. Details of the Executive Directors' remuneration are reported in the Remuneration Committee Report on pages 15 to 17 and in note 6 to the

Financial Statements on page 31. 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 Control

(j) Control Environment – the directors are responsible for the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss, and the maintenance of proper accounting records and the reliability of financial information.

Following the publication of formal guidance on internal control, the Board has established procedures necessary to implement the requirements of the Combined Code relating to internal controls as reflected in the formal guidance and it has reviewed the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls and risk management. These procedures establish the process by which the Board will, on an ongoing basis, identify, evaluate and manage the significant risks faced by the Group and carry out its annual review of the effectiveness of the internal controls. It is intended that these procedures will be kept under review each year and adjusted as appropriate.

Directors' Report

In addition to the review of the scope and results of the audit and the activities of the external and internal auditors (including the cost effectiveness of the audit and the independence and objectivity of the external auditors) the Audit Committee's terms of reference include responsibility for overseeing internal controls, including operational and financial controls and risk management.

(ii) Risk Management – the Company has well established risk management procedures. Monitoring of compliance is through self-assessment, and by external audits by the Group's risk management and insurance advisers.

During 2000, a procedure for risk review, appraisal and ranking was successfully introduced within the Group's businesses using Jardine Lloyd Thompson's 'RiskTrack' system. This was repeated during 2001 and 2002, thus enabling operating company management to maintain and update a detailed risk profile for all significant business risks.

The results of the audits, which will continue to be updated annually, are reviewed by the relevant operating company and form the basis for future risk management objectives. Internal audit procedures monitor all significant resulting internal controls and agreed risk improvement recommendations, and any significant findings are brought to the attention of the Directors.

(iii) Information Systems, Control

Procedures and Monitoring – the Company's internal 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 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; and
- (d) reporting on compliance with internal controls and procedures by group internal audit and review of reports by external auditors.

These reports are also reviewed by the Audit Committee prior to the issue of the interim and annual reports.

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.

European Monetary Union

The Group has assessed the 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

As at 16th October 2002 the Company has been advised of the following shareholdings amounting to 3% or more of the issued ordinary share capital of the Company :

Company having interest	No. of Ordinary shares	% of issued Ordinary shares
Aberdeen Asset Management plc	11,435,016	32.30
Schroder Institutional Recovery Fund	4,050,000	11.44
Clients of Veer Palthe Voute N.V.	3,631,814	10.26
Invesco Asset Management	1,675,000	4.73
Artemis UK Special Situation Funds	1,285,000	3.63

The Company did not issue any new shares during the year, but issued 105,888 new ordinary shares in July 2002 on the exercise of a warrant issued in connection with the Company's 6.5% Unsecured Loan Notes 2001.

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. After taking into account the impact of the capital reorganisation effected in September 2000, as at 30th June 2002 current options over 37,102 ordinary shares in the Company had been granted to 13 of the Group's senior executives under the Company's Share Option Plan, and current options over 36,324 ordinary shares in the Company had been granted to the same senior executives under the Company's Executive Share Option Scheme ("the Scheme"). These options are normally exercisable between the third and tenth anniversary of the grant (i.e. between March 2002 and March 2009) provided that the Company achieves an increase in its earnings per share over a three year period exceeding RPI plus 10%.

At the same date, current super options over 45,924 ordinary shares in the Company had been issued to 3 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 listed engineering companies.

No options have ever been issued under the Company's Phantom Share Option Scheme, and no options were issued during the year under the Company's Share Option Plan or its Executive Share Option Scheme.

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 environmental 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 30th June 2002, the Company had an average of 126 days' purchases outstanding in trade creditors, and the Group had an average of 53 days.

Auditors

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

The Notice of the Annual General Meeting is set out on page 49.

Approved by the Board on 16th October 2002 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 Executive Chairman, in particular on other Executive Directors' remuneration. No director participates in, or votes on, any discussion relating to their 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 now served as a Non-executive Director for ten years.

In the event of early termination for whatever reason the Executive Chairman and the Non-executive Directors are not entitled to any compensation. 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.

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 into account the practice applied across the industrial and service sectors in which the Group operates.

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 the practice at companies of similar size and complexity as that of Brunel and the performance of the individual.

B. Performance Related Bonuses

There are currently no performance related bonus schemes in place for the Executive Directors.

Mr B B Stevenson is entitled to a transaction bonus payable on the completion of the proposed transaction with Guinness Peat Group.

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 14. Details of the options granted under these schemes to the Directors of the Company can be found in Note 28 to the financial statements on page 46.

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

Executive Directors (other than the Executive Chairman) 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.

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

	D. J. Loftus (see note 1)	R. J. Petersen
Normal Retirement Age	65/60	60
Age at 30th June 2002	41	55
Accrued pension at 30th June 2002	£15,561/£5,565 p.a.	£9,805 p.a.
Accrued related spouse's pension at 30th June 2002	£8,957/£3,710 p.a.	£6,537 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)	£30/£2,479 p.a.	£912 p.a.
Increase in related spouse's pension – net of inflation	£17/£1,653 p.a.	£608 p.a.
Escalation (see note 2)	4% p.a. LPI	4% p.a. LPI
Member's contributions	Nil	Nil

Notes:

- 1) Part of pension is payable at age 65 and part at age 60 without reduction.
- 2) 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 between 6th April 1997 and 1st April 2001 increase in payment in line with LPI increases subject to a minimum of 4% p.a.. Pensions accrued on or after 1st April 2001 increase in line with LPI increases (no minimum). LPI increases are defined as increases in line with the Retail Price Index subject to a maximum of 5% in any one year.
- 3) Mr R. J. Petersen ceased to be a director of the Company on 13th November 2001.

Other Benefits

Mr D. J. Loftus also has other taxable benefits provided by the Company such as a suitable company car and the payment of its operating expenses (excluding 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 2002 and 2001 was (£'000s):

	Basic Salary		Benefits		Bonus		Total	
	2002	2001	2002	2001	2002	2001	2002	2001
<i>Executive Directors</i>								
B.B. Stevenson	111	37	-	-	-	-	111	37
D.J. Loftus	102	97	17	16	-	30	119	143
R.J. Petersen	162	175	16	38	-	64	178	277
<i>(to 13th November 2001)</i>								
<i>Non-executive Directors</i>								
T.J. Swete	20	20	-	-	-	-	20	20
J.M. Woolley	22	37	-	11	-	-	22	48
	<u>417</u>	<u>366</u>	<u>33</u>	<u>65</u>	<u>-</u>	<u>94</u>	<u>450</u>	<u>525</u>

Mr B. B. Stevenson became an Executive Director on 13th November 2001, when he took on the role as Executive Chairman. Any bonus payments made by the Company are not pensionable. There were no bonus schemes in place in 2001/2002.

Included in Mr R. J. Petersen's basic salary for 2002 is the sum of £100,000 paid as compensation for loss of office.

The highest paid director had accrued pension rights totalling £9,805 as at 30th June 2002 (2001: £3,390).

In addition to the above, a provision of £193,022 is included in the accounts for the termination cost of Mr D.J. Loftus. This is payable on completion of the proposed transaction with Guinness Peat Group.

J.M. Woolley

Chairman, Remuneration Committee

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30th June 2002 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that 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.

The Directors are also responsible for the maintenance and integrity of the Company's website. Information published on the internet is accessible in many countries – legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report

To the members of Brunel Holdings plc

We have audited the financial statements which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses and the related notes.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 1985. 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. The other information comprises only the chairmans statement, the financial review, the directors report and the remuneration committee report.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on

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internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

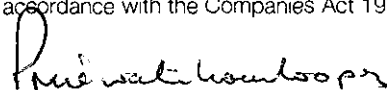
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements.

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 the Group at 30th June 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors
Bristol

16th October 2002

Group Profit and Loss Account

for the year ended 30th June 2002

	Note	2002			Restated		2001
		Before Exceptional Items £000	Exceptional Items £000	Total £000	Before Exceptional Items £000	Exceptional Items £000	Total £000
Turnover							
Continuing operations (including share of joint venture)		57,096	-	57,096	44,996	-	44,996
Discontinued operations		2,974	-	2,974	25,084	-	25,084
		60,070	-	60,070	70,080	-	70,080
Less share of turnover of joint venture - continuing		(1,101)	-	(1,101)	-	-	-
Group turnover	1&2	58,969	-	58,969	70,080	-	70,080
Operating profit/(loss)							
Continuing operations		6,425	(1,974)	4,451	3,996	(3,014)	982
Discontinued operations		24	-	24	(1,211)	(2,676)	(3,887)
Group operating profit/(loss)		6,449	(1,974)	4,475	2,785	(5,690)	(2,905)
Share of operating profit in joint venture - continuing		73	-	73	-	-	-
Total operating profit/(loss): Group and share of joint venture	1,2&3	6,522	(1,974)	4,548	2,785	(5,690)	(2,905)
Exceptional items							
Provision for loss on sale of fixed assets	3	-	-	-	-	(1,656)	(1,656)
Loss on disposal/termination of discontinued operations (including goodwill written off of £567,000)	3	-	(1,150)	(1,150)	-	(2,709)	(2,709)
Profit/(loss) on ordinary activities before interest		6,522	(3,124)	3,398	2,785	(10,055)	(7,270)
Interest receivable and similar income (including £13,000 from share of joint venture)	4	14	-	14	16	-	16
Interest payable and similar charges	4	(595)	-	(595)	(1,509)	(1,000)	(2,509)
Profit/(loss) on ordinary activities before taxation	4	5,941	(3,124)	2,817	1,292	(11,055)	(9,763)
Taxation on profit on ordinary activities (2001 restated - note 22)	7	(431)	-	(431)	684	-	684
Profit/(loss) on ordinary activities after taxation		5,510	(3,124)	2,386	1,976	(11,055)	(9,079)
Minority interests (all equity)		134	-	134	89	388	477
Profit/(loss) for the financial year		5,644	(3,124)	2,520	2,065	(10,667)	(8,602)
Preference share appropriation	9	-	-	-	(345)	-	(345)
Non-equity entitlements waived	9	-	-	-	2,415	-	2,415
Retained profit/(loss) for the financial year transferred to/(from) reserves	22	5,644	(3,124)	2,520	4,135	(10,667)	(6,532)
Earnings/(loss) per share :							
Basic	10			7.1p			(23.6)p
Diluted	10			7.1p			(23.6)p
Adjusted	10			16.0p			8.8 p

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

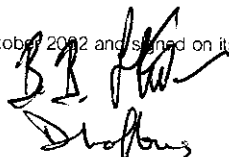
Group Balance Sheet

as at 30th June 2002

	Note	2002 £000	2002 £000	2001 £000	Restated 2001 £000
Fixed assets					
Intangible assets	11		3,775		4,421
Tangible assets	12		3,019		3,796
Investments	13		-		379
Interest in joint venture:	13				
Share in gross assets		727		-	
Share in gross liabilities		(404)		-	
			323		-
			7,117		8,596
Current assets					
Stocks	14	1,976		2,642	
Debtors - due within one year	15	15,393		14,064	
- due after one year	15	23,464		22,275	
Properties held for resale	17	600		2,079	
Cash at bank and in hand		182		775	
		41,615		41,835	
Current liabilities					
Creditors - amounts falling due within one year	18	(20,675)		(23,732)	
			20,940		18,103
Total assets less current liabilities					
			28,057		26,699
Creditors - amounts falling due after more than one year					
	18		(13)		(1,054)
			28,044		25,645
Provisions for liabilities and charges					
	20		(8,154)		(8,034)
Net assets					
			19,890		17,611
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		(146,189)		(149,150)
Shareholders' funds: equity					
	23		19,890		16,929
Minority interests: equity	24		-		682
Capital employed					
			19,890		17,611

Approved by the Board on 16th October 2002 and signed on its behalf by

B. B. Stevenson }
D. J. Loftus } Directors



The notes on pages 25 to 47 form part of these financial statements. The 2001 comparatives have been restated as detailed in notes 21 and 22.

Statement of Total Recognised Gains and Losses

for the year ended 30th June 2002

	Note	Group		Company	
		2002 £000	Restated 2001 £000	2002 £000	2001 £000
Profit/(loss) for the financial year		2,520	(8,602)	(324)	(44,020)
Currency translation differences on foreign currency net investments	22	(126)	109	(293)	240
Total recognised gains/(losses) relating to the year		2,394	(8,493)	(617)	(43,780)
Prior year adjustment – FRS 19	22	(6,332)	–	–	–
Total recognised gains and losses since last annual report		(3,938)	(8,493)	(617)	(43,780)

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

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

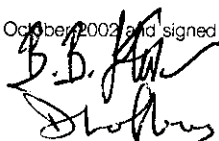
Company Balance Sheet

as at 30th June 2002

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Fixed assets					
Tangible assets	12		37		90
Investments	13		23,989		23,879
			24,026		23,969
Current assets					
Debtors	15	222		1,383	
Cash at bank and in hand		15		1,597	
		237		2,980	
Current liabilities					
Creditors - amounts falling due within one year	18	(1,251)		(3,320)	
Net current liabilities			(1,014)		(340)
Total assets less current liabilities			23,012		23,629
Creditors - amounts falling due after more than one year	18		-		-
			23,012		23,629
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		(59,475)		(58,858)
Shareholders' funds: equity	23		23,012		23,629

Approved by the Board on 16th October 2002 and signed on its behalf by

B. B. Stevenson }
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 2002

Notes	2002 £000	2002 £000	2001 £000	2001 £000
Net cash inflow/(outflow) from operating activities	A	4,372		(1,292)
Returns on investments and servicing of finance				
Interest received		3	24	
Interest paid		(722)	(2,549)	
Interest element of finance lease rental payments		(35)	(45)	
		(754)		(2,570)
Net cash outflow from returns on investments and servicing of finance				
Taxation		(279)		9
Capital expenditure				
Development costs incurred		(193)	(214)	
Purchase of tangible fixed assets		(276)	(737)	
Sale of tangible fixed assets		132	116	
Sale of properties held for resale		1,504	2,310	
		1,167		1,475
Acquisitions and disposals				
Investment in overseas operation		-	(46)	
Acquisition of business	F	-	(359)	
Disposal of businesses	E	(290)	10,065	
		(290)		9,660
Equity dividends paid		-		-
Financing				
Inception of new finance leases	B	12	156	
Capital element of finance lease rental payments	B	(154)	(337)	
Reduction in bank loans and loan notes	B	(1,507)	(3,467)	
		(1,649)		(3,648)
Increase in cash	B	2,567		3,634

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

Notes to the Group Cash Flow Statement

for the year ended 30th June 2002

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

	2002 £000	2001 £000
Group operating profit/(loss)	4,475	(2,905)
Provision against mineral rights	-	3,694
Provision against intellectual property assets	-	816
Provision for onerous property leases	(34)	182
Movement on pension prepayment	213	(521)
Depreciation charges	752	1,312
Development costs written off	587	-
(Profit)/loss on disposal of properties held for resale	(25)	215
Decrease in stocks	593	3,145
(Increase) in debtors	(4,918)	(5,354)
Increase/(decrease) in creditors	2,850	(1,636)
Exchange adjustment	17	91
	<u>4,510</u>	<u>(961)</u>
Net cash outflow in respect of reorganisation costs	(138)	(331)
Net cash inflow/(outflow) from operating activities	<u>4,372</u>	<u>(1,292)</u>

B Reconciliation to net debt

	2002 £000	2001 £000
Increase in cash in the period	2,567	3,634
Reduction in lease finance	154	337
Decrease in bank loans	-	2,767
Decrease in loan notes	1,507	700
Change in net debt from cashflows	<u>4,228</u>	<u>7,438</u>
Finance leases disposed of with subsidiaries	51	80
New finance leases	(12)	(156)
Translation difference	(76)	44
Movement in net debt in the period	<u>4,191</u>	<u>7,406</u>
Net debt at 1st July	(8,069)	(15,475)
Net debt at 30th June	<u>(3,878)</u>	<u>(8,069)</u>

C Analysis of net debt

	1st July 2001 £000	Cash flow £000	Disposals £000	Other non-cash £000	Exchange movement £000	30th June 2002 £000
Cash at bank and in hand	775	(517)	-	-	(76)	182
Overdrafts	(6,149)	3,616	(532)	-	-	(3,065)
6.5% unsecured loan notes 2001	(1,500)	1,500	-	-	-	-
Loan notes	(890)	7	-	-	-	(883)
Finance leases	(305)	154	51	(12)	-	(112)
	<u>(8,069)</u>	<u>4,760</u>	<u>(481)</u>	<u>(12)</u>	<u>(76)</u>	<u>(3,878)</u>

Notes to the Group Cash Flow Statement

for the year ended 30th June 2002

D Disposal of businesses

	2002 £000	2001 £000
Net assets disposed of		
Tangible fixed assets	364	1,375
Intangible fixed assets	-	290
Stocks	52	(1,505)
Debtors	2,329	7,681
Creditors	(2,080)	(4,594)
Cash/(overdraft)	532	(101)
Finance leases	(51)	(80)
	<u>1,146</u>	<u>3,066</u>
Net assets attributable to minority interests	(548)	-
(Loss)/profit on disposal	(356)	6,898
	<u>242</u>	<u>9,964</u>
Satisfied by:		
Cash	<u>242</u>	<u>9,964</u>

E Analysis of net (outflow)/inflow of cash and cash equivalents in respect of the disposal of businesses

	2002 £000	2001 £000
Cash consideration	242	9,964
Bank balances of businesses disposed of	(532)	101
	<u>(290)</u>	<u>10,065</u>

F Acquisition of business

	2002 £000	2001 £000
Net assets purchased		
Stocks	-	45
Creditors	-	(14)
	<u>-</u>	<u>31</u>
Goodwill arising	-	328
	<u>-</u>	<u>359</u>
Satisfied by:		
Cash	<u>-</u>	<u>359</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 together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year. The transitional disclosures of FRS 17 'Retirement Benefits' have been made in the current year. FRS 18 'Accounting Policies' was adopted in the prior year and no changes in accounting policies were required. The Group has also adopted FRS 19 'Deferred Tax' in these financial statements, this represents a change in accounting policy and the comparatives have been restated accordingly, the impact of which is shown in note 22 to the accounts.

Consolidation and goodwill

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 fair value to the Group. Prior to 1st July 1998 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 of the business to which the goodwill relates. From 1st July 1998, in accordance with FRS 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 land	Nil
Freehold buildings	2%
Leasehold properties	Over the term of the lease
Plant, equipment and vehicles	10% - 33%

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

Impairments in value of tangible fixed assets are charged to the profit and loss account.

Development expenditure

Development expenditure relating to clearly defined projects where the outcome of these projects is assessed as being reasonably certain as regards to economic viability and technical feasibility is capitalised and amortised over the period expected to benefit from the project. Other development expenditure and 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 on all material timing differences. Deferred tax assets are recognised where their recovery is considered more likely than not. Deferred tax assets and liabilities have not been discounted.

Stock

Stock, work in progress and finished goods cost are based on a FIFO measure and 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 employee's working life with the Group. The Group operates a defined benefit scheme.

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 reinstatement 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

	Continuing £000	Discontinued £000	2002 Total £000	Continuing £000	Discontinued £000	2001 Total £000
Turnover	55,995	2,974	58,969	44,996	25,084	70,080
Cost of sales	(37,556)	(2,017)	(39,573)	(31,563)	(17,782)	(49,345)
Distribution costs	(7,844)	(237)	(8,081)	(6,162)	(3,520)	(9,682)
Administrative expenses	(4,170)	(696)	(4,866)	(3,275)	(4,993)	(8,268)
Exceptional administration costs	(1,974)	-	(1,974)	(3,014)	(2,676)	(5,690)
Group operating profit/(loss)	<u>4,451</u>	<u>24</u>	<u>4,475</u>	<u>982</u>	<u>(3,887)</u>	<u>(2,905)</u>

2 Segmental reporting

By business segment:	Turnover		Operating profit/(loss) before exceptional items		Operating profit/(loss) after exceptional items		Net assets Restated	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
Tobacco processing machinery:								
Group	46,204	34,540	7,440	4,637	6,853	4,572	17,518	11,637
Joint venture	1,101	-	73	-	73	-	323	-
Web processing machinery	7,952	7,386	3	(302)	1	(302)	2,079	2,023
Other activities	1,839	3,070	(1,018)	(339)	(2,403)	(3,288)	59	559
Continuing operations	<u>57,096</u>	<u>44,996</u>	<u>6,498</u>	<u>3,996</u>	<u>4,524</u>	<u>982</u>	<u>19,979</u>	<u>14,219</u>
Discontinued operations	<u>2,974</u>	<u>25,084</u>	<u>24</u>	<u>(1,211)</u>	<u>24</u>	<u>(3,887)</u>	<u>(89)</u>	<u>3,392</u>
	<u>60,070</u>	<u>70,080</u>	<u>6,522</u>	<u>2,785</u>	<u>4,548</u>	<u>(2,905)</u>	<u>19,890</u>	<u>17,611</u>
Group	<u>58,969</u>	<u>70,080</u>	<u>6,449</u>	<u>2,785</u>	<u>4,475</u>	<u>(2,905)</u>	<u>19,567</u>	<u>17,611</u>
Joint venture	<u>1,101</u>	<u>-</u>	<u>73</u>	<u>-</u>	<u>73</u>	<u>-</u>	<u>323</u>	<u>-</u>
	<u>60,070</u>	<u>70,080</u>	<u>6,522</u>	<u>2,785</u>	<u>4,548</u>	<u>(2,905)</u>	<u>19,890</u>	<u>17,611</u>

Included in other activities is a charge relating to the pension prepayment movement of £213,000 (2001: credit of £521,000).

Geographical (by origin):	Turnover		Operating profit/(loss) before exceptional items		Operating profit/(loss) after exceptional items		Net assets Restated	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
United Kingdom (trading activities)	50,728	38,538	7,126	4,311	6,537	4,246	19,698	13,994
United Kingdom (other activities)	1,839	3,070	(1,018)	(339)	(2,403)	(3,288)	59	559
United States of America	3,428	3,388	317	24	317	24	(101)	(334)
Rest of the World	1,101	-	73	-	73	-	323	-
Continuing operations	<u>57,096</u>	<u>44,996</u>	<u>6,498</u>	<u>3,996</u>	<u>4,524</u>	<u>982</u>	<u>19,979</u>	<u>14,219</u>
Discontinued operations	<u>2,974</u>	<u>25,084</u>	<u>24</u>	<u>(1,211)</u>	<u>24</u>	<u>(3,887)</u>	<u>(89)</u>	<u>3,392</u>
	<u>60,070</u>	<u>70,080</u>	<u>6,522</u>	<u>2,785</u>	<u>4,548</u>	<u>(2,905)</u>	<u>19,890</u>	<u>17,611</u>
Group	<u>58,969</u>	<u>70,080</u>	<u>6,449</u>	<u>2,785</u>	<u>4,475</u>	<u>(2,905)</u>	<u>19,567</u>	<u>17,611</u>
Joint venture	<u>1,101</u>	<u>-</u>	<u>73</u>	<u>-</u>	<u>73</u>	<u>-</u>	<u>323</u>	<u>-</u>
	<u>60,070</u>	<u>70,080</u>	<u>6,522</u>	<u>2,785</u>	<u>4,548</u>	<u>(2,905)</u>	<u>19,890</u>	<u>17,611</u>

Notes to the Financial Statements

2 Segmental reporting (continued)

Geographical (by destination):	<i>Turnover</i>	
	2002 £000	2001 £000
United Kingdom	6,493	5,956
United States of America	5,661	7,423
Europe	7,314	8,619
Rest of the World	37,628	22,998
Continuing operations	57,096	44,996
Discontinued operations	2,974	25,084
	<u>60,070</u>	<u>70,080</u>
Group	58,969	70,080
Joint venture	1,101	-
	<u>60,070</u>	<u>70,080</u>

3 Exceptional items

	Notes	2002 £000	2001 £000
Restructuring costs	i	(678)	(325)
Share capital reorganisation costs		-	(458)
Profit/(loss) on write down/disposal of properties held for resale	ii	25	(215)
Provision for onerous property leases		34	(182)
Provision against mineral rights		-	(3,694)
Provision against intellectual property		-	(816)
Write off of development costs	iii	(587)	-
Costs incurred on proposed transaction (note 31)	iv	(768)	-
Exceptional items within operating profit		<u>(1,974)</u>	<u>(5,690)</u>
Provision for loss on sale of fixed assets		<u>-</u>	<u>(1,656)</u>
(Loss)/profit on disposal/termination of discontinued operations	v	(583)	5,655
Goodwill previously written off	vi	(567)	(8,364)
Loss on disposal/termination of discontinued operations		<u>(1,150)</u>	<u>(2,709)</u>
Net interest payable and similar charges		<u>-</u>	<u>(1,000)</u>
Total exceptional items		<u>(3,124)</u>	<u>(11,055)</u>

- i As part of the re-organisation of the Group, restructuring costs totalling £678,000 were incurred in the period.
- ii A profit/(loss) was made during the period following the sale of surplus properties.
- iii Capitalised development costs of £587,000 were written off due to inconclusive results being obtained from trials of a new development machine.
- iv Costs of £768,000 have been incurred up to 30th June 2002 in relation to the proposed transaction with Guinness Peat Group.
- v The loss on disposal/termination of discontinued activities can be broken down as follows:
- | | |
|---|--------------|
| | £000 |
| Loss on disposal of Elite Cameron Limited | (356) |
| Redundancy costs in the closed mineral businesses | (76) |
| Other residual costs of businesses terminated in previous years | (151) |
| | <u>(583)</u> |
- vi Goodwill previously written off in respect of Elite Cameron Limited disposal has been written back through the profit and loss account.
- vii The loss on disposal/termination of discontinued activities of £1,150,000 has resulted in a tax credit of £68,000.

Notes to the Financial Statements

6 Emoluments of directors

	2002 £000	2001 £000
Management remuneration	282	420
Non-executive remuneration	68	105
	350	525
Compensation for loss of office	100	-
	450	525
<p>Included in the above is an amount of £20,000 paid to Postern Executive Group Limited for the provision of Mr T.J. Swete's services.</p>		
Emoluments of Chairman - Mr J.M. Woolley	-	£33,666
Emoluments of Chairman - Mr B.B. Stevenson	-	£19,630
From 1st July 2000 to 27th February 2001	-	
From 27th February 2001 to 30th June 2001	-	
From 1st July to 12th November 2001 as non-executive chairman	£25,890	-
From 13th November to 30th June 2002 as executive chairman	£85,527	-
	£111,417	£53,296
Emoluments of the highest paid director	£177,991	£277,155

The compensation for loss of office was paid to Mr R. J. Petersen.

Additional disclosure in respect of individual directors is given in the Remuneration Committee Report on pages 15 to 17 which form part of these accounts and in respect of their share options in note 28.

7 Taxation

	2002 £000	Restated 2001 £000
Analysis of charge/(credit)		
Under provision in respect of prior years	-	1
Corporation tax at 30%	1,197	-
ACT utilisation	(645)	-
	552	1
Overseas taxation:		
Subsidiary companies	58	7
Joint venture	41	-
	651	8
Current taxation	651	8
Deferred taxation	(220)	(692)
	431	(684)

The 2001 figures have been restated to reflect the adoption of FRS 19 'Deferred Taxation' (see note 22).

Factors affecting tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £000	2001 £000
Profit on ordinary activities before tax	2,817	(9,763)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	845	(2,929)
Disallowable expenses	165	1,561
Capital allowances for the period in excess of depreciation and other timing differences	(525)	(217)
Overseas earnings covered by brought forward losses	(164)	170
Higher rates of tax on overseas earnings (India)	16	-
Overseas taxes	147	7
Utilisation of brought forward losses not previously recognised	(199)	(213)
Capital disposals not subject to tax	366	1,629
	651	8

Notes to the Financial Statements

8 Profit of the holding company

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

Of the Group profit for the financial year after taxation, a loss of £324,000 (2001: £44,020,000 loss) is dealt with in the financial statements of the holding company.

9 Dividends and appropriations

No ordinary dividend is proposed in respect of the year.

	2002	2001
	£000	£000
Preference share appropriation	-	(345)
Non-equity entitlements waived	-	2,415

10 Earnings per share

i Basic (FRS 14)

	2002	Restated
	£000	2001
		£000
Profit/(loss) for the financial year	2,520	(8,602)
Preference share appropriation	-	(345)
Non-equity entitlements waived	-	2,415
	<u>2,520</u>	<u>(6,532)</u>
Weighted average number of shares in issue ('000)	<u>35,296</u>	<u>27,734</u>
Earnings/(loss) per share (pence)	<u>7.1</u>	<u>(23.6)</u>

ii Diluted

Weighted average number of shares diluted for exercise of warrants	35,679	27,734
Diluted earnings/(loss) per share (pence)	<u>7.1</u>	<u>(23.6)</u>

iii Adjusted EPS

The adjusted EPS has been calculated using the profit/(loss) for the financial year excluding operating and non-operating exceptional items.

	2002	Restated
	£000	2001
		£000
Profit/(loss) for the financial year	2,520	(8,602)
Provision for loss on sale of fixed assets	-	1,656
Operating exceptional items	1,974	5,690
Loss on disposal of discontinued operations	1,150	2,709
Arrangement fee paid to previous bankers	-	1,000
Adjusted profit for the financial year	<u>5,644</u>	<u>2,453</u>
Number of ordinary shares ('000)	<u>35,296</u>	<u>27,734</u>
Adjusted earnings per share before exceptional items (pence)	<u>16.0</u>	<u>8.8</u>

Notes to the Financial Statements

11 Intangible fixed assets	Goodwill £000	Development costs £000	Intellectual property £000	Total £000
Cost at 1st July 2001	5,687	394	1,452	7,533
Costs incurred in the year	-	193	-	193
Exchange adjustments	(25)	-	-	(25)
Write off of development costs (note 3)	-	(587)	-	(587)
Disposal of businesses	(1,113)	-	(1,452)	(2,565)
As at 30th June 2002	4,549	-	-	4,549
Amortisation as at 1st July 2001	1,660	-	1,452	3,112
Charge for the year	229	-	-	229
Exchange adjustments	(2)	-	-	(2)
Disposal of businesses	(1,113)	-	(1,452)	(2,565)
As at 30th June 2002	774	-	-	774
Net book value as at 30th June 2002	3,775	-	-	3,775
Net book value as at 30th June 2001	4,027	394	-	4,421

12 Tangible fixed assets	Mineral rights £000	Land & buildings £000	Plant, equipment & vehicles owned £000	leased £000	Total £000
Group					
Cost or valuation as at 1st July 2001	5,688	530	4,175	1,950	12,343
Additions	-	31	233	12	276
Disposal of businesses	(15)	(108)	(557)	(166)	(846)
Exchange adjustments	-	1	(15)	-	(14)
Disposals	(295)	-	(94)	-	(389)
As at 30th June 2002	5,378	454	3,742	1,796	11,370
Depreciation as at 1st July 2001	3,999	202	2,950	1,396	8,547
Charge for the year	25	29	366	103	523
Disposal of businesses	(15)	(44)	(360)	(63)	(482)
Exchange adjustments	-	-	(8)	-	(8)
Disposals	(151)	-	(78)	-	(229)
As at 30th June 2002	3,858	187	2,870	1,436	8,351
Net book value as at 30th June 2002	1,520	267	872	360	3,019
Net book value as at 30th June 2001	1,689	328	1,225	554	3,796

Notes to the Financial Statements

12 Tangible fixed assets (continued)

Company

	Plant & equipment owned £000
Cost as at 1st July 2001	396
Additions	3
Disposals	(39)
As at 30th June 2002	360
Depreciation as at 1st July 2001	306
Charge for the year	40
Disposals	(23)
As at 30th June 2002	323
Net book value as at 30th June 2002	37
Net book value as at 30th June 2001	90

	Group	
	2002 £000	2001 £000
Land and buildings comprise at net book value:		
Freehold	-	-
Long leasehold	-	-
Short leasehold	267	328
	267	328
The cost or valuation of buildings may be analysed as follows:		
At valuation	-	-
At cost	454	530
	454	530
If stated under historical cost principles the comparable amounts for the total of land and buildings would be:		
Cost to the Group	454	530
Accumulated depreciation	(187)	(202)
	267	328

Notes to the Financial Statements

13 Investments

	Total £000
Group	
Dickinson Fowler Limited joint venture	
Cost at 1st July 2001	379
Write off of set up costs	(63)
	316
Group share of profit for the year	45
Exchange movement	(38)
	323
As at 30th June 2002 (50% of net assets)	323

The Group has a 50% investment in Dickinson Fowler Limited, a company in India which manufactures tobacco processing equipment.

The period to 30th June 2002 is the first period of trading and as such the joint venture was included in the 30th June 2001 accounts at its cost of investment. In 2001 the Group incurred set up costs of £63,000 that have been recognised in the current year financial statements.

At 30th June 2002 the financial results of Dickinson Fowler Limited were as follows:

	2002 £000
Summarised profit and loss account	
Turnover	2,202
Gross profit	704
Net other expenses	(558)
	146
Operating profit	26
Net interest	
	172
Profit on ordinary activities before tax	(82)
Tax	
	90
Profit on ordinary activities after tax	90

There were no gains or losses other than the profits generated by operating activities.

	2002 £000
Summarised balance sheet	
Fixed assets	303
Net current assets	
Stocks and work in progress	298
Debtors	385
Cash	469
Creditors less than 1 year	(747)
	405
Provisions for liabilities and charges	(62)
	646
Total net assets	646

	Shares in Group Undertakings £000	Loans to Group Undertakings £000	Total £000
Company			
Cost at 1st July 2001	21,000	2,879	23,879
Reduction in provision	-	1,547	1,547
Inter group movements	-	(1,437)	(1,437)
	21,000	2,989	23,989
As at 30th June 2002	21,000	2,989	23,989

Notes to the Financial Statements

14 Stocks

Group	2002 £000	2001 £000
Raw materials and consumables	262	865
Work in progress	1,524	1,602
Finished goods and goods for resale	817	699
	2,603	3,166
Contract stage payments	(627)	(524)
	1,976	2,642

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

15 Debtors

	Group		Company	
	2002 £000	Restated 2001 £000	2002 £000	2001 £000
Amounts falling due within one year:				
Trade debtors	6,226	9,503	36	39
Amounts recoverable on contracts	4,034	719	-	-
Amounts owed by group undertakings	-	-	33	62
Corporation tax recoverable	-	16	-	-
Deferred taxation (note 20)	847	691	-	-
Other debtors	3,686	2,396	108	1,217
Prepayments and accrued income	600	739	45	65
	15,393	14,064	222	1,383
Amounts falling due after one year:				
Other debtors – contract retention	1,402	-	-	-
Pension fund prepayment (note 16)	22,062	22,275	-	-
	23,464	22,275	-	-

16 Pension fund prepayment

	2002 £000	2001 £000
As at 1st July	22,275	21,754
(Charge)/credit taken to profit and loss account (note 26)	(213)	521
As at 30th June	22,062	22,275

17 Properties held for resale

Group	2002 £000	2001 £000
As at 1st July	2,079	3,615
Disposals proceeds	(1,504)	(2,310)
Profit/(loss) on disposal	25	(215)
Transfers from tangible fixed assets	-	989
As at 30th June	600	2,079

Notes to the Financial Statements

18 Creditors

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Amounts falling due within one year:				
Bank loans and overdrafts	3,065	6,149	123	-
Loan notes	883	-	-	-
6.5% unsecured loan notes 2001	-	1,500	-	1,500
Payments received on account	2,868	1,116	-	-
Trade creditors	8,147	7,970	351	902
Amounts due to group undertakings	-	-	3	35
Corporation tax	311	-	-	9
Other taxation and social security payable	218	329	-	-
Obligations under finance leases	99	141	-	-
Other creditors	2,517	3,207	77	479
Accruals	2,567	3,320	697	395
	20,675	23,732	1,251	3,320
Amounts falling due after more than one year:				
Loan notes	-	890	-	-
Obligations under finance leases (1-2 years)	13	155	-	-
Obligations under finance leases (2-5 years)	-	9	-	-
	13	1,054	-	-

Details of the terms and security offered by the Group in respect of borrowings are set out in note 19.

19 Financial instruments

The principal financing and treasury exposures faced by the Group relate to working capital management, the financing of acquisitions and tangible fixed assets, and the management of interest rate positions.

The Group's functional and reporting currency is sterling, and it therefore faces currency exposures on the retranslation of its foreign subsidiaries net assets from year to year. It is the Group's policy not to hedge its profit translation and its net investment exposures as these are an accounting rather than a cash exposure and these subsidiaries are not significant in the context of the Group as a whole.

The Group's strategy to manage foreign exchange exposures is to be risk adverse and as such contract and trading transactions in non-local currencies are hedged as soon as they are reasonably certain as to timing and amount, using forward currency contracts.

The Group borrows at both fixed and floating rates of interest. Interest rate hedging derivatives are regularly considered by the Board but are not currently used nor were they used during the year.

Additional disclosures on the Group's objectives and policies for financial instruments are given on page 9, Financial Review, which forms part of these accounts.

The Group also has financial instruments in the form of short term debtors and creditors which arise in the normal course of business. Short term debtors and creditors have been excluded from the disclosures which follow, other than the currency risk disclosure. The detailed risk management policies are set out in the following notes:

Notes to the Financial Statements

19 Financial instruments (continued)

a) Summary of borrowings

	Notes	Group		Company	
		2002 £000	2001 £000	2002 £000	2001 £000
Financial assets					
Cash at bank		182	775	15	1,597
Financial liabilities					
Bank overdrafts	i	3,065	6,149	123	-
6.5% unsecured loan notes	ii	-	1,500	-	1,500
Loan notes	iii	883	890	-	-
Finance lease obligations		112	305	-	-
Provision for vacant properties	iv	148	182	-	-
		<u>4,208</u>	<u>9,026</u>	<u>123</u>	<u>1,500</u>

Notes:

- i The bank overdrafts and loans of £3,065,000 (2001: £6,149,000) are secured by a fixed and floating charge. There were no undrawn committed facilities at 30th June 2002.
The facilities are repayable on demand and are subject to an annual review.
- ii The 6.5% unsecured loan notes were issued in December 1998 as part of the GBE acquisition and were repaid on 30th November 2001.
- iii The loan note represents a variable rate redeemable guaranteed loan note which expires in October 2002. Interest is paid at base rate bi-annually and is secured by a bank guarantee.
- iv Provision for vacant properties. This is included within financial liabilities because in establishing the provision the cash flows have been discounted and the discount rate is reappraised at each half yearly reporting date to ensure that it reflects current market assessments of the time of value of money and the risks specific to the liability.

b) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 30th June 2002 was as follows:

	Debt £000	Loan notes £000	Finance leases £000	Other financial liabilities £000	2002 Total £000
Analysis of repayments:					
Repayable within one year	3,065	883	99	87	4,134
Between one and two years	-	-	13	42	55
Between two and five years	-	-	-	19	19
After five years	-	-	-	-	-
	<u>3,065</u>	<u>883</u>	<u>112</u>	<u>148</u>	<u>4,208</u>
Analysis of repayments:					
	Debt £000	Loan notes £000	Finance leases £000	Other financial liabilities £000	2001 Total £000
Repayable within one year	6,149	1,500	141	74	7,864
Between one and two years	-	890	155	55	1,100
Between two and five years	-	-	9	53	62
After five years	-	-	-	-	-
	<u>6,149</u>	<u>2,390</u>	<u>305</u>	<u>182</u>	<u>9,026</u>

Notes to the Financial Statements

19 Financial instruments (continued)

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

	Group	
	2002 £000	2001 £000
Assets held as part of the financing arrangements of the Group:		
Sterling	93	93
US Dollar	89	678
Euro	-	4
	182	775
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	4,208	9,026
US Dollar	-	-
	4,208	9,026
Floating rate financial liabilities	4,096	7,221
Fixed rate financial liabilities	112	1,805
	4,208	9,026
Fixed rate financial liabilities:		
Weighted average interest rate	9.0%	8.4%
Weighted average period for which rate is fixed	1.1 years	0.5 years

The floating rate financial liabilities comprise:

- i bank borrowings bearing interest at rates related to base rate.
- ii loan notes bearing interest at base rate.
- iii provision for vacant properties.

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 hedged using forward contracts.

Hence there are no material exchange gains and losses that give rise to credits or charges to the profit and loss account.

e) Fair value of financial assets and liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the Group's financial assets and financial liabilities at 30th June 2002 and 2001. Fair value is the amount at which the financial instrument could be exchanged in an arm's length transaction between informed and willing parties (other than a forced or liquidated sale) and excludes accrued interest. Fair values of the Group's short term borrowings and cash at bank are equivalent to their book values.

The fair value of short term borrowings and cash approximates to the carrying amount because of the short maturity of these instruments. The long term borrowings fair value approximates to the carrying value after excluding the accrued interest.

The fair value of the forward currency contracts is based on the closing spot price at 30th June 2002 and 2001.

	2002		2001	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Financial assets:				
Cash at bank	182	182	775	775
Financial liabilities:				
Short term borrowings	4,047	4,047	7,790	7,790
Long term borrowings	13	13	1,054	1,054
Provision for vacant properties	148	148	182	182
	4,208	4,208	9,026	9,026
Derivative financial instruments:				
Forward currency contracts	-	629	-	(183)
	-	629	-	(183)

Notes to the Financial Statements

19 Financial instruments (continued)

f) Hedging currency exposures

As explained in the financial review on page 9, the Group uses derivative financial instruments to manage certain currency exposures. Changes in the value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

The 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 2001	42	(225)	(183)
of which recognised in the year	(42)	225	183
	-	-	-
Arising and not recognised in the year	670	(41)	629
At 30th June 2002	670	(41)	629
Expected to be recognised in the next year	670	(41)	629

20 Provisions for liabilities and charges

Group	Deferred taxation £000	Warranty provision £000	Vacant properties £000	Restructuring provision £000	Total £000
At 1st July 2001 as originally stated	-	1,167	182	3	1,352
Prior year adjustment	6,682	-	-	-	6,682
Restated at 1st July 2001	6,682	1,167	182	3	8,034
Created in period	-	987	-	-	987
Utilised	(64)	(134)	-	(3)	(201)
Released	-	(632)	(34)	-	(666)
At 30th June 2002	6,618	1,388	148	-	8,154

The Group has a number of vacant, partly sub let and fully sub let leasehold properties arising from the significant downsizing of the Group in the last ten years. The properties are located in all areas of England. Provision has been made for residual lease commitments, together with other outgoings after taking into account existing sub-tenant arrangements. In determining the provision the cash flows have been discounted using appropriate rates. The maturity profile of these properties is shown in note 19(b).

The warranty provisions are established on an individual contract basis to cover potential costs that may arise in the warranty period (usually between one and two years) for machinery supplied which are based on prior periods experience.

Deferred tax liability/(asset)

	2002 £000	Restated 2001 £000
Capital allowances in excess of depreciation	(52)	(78)
Other timing differences	(165)	(227)
ACT	(600)	(350)
Losses available for offset	(30)	(36)
Pension prepayment provision	6,618	6,682
	5,771	5,991
The deferred tax liability is disclosed within:		
Debtors	(847)	(691)
Provisions	6,618	6,682
	5,771	5,991

The 2001 figures have been restated to reflect the adoption of FRS 19 'Deferred Taxation' (see note 22).

Notes to the Financial Statements

20 Provisions for liabilities and charges (continued)

Defined benefit pension schemes

The Group operates one scheme which is of the defined benefit type. Under SSAP 24 a prepayment of £22.1 million has arisen.

Tax relief will be given on contributions made and hence the prepayment represents a timing difference giving rise to a deferred tax liability.

Other potential deferred tax assets not recognised

The Group has a number of management expenses and trading losses which may, in certain circumstances, be available to offset against profit made by the Group in the future. The estimated value of the unrecognised deferred tax asset at a standard rate of 30% is £4,884,000 (2001: £4,030,000). In addition, the Group has an unrecognised deferred tax asset in relation to Advance Corporation Tax of £2,081,000 (2001: £2,478,000).

21 Share capital

	2002 £000	Restated 2001 £000
Authorised:		
70,000,000 ordinary shares of 20p each	14,000	14,000
1,118,442,997 special non-voting deferred shares of 1p each	11,184	11,184
	25,184	25,184
Allotted, issued and fully paid:		
35,296,033 ordinary shares of 20p each	7,059	7,059
1,118,442,997 special non-voting deferred shares of 1p each	11,184	11,184
	18,243	18,243

On 29th September 2000, the shareholders of the Company approved a share capital reorganisation. As part of the capital reorganisation all of the special non-voting deferred shares were to be acquired by the Company for 1 pence and an amount equal to their aggregate nominal value of £11,184,430 was credited to a Capital Redemption Reserve. In 2002 the special non-voting deferred shares of 1p each have been restored to the balance sheet as the Company's lack of distributable reserves prevented it from buying them back as it had intended to do pursuant to the share capital reorganisation. The 2001 comparatives have been restated accordingly.

At 30th June 2002, ordinary share options were exercisable as follows:

- i under the Company's Share Option Plan over 37,102 ordinary shares (2001:79,912) at 127.2p per share,
- ii under the Company's Executive Share Option Scheme over 36,324 ordinary shares (2001:71,698) at 127.2p per share.

In addition, at the same date super options were exercisable under the Company's Executive Share Option Scheme over 45,924 ordinary shares (2001: 197,146) at 127.2p per share.

No options have been issued by the Company under its Phantom Option Scheme. 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 14.

At 30th June 2002, there were no savings related share options remaining outstanding as the last extant options matured on that date (2001: 1,426).

On 5th July 2002 the Company issued to Mr R. J. Petersen 105,888 ordinary shares upon the exercise of his rights to subscribe for shares in connection with the 6.5% unsecured loan notes 2001. The remaining noteholders have a right to subscribe to 952,992 ordinary shares at a price of 38.28p per share. This right expires on 30th November 2002.

Notes to the Financial Statements

22 Reserves

	Share premium £000	Other reserves £000	Profit and loss £000	Total £000
Group				
As at 1st July 2001 as originally stated	64,244	83,592	(142,818)	5,018
Prior year adjustment – FRS19	–	–	(6,332)	(6,332)
Restated as at 1st July 2001	64,244	83,592	(149,150)	(1,314)
Goodwill written back	–	–	567	567
Profit retained for the year	–	–	2,520	2,520
Exchange adjustments	–	–	(126)	(126)
As at 30th June 2002	64,244	83,592	(146,189)	1,647

The capital redemption reserve of £11,184,430 shown in the 2001 accounts has been restated as share capital (see note 21).

Goodwill

	£000
Gross amount written off post 23rd December 1989	81,794
Less disposals to date	(72,007)
	<u>9,787</u>

Prior year adjustment

The prior year adjustment relates to the implementation of FRS 19 'Deferred Tax'. The adoption of FRS19 has resulted in an increase in the deferred tax provision of £6,682,000 and the recognition of ACT recoverable asset of £350,000 at 30th June 2001 and an increase in the tax credit of £194,000 for the year to 30th June 2001.

Analysis of prior year adjustment

	£000
Adjustment to reserves at 30th June 2000 in relation to deferred tax on pension prepayment	(6,526)
Deferred tax charge on the movement on pension prepayment	(156)
Recognition of ACT recoverable asset	350
Total adjustment to reserves as at 30th June 2001	<u>(6,332)</u>

	Share premium £000	Profit and loss £000	Total £000
Company			
Restated as at 1st July 2001	64,244	(58,858)	5,386
(Loss) retained for the year	–	(324)	(324)
Exchange adjustments	–	(293)	(293)
As at 30th June 2002	64,244	(59,475)	4,769

The capital redemption reserve of £11,184,430 shown in the 2001 accounts has been restated as share capital (see note 21).

Notes to the Financial Statements

23 Reconciliation of movement in shareholders' funds

	Group		Company	
	2002 £000	Restated 2001 £000	2002 £000	2001 £000
Profit/(loss) for the financial year	2,520	(8,602)	(324)	(44,020)
Goodwill written back	567	8,364	-	-
Transfer preference share appropriations from equity interests	-	(345)	-	(345)
Transfer preference share appropriations to non-equity interests	-	345	-	345
Transfer to equity interests on share capital reorganisation	-	32,417	-	32,417
Transfer from non-equity interests on share capital reorganisation	-	(32,417)	-	(32,417)
	3,087	(238)	(324)	(44,020)
Exchange adjustments	(126)	109	(293)	240
Net increase/(reduction) in shareholders' funds	2,961	(129)	(617)	(43,780)
Opening shareholders' funds (originally £23,584,000 before prior year adjustment of £6,526,000)	16,929	17,058	23,629	67,409
Closing shareholders' funds (all equity)	19,890	16,929	23,012	23,629

24 Minority interests

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Elite Cameron Limited (47.5%)	-	682	-	-

Elite Cameron was disposed of in January 2002. In the period up to disposal a credit of £134,000 was recognised in the profit and loss account. The balance of £548,000 was recognised as part of the loss on disposal.

25 Commitments

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
(a) Capital commitments contracted for	34	-	-	-
(b) Operating leases	Group		Company	
	Land and buildings £000	Others £000	Land and buildings £000	Others £000
Annual commitments at 30th June 2002:				
Expiring within one year	91	14	-	-
Expiring in the second to fifth years	248	117	-	2
Expiring after more than five years	1,163	23	150	-
	1,502	154	150	2
Annual commitments at 30th June 2001:				
Expiring within one year	52	104	-	7
Expiring in the second to fifth years	427	206	-	10
Expiring after more than five years	1,312	11	150	-
	1,791	321	150	17

Notes to the Financial Statements

26 Pension scheme

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 in March 2001. For the purposes of SSAP 24, the principal assumptions used a market based approach. These assumptions are based upon a discount rate of 6.3% per annum, pay growth of 4% per annum and annual increases in inflation and pension payments of:

- 3.15% per annum (minimum 3%) for period prior to 6th April 1997*
- 3.3% per annum (minimum 3%) for period prior to 6th April 1997 to 31st March 2001
- 2.5% per annum (no minimum) for period prior from 1st April 2001.

* The pension increase shown is defined to be 3% plus half of the difference between Limited Price Indexation (LPI) and 3% where LPI is greater than 3%.

During the year a charge of £213,000 (2001: £521,000 credit) has been taken to the profit and loss account. This represents a regular cost of £1,090,000 (2001: £1,454,000), a variation cost of £526,000 (2001: £568,000 credit) and a notional interest credit of £1,403,000 (2001: £1,407,000). The Company increased its contribution to the scheme to 16.4% of pensionable salaries with effect from 1st July 2002.

At the date of the last actuarial review, which was completed by an independent qualified actuary as at 1st April 2001 using the projected unit method the market value of the scheme assets on an ongoing basis was £138.3m. The market value of the assets is 102% of the value of accrued benefits, after allowing for expected future increases in earnings.

FRS 17 Disclosure

Independent actuaries have carried out calculations in relation to FRS17. The results of their calculations and the assumptions they have adopted are shown below:

i Financial assumptions

	2002 % pa	2001 % pa
a Inflation	2.50	2.50
b Rate of increase in salaries	4.00	4.60
c Rate of increase of pensions in payment		
Pre 6th April 1997*	3.25	3.15
LPI (minimum 3%)	3.50	3.30
Future accrual (RPI, limited to 5%)	2.50	2.50
d Rate of increase for deferred pensioners	2.50	2.50
e Discount rate	5.70	6.30

* The pension increase shown is defined to be 3% plus half of the difference between Limited Price Indexation (LPI) and 3% where LPI is greater than 3%.

ii Scheme assets and expected rate of return

	2002 Fair value £m	2002 Expected rate of return %pa	2001 Fair value £m	2001 Expected rate of return %pa
Equities	35.38	8.1	74.25	7.3
Bonds	85.09	5.2	57.51	5.2
Cash	3.89	4.0	3.24	5.2
Total	<u>124.36</u>		<u>135.00</u>	

iii Reconciliation to the balance sheet

	2002 £m	2001 £m
Fair value of scheme assets	124.36	135.00
Actuarial value of scheme liabilities	(139.20)	(123.00)
Pension (liability) /asset recognised in balance sheet (before allowance for deferred tax)	(14.84)	12.00
Related deferred tax assets/(liability) at 30%	4.45	(3.60)
Net pension (liability)/asset	<u>(10.39)</u>	<u>8.40</u>

If FRS 17 had been adopted in the financial statements at 30th June 2002, the Group would have net liabilities of £6.0m (2001: net assets £10.4m).

Notes to the Financial Statements

26 Pension scheme (continued)

Analysis of the movement in surplus /(deficit) in the scheme during the year	2002 £m
Surplus in the scheme at the beginning of the year	12.00
Current service cost	(1.08)
Curtailment gain	0.63
Other finance income	0.84
Actuarial (loss)	(27.23)
(Deficit) in the scheme at the year end	(14.84)
iv Components of defined benefit cost	2002 £m
Analysis of amounts charged on operating profit:	
Current service cost	1.08
Total charged to operating profit	1.08
Analysis of other amounts charged to profit and loss account:	
Gain on curtailment	0.63
Net gain credited to profit and loss account	0.63
Analysis of amount charged to other finance income:	
Interest on pension scheme liabilities	7.54
Expected return on assets in the pension scheme	(8.38)
Net credit to other finance income	(0.84)
Total profit and loss charge before deduction of tax	0.87
v Analysis of amounts recognised in Statement of Recognised Gains and Losses (STRGL)	2002 £m
Loss on assets	12.71
Experience (gain) on liabilities	(0.37)
Loss on change of assumptions (financial and demographic)	14.89
Total loss recognised in STRGL before tax adjustment	27.23
vi History of experience gains and losses	
Loss on scheme assets	
Amount (£million)	12.71
% of scheme assets at end of year	10.22%
Experience (gain) on scheme liabilities	
Amount (£million)	(0.37)
% of scheme liabilities at end of year	0.26%
Total actuarial loss recognised in STRGL	
Amount (£million)	27.23
% of scheme liabilities at end of year	19.56%

Notes to the Financial Statements

27 Contingent liabilities

Brunel 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) Bonds and Guarantees

The Group had at 30th June 2002 outstanding bank and insurance company guarantees in respect of advance payments, performance and other bonds totalling £3,618,000 (2001: £5,283,000). The Company had at 30th June 2002 outstanding guarantees in respect of bonds totalling £ nil (2001: £344,000).

(ii) Subsidiary company borrowings

At 30th June 2002 the Company had provided guarantees covering £Nil (2001: £241,000) of the subsidiary company's finance leases. In addition, the Company had provided guarantees covering subsidiary company's bank indebtedness. At 30th June 2002 the value of this indebtedness was £ 2,942,000 (2001: £8,091,000).

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.

28 Directors' share option interests

Name	Options at 1st July 2001	Options granted	Options lapsed	Options exercised	Options at 30th June 2002	Subscription price	Normal period of exercise
Executive share option scheme							
R J Petersen							
- ordinary options	28,108	-	(28,108)	-	-	132.97p	2002 - 2009
R J Petersen							
- super options	98,378	-	(98,378)	-	-	132.97p	2004 - 2009
D J Loftus							
- ordinary options	9,514	-	-	-	9,514	127.19p	2002 - 2009
D J Loftus							
- super options	22,227	-	-	-	22,227	127.19p	2004 - 2009
Company share option plan							
D J Loftus							
- ordinary options	2,854	-	-	-	2,854	127.19p	2002 - 2009

The mid market price of the ordinary shares was 64p at 30th June 2002. During the year the share price reached a high of 72.5p and a low of 30.25p.

The Company has not issued any phantom options under its Phantom Option Scheme.

29 Related party transactions

Postern Executive Group Limited is a related party as Mr T. J. Swete, a Non-executive Director of Brunel Holdings plc, is also a director of that company. During the year £20,000 (2001: £20,000) was paid to Postern Executive Group Limited in respect of the services of Mr T. J. Swete as Non-executive Director.

The amounts due to Postern Executive Group Limited at 30th June 2002 was £5,875 (2001: £14,646)

Notes to the Financial Statements

30 Principal subsidiary undertakings

At 30th June 2002 the Company held directly or indirectly 100% 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

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

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

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

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

31 Post balance sheet event

The company is in negotiations with the Guinness Peat Group plc for a transaction which, if concluded and approved by shareholders of both companies, will result in Brunel Holdings' shareholders receiving a shareholding in Dickinson Legg Group plc (the new holding company of Dickinson Legg and Spooner Industries) and retaining a shareholding in Brunel Holdings which will become the enlarged Guinness Peat Group plc.

These financial statements have been prepared on the basis that the Group is ongoing and no adjustments have been made that may result from the potential transaction.

Five Year Record

	1998	1999	2000	2001	2002
Group turnover (£m)					
Continuing operations	32.5	34.5	40.2	45.0	56.0
Discontinued operations	67.2	37.6	31.8	25.1	3.0
Total	<u>99.7</u>	<u>72.1</u>	<u>72.0</u>	<u>70.1</u>	<u>59.0</u>

Group operating profit (£m)					
Continuing operations	1.5	(0.6)	3.5	1.0	4.5
Discontinued operations	1.4	(6.8)	(3.1)	(3.9)	0.0
Total	<u>2.9</u>	<u>(7.4)</u>	<u>0.4</u>	<u>(2.9)</u>	<u>4.5</u>

Group operating profit (before exceptional items) (£m)					
Continuing operations	1.9	1.1	3.6	4.0	6.4
Discontinued operations	3.1	(3.5)	(2.0)	(1.2)	0.0
Total	<u>5.0</u>	<u>(2.4)</u>	<u>1.6</u>	<u>2.8</u>	<u>6.4</u>

Pre-tax profits/(losses) (£m)	6.9	(11.1)	0.0	(9.8)	2.8
Earnings/(loss) per share (FRS 14 basic) (pence)	97.9	(239.0)	(25.2)	(23.6)	7.1
Earnings/(loss) per share (adjusted basis) (pence)	8.0	(11.9)	-	8.8	16.0
Dividends per share (pence)	11.5	-	-	-	-
Net assets (£m)	36.9	24.9	24.7	17.6	19.9

The adoption of FRS 19 'Deferred Tax' has resulted in a restatement of 2001 but earlier periods have not been restated.

Notice of Meeting

Notice is hereby given

That the Ninety-third Annual General Meeting of Brunel Holdings plc will be held on 13th November 2002 at the offices of Herbert Smith, Exchange House, Primrose Street, London EC2A 2HS at 12.00 noon for the following purposes:

1. To receive the report of the Directors and the audited financial statements for the year ended 30th June 2002.
2. To re-elect Mr D. J. Loftus as a Director.
3. To re-appoint PricewaterhouseCoopers as auditors and to authorise the Directors to fix their remuneration.

By Order of the Board

J. A. G. King
Secretary

Brunel House, 14 Avon Reach,
Chippenham, Wiltshire SN15 1EE

21st October 2002

Notes

1. Only holders of Ordinary Shares are entitled to attend (or be represented) and vote at this Meeting. A member entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member.
2. To be valid, a form appointing a proxy must be lodged at the offices of the Company's Registrars (Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3FA) not later than 48 hours before the time appointed for holding the Meeting.
3. The following will be available for inspection at the registered office of the Company during business hours on any weekday (Saturday and Public Holidays excluded) from the date of this notice to the date of the Annual General Meeting and at the Annual General Meeting from 12.00 noon, until the conclusion of the meeting:
 - (a) The Register of Directors' Shareholdings.
 - (b) A copy of the Directors' service contracts with the Company or any of its subsidiaries other than those expiring or determinable by the employing company without compensation within one year.