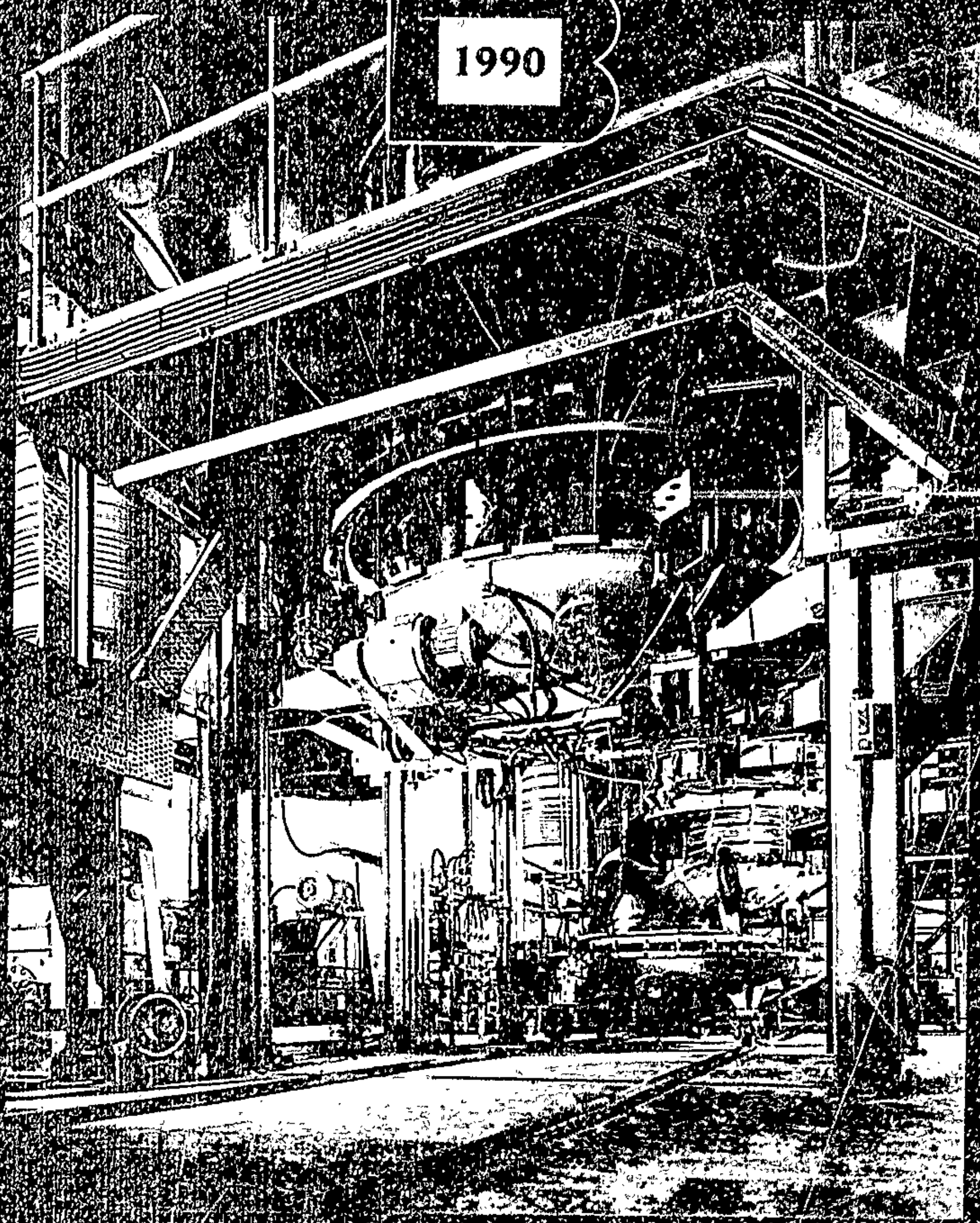
BODYCOTE INTERNATIONAL plc

1990



ANNUAL REPORT AND ACCOUNTS

Report and Accounts 31st December 1990

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Cover picture

Corby has proved such a commercial success that Blandburgh Nemo Limited have now doubled the vacuum furnace capacity with the installation of an additional 2.25 tonnes payload vacuum furnace

Directors and advisers

Directors	J. C. DWEK, BSc, BA, FTI	*Chairman and Joint Managing*
	J CHESWORTH, FCA	*Joint Managing*
	R. M. GREEN FCA	*Finance*
	D. O PRUIK	*Managing (Netherlands)*
	R. M. BAILEY, BSc, C Eng, MIM, M Weld I	*Managing MTS Group*
	THE RT. HON. LORD BARNETT, JP	*Non-Executive**

Secretary and registered office	P A. BLAMIRES, BSc (Econ), ACMA 140 Kingsway, Manchester M19 1BA *Registered Number* 519057 England *Telephone* 061-257 2345 *Fax* 061-257 2353
Auditors	KPMG PEAT MARWICK McLINTOCK
Bankers	MIDLAND BANK PLC NATIONAL WESTMINSTER BANK PLC ALGEMENE BANK NEDERLAND NV
Solicitors	ALEXANDER TATHAM
Brokers	KLEINWORT BENSON SECURITIES LIMITED HENRY COOKE, LUMSDEN PLC
Registrars and transfer office	CONNAUGHT ST. MICHAELS LIMITED C.S M. House, Victoria Street, Luton, Beds. LU1 2PZ

***Non-executive director**

The Rt. Hon. Lord Barnett, JP Vice Chairman of the BBC since 1st August 1986. A Certified Accountant from 1954 and senior partner with J C Allen & Co (now Hacker Young) of Manchester until 1980. Now a consultant to the firm. Labour Member of Parliament for Heywood and Royton in Lancashire from 1964 to 1983. Chief Secretary to the Treasury 1974 to 1979. Privy Councillor 1975. Member of the Cabinet 1977 to 1979. A Justice of the Peace in the County of Lancashire since 1956. Chairman of the Public Accounts Committee of the House of Commons 1979 to 1983. Chairman and director of a number of public and private companies. Trustee of the Victoria and Albert Museum. Member of the Halle Committee. Published 'Inside the Treasury' in 1982. Married with one daughter. Born on 14th October 1923 in Manchester.

Highlights

	1990 £000	1989 £000
Turnover	75,457	78,860
Operating profit		
UK	9,155	8,110
Overseas	2,505	2,306
Profit before taxation	10,551	9,806
Profit after taxation and minority interest	6,781	6,425
Earnings per share (pence)	27.1	26.3
Dividend per share (pence)	8.75	8.0
Dividend cover	3.1	3.3
Net assets per share (pence)	135.2	114.9
Return on capital employed (%)	31.0	31.2

Chairman's statement

I am pleased to report that profits, before taxation, amounted to £10,551,000 compared with £9,806,000 for 1989, an increase of 7.6%. These results, achieved in a most unhelpful economic climate, are a demonstration of the group's resilience in the face of adverse trading conditions in the UK and, equally, are a reflection of the considerable strengths of your group.

Accordingly, your Board is recommending to shareholders a final dividend of 5.5p per share, making a total dividend of 8.75p per share for 1990, which is an increase of 9.4%. The total dividend is covered 3.1 times and the final dividend will be payable on 1st July 1991, to shareholders on the register at the close of business on 2nd May 1991.

Capital expenditure during the past year amounted to over £11 million, and still our return on capital employed was a very satisfactory 31%, a figure which gives us reason to be justifiably proud. Capital expenditure in the current year is estimated to be around £6 million. Notwithstanding these investments and also our acquisitions, our gearing at the close of the year was negligible.

A large proportion of the funding has come from the proceeds of the sale of Skelmersdale Packaging in December 1990 for £11.8 million. We acquired that company some years ago when we were seeking to extend our newly created packaging division, but market conditions have since changed. Competition became much tougher and the business became too volume sensitive, with a consequent reduction in margins. In view of the demand for funds from our core business, it was appropriate to take advantage of the attractive offer from Danisco A/S.

As a result, your group will now be reorganised from the four divisions which were appropriate in 1990 into three divisions during the current year, the remaining packaging interests being included in the Industrial and general division. The operating details of all our principal subsidiaries are set out under the three divisional headings on pages 31 to 33.

During the year, MTS International Limited, which had joined the group in March 1990, made a series of useful acquisitions to extend its testing services into new areas in the UK and USA, thus building up a network of interrelating services regionally situated.

In March 1991, we acquired HIP Limited and Infutec Limited, in Chesterfield. HIP Limited, established in 1977, is the UK pioneer in the industrial application of the Hot Isostatic Pressing process and has a blue chip clientele in the UK and Continental Europe. The 'Hipping' process combines the application of heat and pressure to metal components, in order to remove voids and other defects from castings, to reduce microporosity in sintered parts and to achieve enhanced mechanical property levels. It was of the utmost importance that your group acquire this unit to complement its other metallurgical activities. Future growth in demand for these services is assured and expansion in productive capacity will continue with further investment into high technology equipment.

Infutec Limited is involved in the development of new techniques for joining metals, such as diffusion bonding and the compaction of powder metals.

Our overseas subsidiary, EHCO-KLM Holding, had another successful year, despite the adverse effect on their results of continuing losses from their French subsidiary VPF-KLM, and continues to make good progress. Unlike the UK, their markets have been particularly strong during 1990 and we look forward to further expansion in the current year.

In July 1991, our Company Secretary, Peter Blamires, will be retiring, having occupied that role since 1974. During this time he has witnessed many changes throughout the group, and has presided over our secretarial affairs with professionalism and thoroughness. Members should be aware of the tremendous service that he has put in. We wish him well in his retirement and extend to him our gratitude for a job well done. We are appointing Miss Clair Griffiths as his successor.

All in all, it has been another successful year for your group, and these results could not have been achieved without the commitment and hard work of our executive staff and employees, to whom I extend warm thanks on your behalf.

Looking to the future, we are optimistic of further progress. We have established a metal technology division of international stature and have other subsidiaries operating in niche markets, with good products and excellent management. The group has performed well during a most difficult time in the UK and as the economy starts to improve, we should be able to capitalise further on the strengths and achievements so far attained.

J.C. DWEK
Chairman

Group review

METAL TECHNOLOGY

Blandburgh Nemo

The Blandburgh Nemo group recorded increased sales and profits for the tenth consecutive year.

All the vacuum heat treatment centres achieved record profits reflecting the group's increasingly important role in providing metallurgical support services to the aerospace industry. In the automotive and general engineering sectors, market share was also increased and was able to offset the recessionary trends which developed from the middle of the year.

During the year several major investment projects came to fruition. In particular, the new plant at **Rotherham** is processing large volumes of a wide range of engineering components with minimal operator dependence, utilising advanced design furnaces, computerised process control and automated mechanical handling to create a new dimension in heat treatment processing. The performance of this "New Dimension" heat treatment centre has fully vindicated the group's decision to develop the UK's first computer controlled subcontract heat treatment facility. Rotherham's furnace utilisation exceeded 80% with regular seven day operation. A higher grade market has been developed with a pronounced international element, including Japanese automotive component requirements.

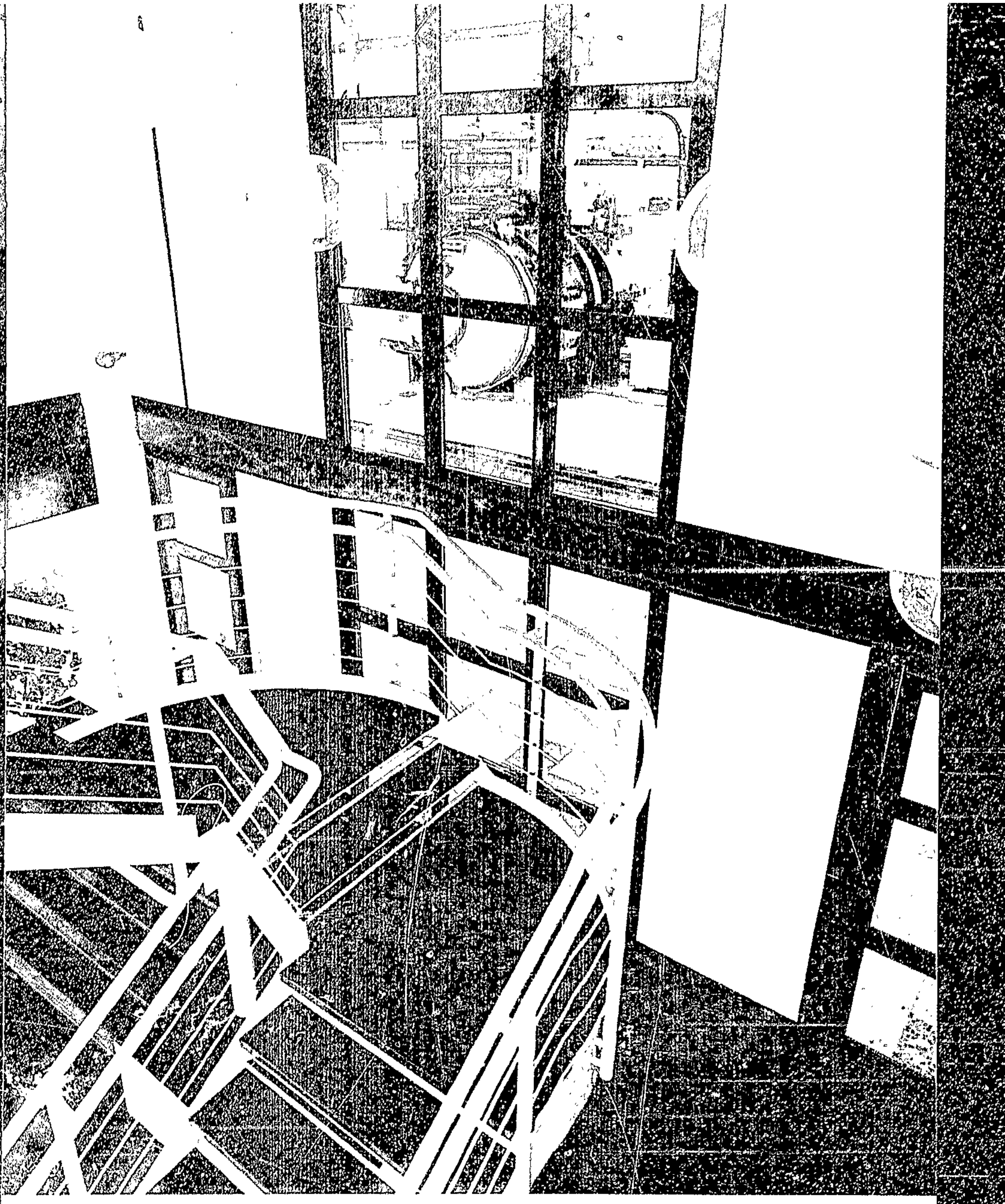
Drawing upon the experience gained at Rotherham, a programme of retrofitting computerised process control and automated handling systems is under way at the **Aldridge** plant. This will result in a "New Dimension" sealed quench furnace line, capable of satisfying the most stringent demands of the newly developing automotive component sector. The group continues to broaden the market served by the Aldridge plant, with the installation of new additional continuous annealing capacity for pre-forms, castings, forgings and bar. Also, at the other end of the spectrum, the Plasma division has been extended and equipped with new vacuum furnace capacity.

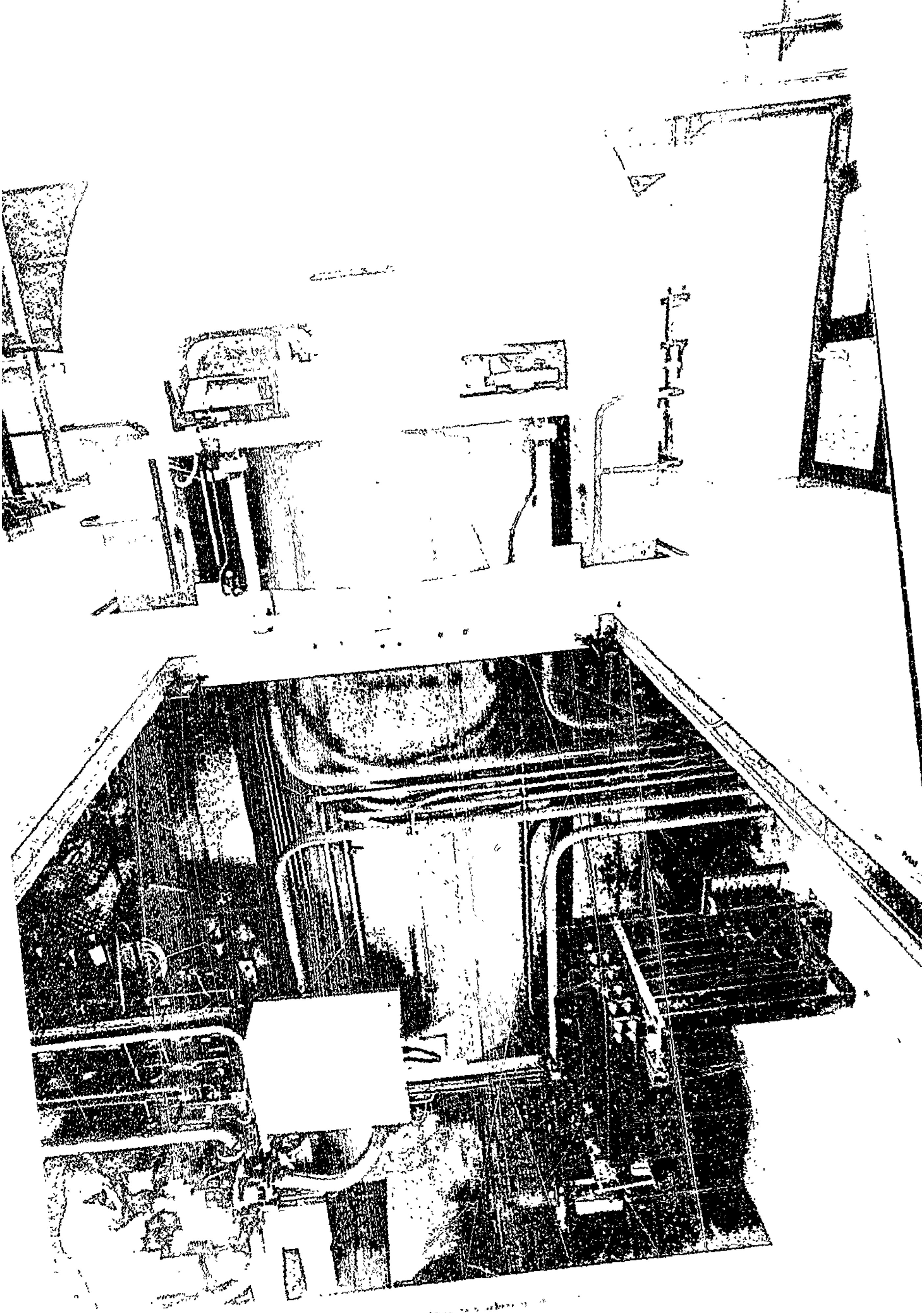
The new installations involving the largest and latest technology vacuum furnaces at the **Aldridge, Woodford** and **Corby** plants, are the first of their types to be produced by the respective British and German manufacturers. Already, the strategic importance of these facilities has been appreciated by many leading aerospace customers, and they are attracting significant volumes of new business.

Some rationalisation between plants has been necessary of late in order to achieve greater efficiency of operation. Closure of the MTS Heat Treatments plant and the re-installation of some equipment at the nearby plant of **Furnace Treatments** in Edinburgh, has provided a more comprehensive range of treatments. In addition, our aluminium heat treatment facility at Borehamwood has been re-sited at Basingstoke, where the new combined operation now trades as **London Heat Treatments Limited.** Considerable support has also been provided to **Härterei VTN** in Nurnberg in order to expedite the replacement of outdated salt bath processes with new ecologically safe equipment and also to implement Blandburgh Nemo management systems.

Notwithstanding the major investments already outlined, the group has in recent months designed, built and equipped its latest "New Dimension" plant on a greenfield site at **Chard** in Somerset. With a capital investment approaching £4 million, a heat treatment facility of international stature has been established in response to the growing demand for a major metallurgical support facility in the South West region. The new plant is capable of treating production volumes of the largest aerospace and power generation components.

In March 1991, Blandburgh Nemo acquired the Coatings Division of GKN Birfield Extrusions Limited which is one of the European leaders in the application of high technology coating processes. It has perfected a range of chemical vapour and physical vapour deposition coatings, such as titanium nitride, carbonitride and carbide which when applied to machined, cast, or formed components provide exceptionally high degrees of surface hardness. With its plasma nitriding and vacuum furnace facilities, the plant complements the range of services already available at Aldridge.





Reference has already been made in the Chairman's statement on page 4 to the acquisition of **HIP Limited** and **Infutec Limited** by Blandburgh Nemo towards the end of March 1991 This acquisition not only broadens the division's range of activities but reinforces the vital metallurgical support role it has developed for the aerospace industry.

Further substantial capital investment is scheduled to come on stream later in the year and in early 1992, which will further the group's drive to provide world class subcontract heat treatment and brazing centres in all industrially important regions of the UK and Europe

Zinc Alloy

Although Zinc Alloy again produced record results in the UK, 1990 was essentially a year of consolidation. With the expiry of the lease of the Glasgow factory, the opportunity was taken to consolidate production for the much reduced Scottish market into **Rochdale** with a consequent saving in overhead costs Additionally, production at Aachen was discontinued as the potential business there no longer justified the resources necessary to administer this unit. Business from Holland, Belgium, Germany and Spain is now being processed from the Zinc Alloy UK plants.

During the year, the electroplating factory at **Caerphilly** has been substantially extended, increasing the production area by 50% This is now a well equipped unit able to fulfil future requirements in this area

At the **Rochdale** factory, more than 500 tonnes of components for exposed areas of the Channel Tunnel have been treated and further contracts are currently being negotiated leading to further involvement in this project for which the Sherardizing process is particularly well suited.

The current downturn in the economy is adversely affecting the activities of many customers particularly in the building, construction and automotive industries but the company's widely spread customer base should once again counteract the more severe effects of the recession

MTS International

MTS International, the materials testing arm of the Metal Technology division, has been fully integrated into the group and is now in a position to make a significant contribution to profits. MTS provides a wide range of materials testing services to all sectors of industry from a network of laboratories located in key geographical areas Healthcare is a major growth area and facilities offering an environmental, pharmaceutical and microbiological testing service including asbestos analysis and COSHH, noise, environmental impact and risk assessment are being progressively incorporated into all major operating centres

Since the acquisition of MTS in March 1990, the eight test laboratories then operated have been increased to fifteen through strategic acquisitions. In April and August respectively, **Testwell** in Daventry and **Frazer-Nash Pendar** in Bridgwater were acquired whilst in October **Matcon BV** operating two units in Holland, was purchased to extend the company's overseas development. Environal Limited, a small company operating in Glasgow, Port Talbot and Bristol, was acquired in November and is now trading as **MTS Environmental** providing, in particular, asbestos analysis and full environmental support including COSHH requirements. Some rationalisation and streamlining is now being carried out, an example of which is the transfer of MTS South East from Wimbledon to premises also occupied by MTS Testwell at Daventry, a move which will enhance the profitability of both companies.

Quality of both staff and service are recognised as the main features essential to the company's future success Accordingly, the company maintains a policy of graduate recruitment to ensure a sound base from which the next generation of management can be provided. Each UK laboratory is accredited under the NAMAS scheme whilst similar quality systems are in place in Norway and Holland. During the current year, MTS aims to consolidate its leading position in the materials testing market. Management will continue to identify new markets and services and is well positioned to acquire suitable businesses which may become available.

Group review *continued*

EHCO-KLM

The EHCO-KLM group again achieved record profits, despite continuing losses at VPF-KLM in France, with an increase in earnings per share of 13% on a weighted average basis.The business made further progress in 1990 with an expansion in sales, improvements to its career apparel range and an excellent start to entry into the former East German market. In addition, KLM-Medisign, the new line of medical garments first introduced in 1988, has been further developed and sales of this product extended to countries outside Holland.

A placing of 85,500 new shares in July with a UK institution at a price of DFL 40 per share reflected the strong improvement in the trading position of EHCO-KLM since its flotation in December 1986. The proceeds of the placing will provide a sound capital base for future development. A further 14,232 shares were issued to shareholders as an alternative to a cash dividend and this option will again be offered to shareholders in 1991. Provision has been made in the 1990 accounts to fund the implementation of measures recommended by an external firm of consultants which had been asked to advise the management on the organisation and logistics of the manufacturing units. The amount provided will, accordingly, be spent mainly on updating the software and hardware of the computer systems.

The reorganisation of **VPF-KLM** in France has taken longer than originally envisaged. Substantial rationalisation work has been carried out which has led to a reduction in the work force of one third in the early months of the current year, the costs of which have been provided for in the 1990 accounts. The product range is now reflecting a greater emphasis on career apparel at the expense of standard workwear garments and the business is developing from a production led into a market orientated organisation.

EHCO-KLM has also established a subsidiary in the UK as from January 1991. This company is currently operating at Westhoughton under the name of **EHCO-KLM Clothing Limited** and is seeking to take advantage of the important market for workwear in the UK and to supply the former industrial customers of Supercraft (Garments) and other potential customers with KLM products.

PACKAGING

Following the disposal of Skelmersdale Packaging in December, the remaining companies in this division have, from January 1991, been included in the new Industrial and general division, the constituent companies of which are shown on page 33.

The operation of **Skelmersdale Packaging** was strengthened during 1990 by the commissioning early in the year of a third Massenzana Corrugator. Although sales and profits were higher than in the previous year, it had become clear that the scale and type of Skelmersdale's operations did not coincide with the group's longer term strategy. In particular, it was realised that the further significant investment which would be required to sustain the growth of a substantial cardboard packaging division would divert resources from the group's core activities. Furthermore, Skelmersdale Packaging was a high volume business which differed from the other activities of the group and was highly sensitive to changes in its trading environment. Accordingly, the company was sold in December to Bux Corrugated Containers, a subsidiary of Danisco A/S, for a cash consideration of £11.8 million. The sale included HDP Limited which had been acquired in January 1990.

Cheshire Corrugated Containers, which had also been acquired in January 1990 through Skelmersdale Packaging, was excluded from the sale, although Bux has an option until December 1992 to acquire the whole of the issued share capital of that company.

Stockpack had another busy year with both sales and profit higher than in 1989. This company remains the leading organisation in the UK engaged in contract food packaging and blending. Its success is based on its ability to cope with large volumes of work at short notice and to a high standard of quality, made possible by its in-house engineering facilities, and to offer and maintain a highly reliable and confidential service.

The production area of the existing factory is now, however, fully committed. This constraint on growth is being tackled by the implementation of an expansion programme. An adjacent building on the site has been leased and adjoining land purchased, measures which will enable the company to undertake additional business in the future.

INDUSTRIAL AND GENERAL

Stephens-Itex Safety had another record year increasing profits by approximately 10%, on sales substantially unchanged. This improvement was achieved despite the difficult economic climate which particularly affected the construction industry, a sector to which this company is closely linked. There was, during the year, a substantial increase in sales of safety helmets, stimulated by legislation introduced on 1st April 1990 requiring the wearing of helmets by all workers on construction sites, and significant new business in this area has been gained with British Telecom, PowerGen and a number of national construction companies. A recent development has been the introduction of a new microprocessor controlled lens welding helmet which reacts instantly to the welding arc. This high technology helmet has considerable potential and a significant domestic and export demand is expected. Exports, particularly to EC countries, have improved and, although business in general is currently less buoyant because of the decline in construction activity, Stephens-Itex is well placed to take full advantage of opportunities when they arise.

The problems at **Supercraft (Garments)** to which reference had been made in the 1989 Group Review necessitated a comprehensive review of its operations. This resulted initially in a stage by stage contraction to a smaller base beginning with a programme of redundancies at Oldham followed by further redundancies at Westhoughton and by the sale of the business of Portfolio Design Group, based in London. In the meantime, in the light of future trading prospects and continuing losses, it was decided to discontinue the remainder of its activities.

Taylor & Hartley Fabrics ceased trading in January 1990 and in the following month the business, plant and machinery and certain other assets of **Denbilaminates** were sold. These divestments were well signalled in recent years and form part of the group's corporate policy of withdrawing from vulnerable textile areas. The funds released amount to some £3.3 million, including £2 million released by the discontinuance of the Taylor & Hartley Fabrics yarn merchanting activities in December 1989.

Brocklehurst Fabrics returned to profitability in 1990 despite difficult trading conditions caused by a downturn in domestic trade and weak export sales. Better times for them will only come about when there is a general improvement in the UK economic climate.

Our financial services subsidiary, **Thomas Cook & Son Insurance Brokers**, is engaged in the activities of industrial and commercial risk management, as general insurance brokers, pension and life assurance consultants and independent financial advisers. The year 1990 saw a slight decline from the exceptional profits of the previous year which had been caused by the personal pension boom.

Bodycote Developments manages our property and other interests in Baildon, West Yorkshire. There is considerable potential in this property which will be exploited in the years ahead.

Directors' report

The directors submit their report and the audited accounts for the year ended 31st December 1990

Principal activities and business review

The company is a holding company with subsidiaries during 1990 organised into four divisions.

Metal technology

Specialists in vacuum heat treatment, carburising, Sherardizing, phosphating, carbonitriding, plasma nitriding, copper brazing and hardening and tempering. The application of the Hot Isostatic Pressing process and diffusion bonding treatments. The provision of materials testing services.

EHCO-KLM

Manufacturers and distributors of high quality career apparel, personal protective clothing including special project clothing and military uniforms.

Packaging

Contract food blenders and packers and manufacturers of corrugated board and cases.

Industrial and general

Manufacturers and distributors of helmets, respirators, goggles, industrial boots and shoes, prescription spectacles, welding visors, ear defenders, hand protection and uniforms. Manufacturers of club and corporate tie fabrics, ladies' printed scarves and squares and fashion woven and printed silk tie fabrics. General insurance brokers and managers of certain of the group's property interests.

Since the close of the year, following the disposal of Skelmersdale Packaging Limited, the group has been reorganised into three divisions namely, **Metal technology, EHCO-KLM** and **Industrial and general,** this latter division comprising the operations set out above under Packaging and Industrial and general.

The activities of companies within these three divisions are set out on pages 31 to 33. The Chairman's Statement and Group Review contain a survey of the group's operations, the position at the year end and future development.

Trading results

The profit of the group before taxation for the year was £10,551,000 (1989 £9,806,000). Profit attributable to shareholders after adding a net extraordinary surplus amounted to £8,256,000 (1989:£5,749,000) Of this £2,206,000 (1989:£1,955,000) is accounted for by dividends, both paid and proposed, with the balance of £6,050,000 (1989:£3,794,000) transferred to reserves.

The following is an analysis of turnover and profit by division. Holding company bank interest and expenses have been excluded from these figures.

	Turnover	Profit
	%	%
Metal technology	30.2	50.0
EHCO-KLM	34.1	18.3
Packaging	22.5	24.7
Industrial and general	13.2	7.0
	100.0	100.0

Dividend

The Board is recommending a final dividend of 5.5p per share making a total for the year of 8.75p (1989: 8p) The final dividend, if approved, will be paid on 1st July 1991 to shareholders on the register at the close of business on 2nd May 1991.

Tangible fixed assets

In the opinion of the directors the market value of the group's land and buildings at 31st December 1990 was in excess of book value but, in relation to the group's affairs as a whole, the difference is not significant

Changes in the amount of tangible fixed assets are shown in Note 11 to the accounts

Acquisitions

1990 Acquisitions: Packaging division

In January 1990 completion took place of the acquisition, through the company's subsidiary, Skelmersdale Packaging Limited, of the whole of the issued share capital of HDP Limited and Cheshire Corrugated Containers Limited. HDP Limited was later included in the disposal of Skelmersdale Packaging Limited, full details of which were circulated to shareholders on 18th December 1990. The main terms of the sale are given below under "Disposals".

1990 Acquisitions: MTS International Limited

On 30th March 1990 the company acquired the trading subsidiaries and certain factory and office premises of MTS International Limited from Murray International Holdings Limited. The principal activity of the companies acquired is the provision of all types of materials testing services. The consideration for the acquisition amounted to £5,100,000 consisting of £2,100,000 in cash, the issue of 769,231 ordinary shares in the company and £1,000,000 of 10% loan stock convertible into ordinary shares. For the purpose of this transaction the ordinary shares were valued by the parties at a price of 260p per share, and the loan stock will be convertible at the same price.

The vendor, Murray International Holdings Limited, undertook not to dispose of the ordinary shares in the company for a minimum period of two years following the sale nor to dispose of the loan stock while it is still convertible. The conversion of the loan stock into ordinary shares and the repayment of the loan stock at the vendor's option may take place at any time between two and four years following completion. The amount of the loan stock was reduced to £550,000 on 7th December in consideration of the repurchase by Murray International Holdings Limited of certain factory premises included in the original sale.

Further details of the acquisition were set out in the Directors' report for the year 1989 dated 3rd April 1990.

The MTS International section was further strengthened during the year by the acquisition of:

(i) Testwell Limited of Daventry, Northamptonshire on 27th April
(ii) Frazer-Nash Pendar Limited of Bridgwater, Somerset on 17th August
(iii) Matcor BV of Emmen and Spijkenisse, Holland on 5th October and
(iv) Environal Limited on 14th December, a company which has units operating in Glasgow, Port Talbot and Bristol.

The total initial cash consideration for these companies amounted to approximately £900,000 and they now operate respectively under the names of MTS Testwell Limited, MTS Pendar Limited, MTS Matcon BV and MTS Environmental Limited.

1991 Acquisitions

On 1st March 1991 Blandburgh Nemo Limited acquired the assets of the Coatings division of GKN Birfield Extrusions Limited for a cash consideration of £1,075,000, the assets comprising the land and buildings and plant and machinery.

Directors' report *continued*

1991 Acquisitions *continued*

Further, on 28th March 1991 Blandburgh Nemo Limited acquired the whole of the issued share capital of HIP Limited and Infutec Limited of Chesterfield from Marshalls plc. The consideration amounted to £4 million in cash. The vendor has warranted the combined profits before taxation of the companies for the year ended 31st March 1991 at not less than £475,000 and the assets at 31st March 1991 at not less than £3.13 million. HIP Limited is the UK pioneer in the industrial application of the Hot Isostatic Pressing process which combines the application of heat and pressure to metal components the main purpose of which is to remove voids and other defects from castings. Infutec Limited is involved in the development of new techniques for joining metals such as diffusion bonding and the compaction of powder metals.

Disposals

In January 1990 the decision was taken to terminate the remaining trading activities of Taylor & Hartley Fabrics Limited in response to continued adverse trading conditions. In addition, on 22nd February 1990, the company disposed of the business, plant and machinery and certain other assets of its textile processing subsidiary, Denbilaminates Limited, to The Rossendale Combining Company Limited for a cash consideration of £1,300,000 plus the book value of certain of the stocks.

The problems at Supercraft (Garments) Limited, disclosed in the 1989 Group Review, necessitated a comprehensive examination of its operations resulting in a stage by stage contraction of this company to a smaller base. In the light of future trading prospects, however, the Board decided in July 1990 to discontinue the remainder of its activities.

On 14th December 1990 the company sold the entire issued share capital of Skelmersdale Packaging Limited and its subsidiary, HDP Limited, to Bux Corrugated Containers Limited, a subsidiary of Danisco A/S. The total proceeds of the sale amounted to £11,825,000 in cash including a dividend of £5 million paid by Skelmersdale Packaging Limited to the company prior to completion. As part of the sale contract, Cheshire Corrugated Containers Limited, a former subsidiary of Skelmersdale Packaging Limited which was excluded from the transaction, entered into a trading agreement with Skelmersdale Packaging Limited under which it will purchase all its requirements of corrugated board from that company over the next two years with a guaranteed minimum purchase of £500,000 per annum. Bux Corrugated Containers Limited has an option until December 1992 to acquire the whole of the issued share capital of Cheshire Corrugated Containers Limited for up to £500,000.

Share capital

During the year the issued ordinary share capital of the company was increased to £6,302,452 by the issue on 30th March 1990 of 769,231 ordinary shares as part consideration for the acquisition of the trading subsidiaries of MTS International Limited.

On 11th April 1991 the company announced that it had placed 1,000,000 new ordinary shares at 250p per share to raise approximately £2,500,000. The placing was subject to admission by the Council of The Stock Exchange of the new shares to the Official List which was expected to take place by 17th April 1991. The proceeds of the placing will be applied towards the funding of the acquisition of HIP Limited and Infutec Limited. The new shares will rank pari passu with the existing ordinary shares currently in issue, save that they will not rank for the recommended final dividend of 5.5p per share for the year 1990.

Share option scheme

During the year options under the Bodycote International Senior Executive Share Option Scheme covering 412,500 ordinary shares were granted at prices of 201p and 215p per share. Options outstanding at the end of the year covered 606,500 ordinary shares exercisable at dates up to 26th September 2000 at prices ranging from 120.5p to 259p per share. See note 17 to the accounts.

Renewal of authority to allot shares

Under the provisions of Section 80 of the Companies Act 1985 the directors are not able to allot shares except with the general or specific approval of shareholders. A general authority was granted on 25th May 1990 in respect of the ordinary shares then unissued and it is now proposed in resolution number 5 in the notice convening the annual general meeting that this authority be renewed for a period of fifteen months from the date of passing of the resolution.

Sections 89 and 95 of the Companies Act 1985 provide that any ordinary shares issued for cash must first be offered to existing ordinary shareholders unless their approval is obtained that this stipulation should not be applied. The directors consider it desirable that they should have the authority to make allotments of ordinary shares for cash, other than by way of rights issues to existing shareholders, up to a maximum nominal amount of £115,122 (being 5% of the issued ordinary share capital at 31st December 1990) and, accordingly, recommend the special resolution set out as resolution number 6. Shareholders should be aware that The Stock Exchange no longer requires the consent of the shareholders to each specific issue by the company of equity capital for cash made otherwise than to existing shareholders in proportion to their existing holdings

Directors

The present directors are listed on page 2 and, with the exception of Mr. R.M. Bailey, who was appointed on 30th March 1990, all served throughout the year. The director retiring by rotation is Mr. R M Green who, being eligible, offers himself for re-election. Mr. Green has a service agreement with the company which is subject to five years' notice of termination.

Directors' interests

The directors' interests in the shares of the company are set out below.

	At 31st December 1990			At 1st January 1990 or date of appointment		
	Beneficial	As Trustee	Options	Beneficial	As Trustee	Options
J C Dwek	2,353,760	—	45,000	2,357,760	100,000	25,000
J. Chesworth	106,956	35,000	125,000	106,956	35,000	75,000
R. M. Green	26,760	—	75,000	27,960	—	50,000
The Rt. Hon. Lord Barnett	32,500	—	—	32,500	—	—
D. O. Pruik	10,730	—	—	10,730	—	—
R.M. Bailey	—	—	75,000	—	—	—

The options held are exercisable, in accordance with the rules of the Share Option Scheme, at dates up to 26th September 2000 at prices ranging from 201p to 259p per share The rules of the Scheme provide that these options cannot be exercised, save in certain circumstances, earlier than five years from the date of grant and then only if the company's growth in earnings per share over a period of at least five years following the date of grant has been such as would place it in the top quartile of the FTSE 100 companies by reference to growth in earnings per share over the same period.

Since the close of the year Mr J.C. Dwek acquired 2,500 shares and subsequently disposed of 8,535 shares from his beneficial holding. Mr J. Chesworth and Mr R.M. Green have disposed of 10,000 shares and 2,360 shares respectively from their beneficial holdings.

None of the directors had a material interest in any contract of significance in relation to the company and its subsidiaries at any time during the financial year.

Directors' report *continued*

Shareholders

The directors understand that the following substantial interests in the issued share capital of the company subsisted at 11th April 1991:

	Number of shares	% of share capital
Prolific Asset Management Limited	3,087,500	12.2
Allied Dunbar Unit Trusts plc	1,915,000	7.6
Prudential Corporation group of Companies	1,211,750	4.8
PosTel Investment Management Limited	1,159,798	4.6
Temple Bar Small Companies Fund	900,000	3.6
Murray STM Limited	769,231	3.1

Apart from the foregoing the directors are not aware that any shareholder, other than a director, has a beneficial interest in 3% or more of the issued share capital of the company.

There is given below an analysis of the company's shareholders and the shares currently in issue, numbering 2,812 and 25,209,807 respectively.

	Shareholders %	Number of shares %
Directors' interests	0.3	10.1
Major institutional and corporate holdings	2.2	66.0
Other shareholdings	97.5	23.9
	100.0	100.0

Research and development

Product development and improvement at group companies is an ongoing process. All costs of research and development are written off in the year in which they are incurred.

Donations

Charitable donations paid during the year net of income tax amounted to £12,000. There were no political contributions.

Employees

The group recognises the benefits of keeping employees informed of the progress of the business and of involving them in their own company's performance. During the year regular meetings were held at which employees were provided with information regarding the financial and economic factors affecting the performance of their company and on other matters of concern to them as employees. Additionally, regular consultations took place with employee representatives so that the views of employees could be taken into account in making decisions which were likely to affect their interests.

It is the group's policy to give full and fair consideration to applications for employment from disabled persons having regard to their particular aptitudes and abilities, and to encourage the training and career development of all personnel employed by the group including disabled persons. Should an employee become disabled, the group, where practicable, seeks to continue the employment and arrange appropriate training.

Close company

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the company.

Auditors

A resolution to reappoint KPMG Peat Marwick McLintock as auditors of the company will be proposed at the forthcoming annual general meeting.

By order of the Board

P. A. BLAMIRES.

Secretary

140 Kingsway
Manchester
M19 1BA
11th April 1991

Profit and loss account

for the year ended 31st December 1990

	Notes	Group 1990 £000	Group 1989 £000
Turnover	1	75,457	78,860
Cost of sales		49,492	55,817
Gross profit		25.965	23,043
Other operating expenses	2	14,305	12,627
Operating profit			
UK		9,155	8,110
Overseas		2,505	2,306
		11,660	10,416
Interest payable	3	1,109	610
Profit on ordinary activities before taxation	1	10,551	9,806
Tax on profit on ordinary activities	6	3,256	2,875
Profit on ordinary activities after taxation		7,295	6,931
Minority interest		514	506
		6,781	6,425
Extraordinary items	7	1,475	(676)
Profit for the financial year	8	8,256	5,749
Dividends	9	2,206	1,955
Amount transferred to reserves		6,050	3,794

	Notes	1990 £000	1989 £000
Statement of retained profit			
Retained profit at beginning of year		12,447	9,001
Retained profit for year		6,050	3,794
Other movements	17	(1,375)	(348)
		17,122	12,447
Earnings per share	10	27.1p	26.3p

The notes on pages 19 to 29 and 31 to 33 form part of these accounts.

Balance sheets

as at 31st December 1990

	Notes	Group 1990 £000	Group 1989 £000	Company 1990 £000	Company 1989 £000
Fixed assets					
Tangible assets	11	30,867	24,894	273	273
Investments	12	—	—	30,099	29,997
		30,867	24,894	30,372	30,270
Current assets					
Stocks	13	11,027	11,875	—	—
Debtors	14	17,023	17,452	5,417	4,752
Cash at bank and in hand		8,858	3,281	8,326	1,554
		36,908	32,606	13,743	6,306
Creditors					
Amounts falling due within one year	15	20,398	18,196	3,473	6,615
Net current assets/(liabilities)		16,510	14,412	10,270	(309)
Total assets less current liabilities		47,377	39,306	40,642	29,961
Creditors					
Amounts falling due after more than one year	15	7,107	6,364	13,427	12,117
Provisions for liabilities and charges					
Deferred taxation	16	1,618	1,485	—	2
		38,652	31,457	27,215	17,842
Capital and reserves	17				
Called up share capital		6,302	6,110	6,302	6,110
Share premium account		8,420	8,420	8,420	8,420
Currency and other reserve		1,495	358	1,813	212
Revaluation reserve		741	741	—	—
Profit and loss account		17,122	12,447	10,680	3,100
Shareholders' funds		34,080	28,076	27,215	17,842
Minority interest		4,572	3,381	—	—
		38,652	31,457	27,215	17,842

Approved by the Board of Directors on 11th April 1991

J.C. DWEK
R.M. GREEN } *Directors*

The notes on pages 19 to 29 and 31 to 33 form part of these accounts.

Source and application of funds

for the year ended 31st December 1990

	1990		1989	
	£000	£000	£000	£000
Source of funds				
Profit on ordinary activities before taxation		10,551		9,806
Extraordinary items before taxation		927		(1,062)
Adjustment for items not involving the movement of funds:				
Depreciation	2,715		2,815	
Profit on sale of tangible fixed assets	(86)		(628)	
		2,629		2,187
(Increase)/Decrease in working capital:				
Stocks	211		2,450	
Debtors	670		1,477	
Creditors	(752)		(1,551)	
		129		2,376
Funds from other sources:				
Disposal of subsidiaries (less gain on disposal)	9,463		—	
Share issue in part consideration for acquisition of subsidiaries	1,512		—	
Share issue by overseas subsidiary	1,052		—	
Proceeds of sale of tangible fixed assets	2,306		928	
Loans	4,266		5,582	
Issue of shares following exercise of options	—		161	
Issue of 10% Convertible loan stock	750		—	
		19,349		6,671
		33,585		19,978
Application of funds				
Acquisition of subsidiaries (Note 19)		5,421		499
Purchase of tangible fixed assets		11,603		7,420
Dividends paid		2,246		1,931
Tax paid		2,936		3,695
Loan repayments		4,255		1,269
Deferred purchase consideration payments		—		773
		26,461		15,587
Increase in net liquid funds		7,124		4,391

Note
The effect of currency fluctuations has been eliminated in preparing the source and application of funds.

Accounting policies

Accounting convention

The accounts have been prepared under the historical cost convention adjusted by the revaluation of certain tangible fixed assets and in accordance with applicable accounting standards.

Basis of consolidation

The group accounts consolidate the accounts of the company and its subsidiaries, all of which are made up to 31st December. The results of subsidiaries acquired or sold during the year are consolidated from or to the date on which the consideration passes or the date of effective control if earlier.

Goodwill arising on acquisition of subsidiaries is written off to reserves in the year in which the cost is recognised.

A separate profit and loss account dealing with the results of the company has not been presented.

Turnover

Turnover represents amounts receivable for goods and services sold to outside customers, excluding value added tax.

Tangible fixed assets

Tangible fixed assets are stated at cost, less capital grants, or at valuation. Depreciation is provided on a straight line basis at the following annual rates:

Land	nil
Buildings	2%
Leasehold property	over the period of the lease
Plant and machinery	5% to 20%
Motor vehicles	20% to 30%
Fixtures and fittings	10% to 20%

Stock

Stock is valued at the lower of cost and net realisable value. In the case of manufactured products cost includes the attributable proportion of manufacturing overheads. Net realisable value is the estimated selling price less all further costs to completion and all costs to be incurred in selling and distribution.

Taxation

Provision is made under the liability method for taxation deferred by all timing differences except to the extent that there is a reasonable probability that the liability will not crystallise in the foreseeable future. Advance corporation tax on dividends paid and proposed is carried forward to the extent that it can be recovered.

Foreign currencies

The accounts of overseas subsidiaries and foreign currency loans are translated into sterling at the rates of exchange ruling at the balance sheet date. Currency differences arising from the translation at closing rates of the net investment in subsidiary companies are taken to reserves, together with exchange gains and losses arising on foreign currency borrowings which finance a proportion of foreign currency investments.

Pension costs

Contributions are charged against profits so as to spread the cost of pensions over employees' working lives.

Notes on the accounts

1. Turnover and profit on ordinary activities before taxation

	Turnover		Profit	
	1990	1989	1990	1989
	£000	£000	£000	£000
Metal technology	22,797	15,910	5,931	4,788
EHCO-KLM	25,720	25,053	2,162	2,010
Packaging	16,979	12,600	2,926	2,997
Industrial and general	9,961	25,297	832	985
	75,457	78,860	11,851	10,780
Holding company bank interest and expenses			(1,300)	(974)
Profit on ordinary activities before taxation			10,551	9,806
The profit is stated after:				
Depreciation			2,715	2,815
Hire of plant and machinery			489	391
Directors' emoluments			475	336
Auditors' remuneration			161	139

	1990	1989
Geographical analysis of turnover:		
United Kingdom	46,273	50,525
Holland	11,439	10,527
Germany	7,236	6,472
France	6,424	7,562
Sweden	1,072	756
Eire	244	456
Belgium	214	710
Rest of Europe	1,452	862
Rest of the World	1,103	990
	75,457	78,860

2. Other operating expenses

	1990	1989
Selling and distribution costs	5,564	5,694
Administration expenses	8,741	6,933
	14,305	12,627

3. Interest payable	1990 £000	1989 £000
Bank overdraft interest	439	404
Bank loans repayable within 5 years, by instalments	517	130
Bank loans repayable wholly or partly in more than 5 years	68	76
Loan stock interest	85	
	1,109	610

4. Directors' emoluments	£	£
Emoluments	394,790	304,466
Pension contributions	79,839	31,082
Chairman	90,728	79,802
Highest paid UK director	98,449	89,171
Other UK directors within the following ranges:	Number	Number
£5,001 - £10,000	—	1
£10,001 - £15,000	1	
£45,001 - £50,000	—	1
£55,001 - £60,000	2	—

5. Employees

The average number of persons employed by the group during the year was:

Metal technology	595	449
EHCO-KLM	581	650
Packaging	402	324
Industrial and general	626	862
	2,204	2,285

Total employee costs were:	£000	£000
Wages and salaries	18,482	17,697
Social security costs	2,848	2,939
Other pension costs	487	426
	21,817	21,062

Notes on the accounts *continued*

6. Tax on profit on ordinary activities

	1990 £000	1989 £000
The charge for tax comprises:		
UK corporation tax at 34.25% (1989: 35%)	2,159	2,013
Overseas tax	744	654
Deferred tax		
UK	562	132
Overseas	(58)	142
Adjustment to previous years	(151)	(66)
	3,256	2,875

The UK corporation tax charge for the year has been reduced by £560,000 (1989: £417,000) as a result of accelerated capital allowances and other timing differences.

7. Extraordinary items

	1990 £000	1989 £000
Surplus arising from cessation and disposal of activities	927	(1,062)
Corporation tax relief	548	176
Deferred tax	—	210
	1,475	(676)

The tax credit takes account of the utilisation of capital tax losses.

8. Profit for the financial year

	1990 £000	1989 £000
Dealt with in the accounts of the company	9,786	2,309
Dealt with in the accounts of subsidiaries	(1,530)	3,440
	8,256	5,749

9. Dividends

	1990 £000	1989 £000
Interim - 3.25p per share on 25,209,807 shares paid 31st December 1990	819	733
Final - 5.5p per share on 25,209,807 shares proposed	1,387	1,222
	2,206	1,955

10. Earnings per share

The calculation of earnings per share is based on earnings of £6,781,000 (1989: £6,425,000) and on the average number of shares in issue during the year amounting to 25,024,348 (1989: 24,391,013).

11. Tangible fixed assets	Land and buildings			Plant	Fixtures	
		Long	Short	and	and	
	Freehold	leasehold	leasehold	machinery	fittings	Total
Group	£000	£000	£000	£000	£000	£000
Cost or valuation						
1st January 1990	9,591	104	128	23,640	3,293	36,756
Subsidiaries acquired	1,586	120	9	3,798	358	5,871
Subsidiaries sold	(1,435)	—	—	(4,561)	(106)	(6,102)
Currency adjustments	(202)	—	—	(163)	(41)	(406)
Additions	4,236	1	17	7,066	283	11 603
Disposals	(510)	—	—	(4,078)	(315)	(4,903)
	13,266	225	154	25,702	3,472	42,819
Depreciation						
1st January 1990	1,054	4	24	8,977	1,803	11,862
Subsidiaries acquired	47	1	2	1,326	113	1,489
Subsidiaries sold	(49)	—	—	(1,211)	(37)	(1,297)
Currency adjustments	(42)	—	—	(66)	(26)	(134)
Charge for the year	212	5	13	2,200	285	2,715
Disposals	(46)	—	—	(2,454)	(183)	(2,683)
	1,176	10	39	8,772	1,955	11,952
Net book value						
31st December 1990	12,090	215	115	16,930	1,517	30,867
31st December 1989	8,537	100	104	14,663	1,490	24,894
Analysis by years of valuation						
At professional valuation						
1979	1,615	—	—	—	—	1,615
1980	81	—	—	—	—	81
1981	454	—	—	—	—	454
At directors' valuation						
1985	192	—	—	—	—	192
1988	815	—	—	—	—	815
Valuation	3,157	—	—	—	—	3,157
Cost	10,109	225	154	25,702	3,472	39,662
Cost or valuation	13,266	225	154	25,702	3,472	42,819
Original cost equivalent						
At 31st December 1990						
Cost	12,099	225	154	25,702	3,472	41,652
Accumulated depreciation	1,505	10	39	8,772	1,955	12,281
	10,594	215	115	16,930	1,517	29,371
At 31st December 1989						
Cost	8,365	104	128	23,286	3,293	35,176
Accumulated depreciation	1,201	4	24	8,958	1,803	11 990
	7,164	100	104	14 328	1,490	23,186

Notes on the accounts *continued*

11. Tangible fixed assets *continued*

	Freehold land and buildings £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Company				
Cost				
1st January 1990	210	53	60	323
Additions	–	36	3	39
Disposals	–	(28)	(2)	(30)
	210	61	61	332
Depreciation				
1st January 1990	4	20	26	50
Charge for the year	2	15	9	26
Disposals	–	(16)	(1)	(17)
	6	19	34	59
Net book value				
31st December 1990	204	42	27	273
31st December 1989	206	33	34	273

12. Investments

	Group companies		
Company	Shares £000	Loans £000	Total £000
Cost or valuation			
1st January 1990	23,832	6,165	29,997
Subsidiaries acquired and sold	(5,464)	6,024	560
Advances	–	466	466
Repayments	–	(924)	(924)
	18,368	11,731	30,099
Original cost equivalent			
31st December 1990	19,319	11,731	31,050
31st December 1989	24,583	6,165	30,748

13. Stocks

	1990 £000	1989 £000
Raw materials and consumables	4,778	5,523
Work in progress	1,245	1,254
Finished goods and goods for resale	5,004	5,098
	11,027	11,875

14. Debtors

	Group 1990 £000	Group 1989 £000	Company 1990 £000	Company 1989 £000
Amounts falling due within one year:				
Trade debtors	14,551	15,964	—	
Amounts owed by group undertakings	—	—	4,080	3,448
Other debtors	475	495	106	281
Prepayments and accrued income	1,965	978	56	12
Advance corporation tax recoverable		—	1,143	996
	16,991	17,437	5,385	4,737
Amounts falling due after more than one year:				
Other debtors	32	15	32	15
	17,023	17,452	5,417	4,752

15. Creditors

	Group 1990 £000	Group 1989 £000	Company 1990 £000	Company 1989 £000
Amounts falling due within one year:				
Bank loans	2,277	1,989	173	183
Bank overdrafts	1,544	638	24	3,577
Corporation tax	927	1,665	—	—
Trade creditors	6,414	6,156	23	23
Accruals and deferred income	2,895	2,954	244	126
Proposed dividends	1,387	1,222	1,387	1,222
Advance corporation tax	742	660	735	652
Other taxes and social security	1,242	1,642	46	16
Other creditors	2,692	1,065	841	816
Dividends to minority interests	278	205	—	—
	20,398	18,196	3,473	6,615
Amounts falling due after more than one year:				
Bank loans	5,856	5,598	3,419	3,796
10% Convertible loan stock	750	—	750	—
Corporation tax	—	348	—	—
Other creditors	501	418	—	—
Amounts owed to group undertakings	—	—	9,258	8,321
	7,107	6,364	13,427	12,117
Medium and long term bank loans.				
Not wholly repayable within 5 years	1,567	1,292	—	—
Wholly repayable between 1 and 5 years	4,289	4,306	3,419	3,796
	5,856	5,598	3,419	3,796

Notes on the accounts *continued*

15. Creditors *continued*

	Group 1990 £000	Group 1989 £000	Company 1990 £000	Company 1989 £000
Bank loans are repayable as follows:				
After 5 years	874	789	-	
Between 2 and 5 years	1,370	4,326	173	3,613
Between 1 and 2 years	3,612	483	3,246	183
	5,856	5,598	3,419	3,796
Within 12 months	2,277	1,989	173	183
	8,133	7,587	3,592	3,979

16. Deferred taxation

	Group 1990 £000	Group 1989 £000
1st January 1990	1,485	1,467
Transfer from profit and loss account	355	64
Currency adjustments	(18)	29
Transfer from advance corporation tax recoverable	(54)	(75)
Subsidiaries acquired and sold	(150)	
	1,618	1,485
Details of the liability are as follows:		
Capital expenditure allowances	1,818	1,812
Stock appreciation relief relating to overseas subsidiary	142	-
Advance corporation tax recoverable	(469)	(415)
Other timing differences	127	88
	1,618	1,485
The potential liability of the group not provided for in the accounts is:		
Stock appreciation relief relating to overseas subsidiary	136	102
Chargeable gains rolled over	791	823
Chargeable gains on revaluation of tangible fixed assets	257	112
Capital expenditure allowances	1,832	1,066
	3,016	2,103

	Company 1990 £000	Company 1989 £000
The amount provided and full potential liability of the company is in respect of:		
Capital expenditure allowances	—	2

17.	Capital and reserves	1990 £	1989 £
	Share capital		
	Authorised		
	32,000,000 (1989: 32,000,000) ordinary shares of 25p each	8,000,000	8,000,000
	Called up and fully paid		
	25,209,807 (1989: 24,440,576) ordinary shares of 25p each	6,302,452	6,110,144

The called up share capital was increased during the year by the issue of 769,231 ordinary shares of 25p each as part consideration for the acquisition of the trading subsidiaries of MTS International Limited.

Senior Executive Share Option Scheme

At 31st December 1990 options under this scheme were outstanding in respect of 606,500 ordinary shares granted to 45 senior executives and directors at prices ranging from 120.5p to 259p per share. Options in respect of 576,000 shares expire at dates between 16th May 1996 and 26th September 2000. Options relating to the balance of 30,500 ordinary shares, granted to four senior executives who have since ceased to be employees of the group by reason of the fact that the company and undertaking by which they were employed have left the group and in respect of which the board has exercised its discretion under the rules of the scheme, expire at dates between 17th September 1991 and 4th November 1993.

Reserves	Share premium account £000	Currency and other reserve £000	Revaluation reserve £000	Profit and loss account £000	Total £000
Group					
1st January 1990	8,420	358	741	12,447	21,966
Currency adjustments	–	(183)	–	–	(183)
Profit for the year	–	–	–	6,050	6,050
Premium on shares issued	–	1,320	–	–	1,320
	8,420	1,495	741	18,497	29,153
Goodwill on consolidation	–	–	–	(1,375)	(1,375)
	8,420	1,495	741	17,122	27,778
Company					
1st January 1990	8,420	212	–	3,100	11,732
Currency adjustments	–	281	–	–	281
Profit for the year	–	–	–	7,580	7,580
Premium on shares issued	–	1,320	–	–	1,320
	8,420	1,813		10,680	20,913

The group profit and loss account includes £428,000 being that proportion of the reserves of overseas subsidiaries which is not legally distributable owing to the different accounting bases adopted in the preparation of their statutory accounts.

In accordance with the provisions of Section 131 of the Companies Act 1985, the premium arising on the issue of shares as consideration for subsidiaries acquired has been transferred to other reserve.

Notes on the accounts *continued*

18. Financial commitments

	Group 1990 £000	1989 £000
Capital expenditure not provided for in the accounts:		
Contracted	2,552	664
Authorised but not contracted	1,370	1,798

Lease commitments:

The minimum commitment for payments under operating leases in respect of property and equipment was as follows:

	1990 £000	1989 £000
Within 12 months	218	238
Between 2 and 5 years	375	195
	593	433

19. Acquisition and disposal of subsidiaries

(i) Acquisitions were made at a cost of £5,421,000; the following table sets out the net assets acquired, the resulting goodwill and the cash flow effect of the acquisitions.

	Book value £000	Revaluations £000	Fair value £000
Fixed assets	4,600	(218)	4,382
Stocks	504	—	504
Debtors	4,169	—	4,169
Creditors	(7,573)	—	(7,573)
Deferred taxation	(155)	—	(155)
Loans	(931)	—	(931)
Cash	118	—	118
	732	(218)	514
Consideration			5,421
Goodwill			4,907

The goodwill has been written off to profit and loss account.

(ii) The disposal of certain subsidiaries gave rise to an extraordinary profit of £2,272,000. At the time of the acquisition of the subsidiaries purchased goodwill of £3,554,000 was written off to profit and loss account.

20. Pension costs

The group operates a number of schemes in the UK and the EC of which the major UK schemes are the defined benefit type.The assets of the schemes are held in separate trustee administered funds.

The cost for the group of these schemes was £487,000 (1989: £426,000) of which £161,000 (1989: £193,000) relates to the overseas schemes. The pension cost relating to the main UK schemes is assessed in accordance with the advice of qualified actuaries using both the projected unit method and the attained age method. The latest actuarial assessment of those schemes was at 31st December 1988. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment return would be between 8.5% and 9.5% per annum and the rate of salary increase would average 8.25% per annum.

At the date of the latest actuarial valuations, the respective notional fund values of the assets of the main UK schemes was £2,172,630. The actuarial value of these assets represented between 103% and 113% of the value of the benefits that had accrued to members of the schemes.

The overseas pension scheme is administered by Nationale-Nederlanden NV, an insurance company based in Holland, who determine each year the annual premium necessary to cover the benefits defined by the rules of the scheme.

21. Contingent liabilities

The company has guaranteed bank overdrafts and loans of certain subsidiaries amounting to £10,020,000 at 31st December 1990 (1989: £4,330,000).

The company has also guaranteed the overdraft of Mobecot Yarns Limited, an associated undertaking, amounting to £1,414,000 (1989: £1,356,000).

Report of the Auditors, KPMG Peat Marwick McLintock

To the members of Bodycote International plc

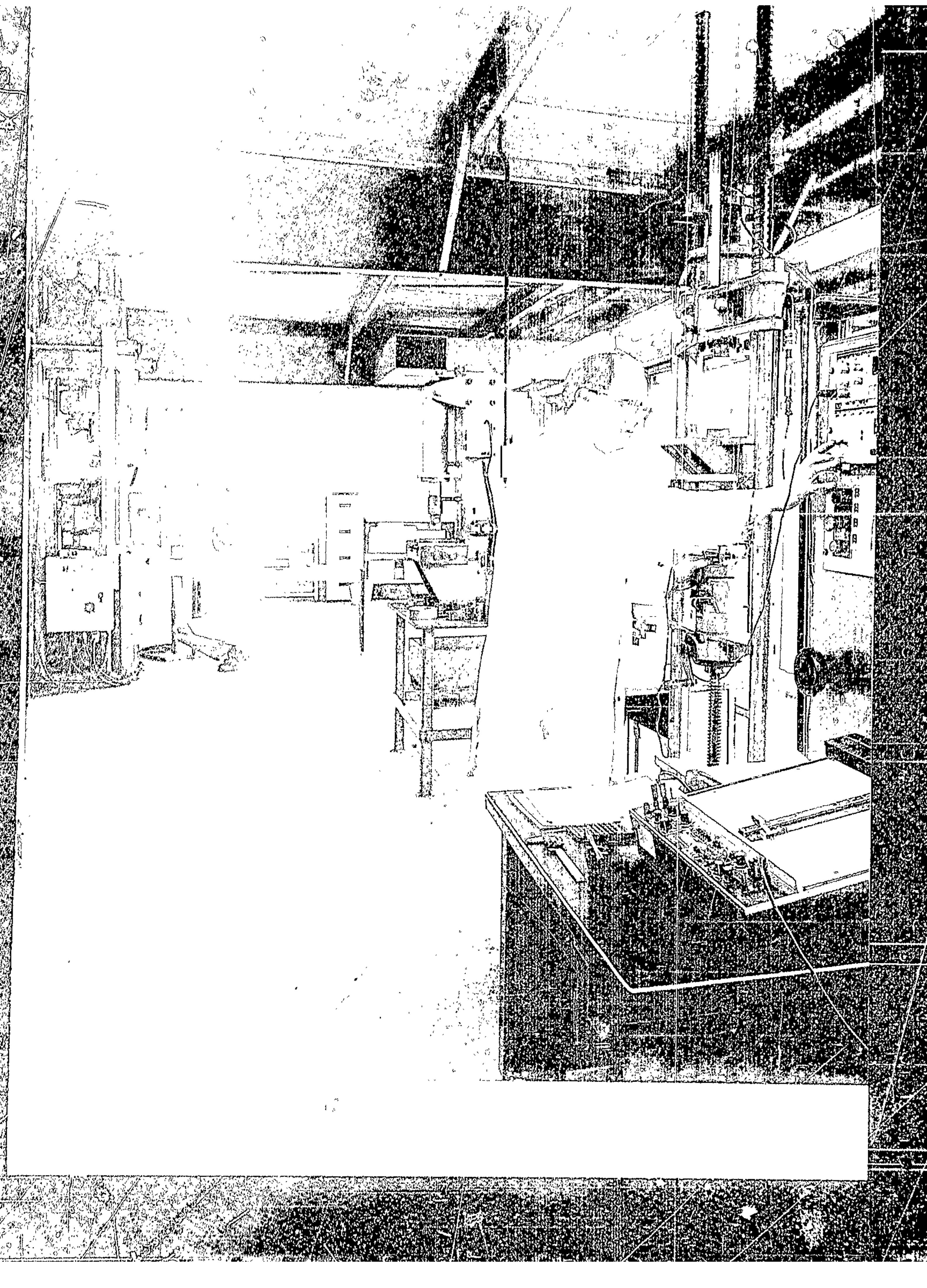
We have audited the accounts on pages 16 to 29 and 31 to 33 in accordance with Auditing Standards.

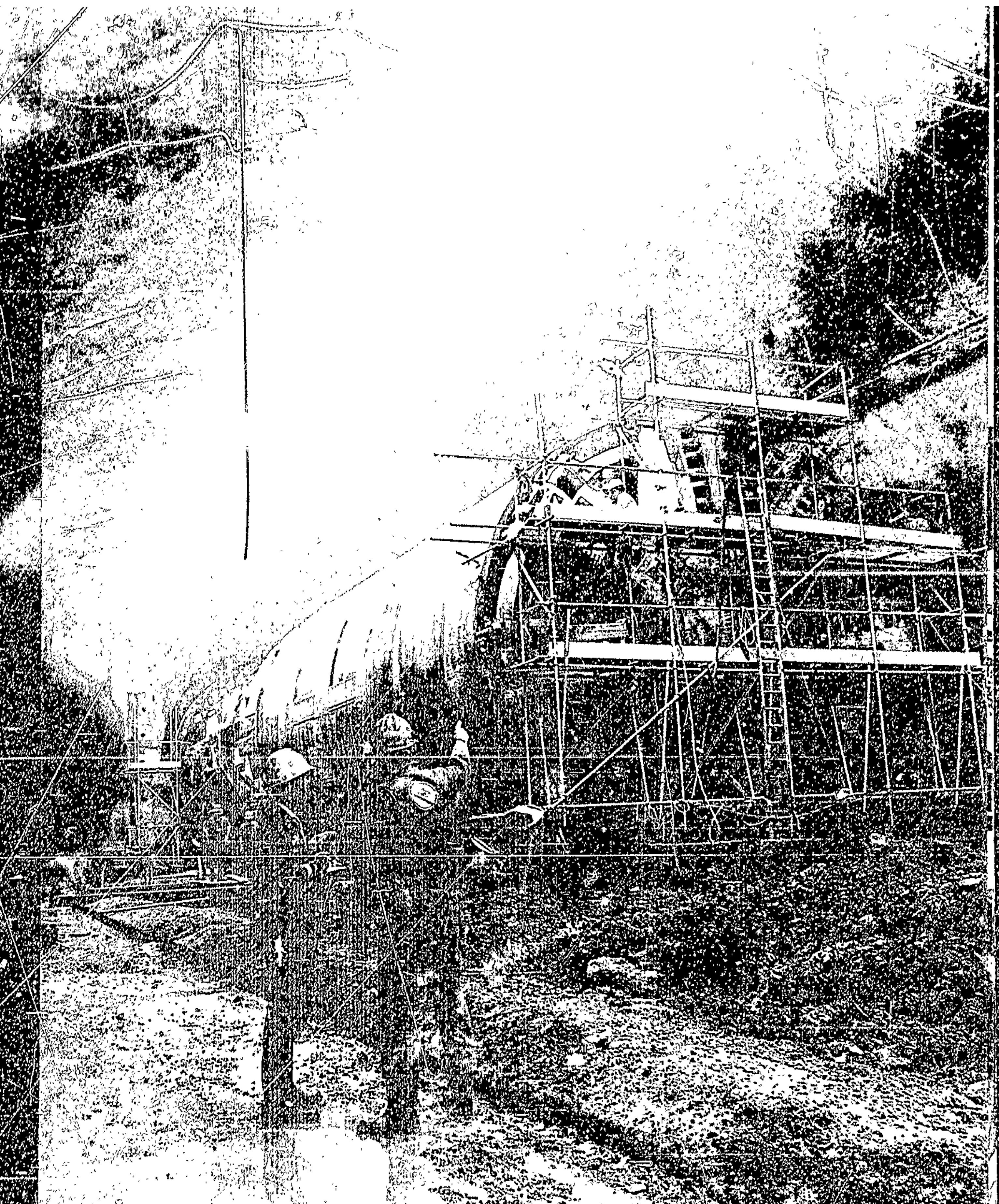
In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31st December 1990 and of the profit and source and application of funds of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG PEAT MARWICK McLINTOCK
Chartered Accountants,
Manchester
11th April 1991

Financial calendar

Annual general meeting	10th June 1991
Final dividend for 1990	1st July 1991
Interim results	September 1991
Interim dividend	December 1991
Results for 1991	April 1992





Principal operating subsidiaries

Metal Technology Chief Executive: J. Chesworth	*Country of Incorporation or Registration*
*Blandburgh Nemo Limited, Macclesfield, Woodford, Aldridge, Corby, Leicester and Birmingham Vacuum and controlled atmosphere heat treatments, plasma nitriding and titanium nitride coatings.	England
Nemo Heat Treatments Limited, Hazel Grove, Cheshire Vacuum heat treatments and gas nitriding.	England
Blandburgh Nemo (Rotherham) Limited, Rotherham, South Yorkshire Vacuum and controlled atmosphere heat treatments.	England
Blandburgh Nemo (Cheltenham) Limited, Cheltenham, Gloucestershire Vacuum heat treatments.	England
Blandburgh Nemo (Somerset) Limited, Chard, Somerset Vacuum and controlled atmosphere heat treatments.	England
Case Hardening Treatments Limited, Wolverhampton, West Midlands Controlled atmosphere and salt bath heat treatments.	England
London Heat Treatments Limited, Basingstoke, Hampshire *Formerly Firth Metal Processing Limited* Controlled atmosphere and aluminium heat treatments.	England
*Furnace Treatments Limited, Broxburn, West Lothian Stress relieving, annealing, oil and water hardening treatments.	Scotland
Härterei VTN GmbH, Nürnberg, Germany Vacuum, controlled atmosphere and salt bath heat treatments.	Germany
HIP Limited, Chesterfield, Derbyshire Industrial application of the Hot Isostatic Pressing process.	England
Infutec Limited, Chesterfield, Derbyshire Diffusion bonding treatments.	England
Bright Brazing Limited, Walsall, West Midlands Assembly and copper brazing of components.	England
White Heat Metals Limited, Willenhall, West Midlands Manufacture of nickel based alloy furnace jigs and fixtures.	England
*Farnworth Electroplating Limited, Farnworth, Greater Manchester Metal plating finishes using mainly brass, nickel, chrome, copper and zinc.	England
*Zinc Alloy Limited, Wolverhampton, Rochdale and Caerphilly Anti-corrosion metal finishes including Sherardizing, mechanical plating, zinc electroplating, phosphating and shot blasting. Chief Executive: E. Evans	England

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Principal operating subsidiaries *continued*

Metal Technology	*Country of Incorporation or Registration*
Materials testing division	
*MTS International Limited, Newbridge, Midlothian *Formerly Greenblend Limited*	England
MTS Scotland Limited, Newbridge, Midlothian	Scotland
MTS Healthcare Limited, Newbridge, Midlothian and Aberdeen	Scotland
MTS Teesside Limited, Middlesbrough, Cleveland	Scotland
MTS Humberside Limited, Scunthorpe, South Humberside	Scotland
MTS North West Limited, Salford, Greater Manchester	Scotland
MTS Midlands Limited, Brierley Hill, West Midlands	England
MTS Testwell Limited, Daventry, Northamptonshire	England
MTS South East Limited, Daventry, Northamptonshire	England
MTS Pendar Limited, Bridgwater, Somerset	England
MTS Environmental Limited, Glasgow, Port Talbot and Bristol	England
MTS Norge A/S, Sandnes, Norway	Norway
MTS Matcon BV, Emmen and Spijkenisse, Holland	Holland

Testing services for producers and users Mechanical, corrosion, physical and chemical testing of ferrous and non-ferrous alloys, ceramics, composites and plastics. Health care testing, asbestos and microbiological assessment, water analysis, drug, pharmaceutical and food product testing.

Managing Director: R.M. Bailey

EHCO-KLM

EHCO-KLM Kleding NV, Haaksbergen and Klazienaveen, Holland	Holland
EHCO-KLM Kleidung GmbH, Gronau, Germany	Germany
EHCO-KLM Kläder NV, Jönköping, Sweden	Sweden

Manufacture of high quality career apparel and personal protective clothing including special project clothing and military uniforms.

Managing Director: D.O. Pruik

VPF-KLM Vêtements s.a.r.l., Nozay, near Nantes, France	France

Manufacture of high quality career apparel and personal protective clothing including special project clothing, military uniforms and bullet proof vests.

Managing Director: V.A. Cooper Gérant. D.O. Pruik

EHCO-KLM Clothing Limited, Westhoughton, Greater Manchester	England

Supply and distribution of high quality career apparel and personal protective clothing including special project clothing.

Managing Director: D O. Pruik

All the above subsidiaries in the EHCO-KLM division are 56% owned.

Industrial and General	*Country of Incorporation or Registration*
*Stephens - Itex Safety Limited, Leiston, Suffolk Manufacture and distribution of industrial protective wear including helmets, respirators, goggles, industrial boots and shoes, prescription spectacles, welding visors, ear defenders, hand protection and special project clothing Managing Director: G.W. Garrod	England
Stockpack Limited, Stockport, Cheshire Contract food blending and packaging; manufacture of sachets and tissue towelettes. Chairman: H. Marks Managing Director: V. Marks	England
*Cheshire Corrugated Containers Limited, Ruabon, Clwyd and Bickerstaffe, Lancashire Design, manufacture and printing of corrugated cases and fitments. Directors: Mrs L. Murphy and A.J. Element	England
Supercraft (Garments) Limited, Westhoughton, Greater Manchester Manufacture of military uniforms.	England
*Brocklehurst Fabrics Limited, Macclesfield, Cheshire Manufacture of club and corporate tie fabrics and ladies' printed scarves and squares; manufacture of fashion woven and printed silk tie fabrics. Chairman: J.G. Potter Director: C.D. Hall	England
Thomas Cook & Son Insurance Brokers Limited, Burnley, Lancashire Insurance broking, industrial and commercial risk management, life assurance and pension consultants, independent financial advisers. Managing Director: J.M. Cook The above subsidiary is 75% owned.	England
*Bodycote Developments Limited, Baildon, West Yorkshire Managers of the group's property interests at Baildon.	England

All the principal subsidiaries are wholly owned, unless otherwise stated, and have only one class of issued shares. Subsidiaries marked with an asterisk* are held directly by Bodycote International plc.

Notice of meeting

NOTICE IS HEREBY GIVEN that the 38th annual general meeting of the company will be held at The Holiday Inn Crowne Plaza Midland, Peter Street, Manchester M60 2DS, on Monday, 10th June 1991, at 10.30 a.m., for the following purposes:-

As ordinary business

1. To receive the annual report and statement of accounts for the year ended 31st December 1990.
2. To declare a final dividend.
3. To re-elect Mr. R.M. Green as a director of the company.
4. To reappoint KPMG Peat Marwick McLintock as auditors of the company and authorise the directors to fix their remuneration.

As special business (as detailed on the next page)

5. To authorise the directors to allot relevant securities within the meaning of the Companies Act 1985.
6. To empower the directors to allot equity securities pursuant to Section 95 of the Companies Act 1985.

By order of the Board
P.A.BLAMIRES.
Secretary

140 Kingsway
Manchester, M19 1BA
10th May 1991

Notes

1. Every member who is entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not also be a member.
2. There are available for inspection at the registered office of the company during usual business hours and on the day of the annual general meeting at the place of the meeting from 10.15 a.m.until its conclusion, details of the transactions of the directors in the shares of the company and the service contracts of directors with the company or its subsidiaries.
3. Reference to the special business is made in the Directors' Report.

Special business

As special business

To consider and, if thought fit, to pass the following resolutions which will be proposed as to resolution 5 as an ordinary resolution and as to resolution 6 as a special resolution:

5 That the directors be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise any power of the company to allot and grant rights to subscribe for or to convert securities into shares of the company up to a maximum nominal amount equal to the nominal amount of authorised but unissued share capital at the date of the passing of this resolution PROVIDED THAT the authority hereby given shall expire on the date which is fifteen calendar months after the passing of this resolution unless previously renewed, varied or revoked by the company in general meeting save that the directors may, notwithstanding such expiry, allot any shares or grant any such rights under this authority in pursuance of an offer or an agreement so to do made by the company before the expiry of this authority.

6 That, subject to the passing of the resolution numbered 5, the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Companies Act 1985) pursuant to the authority conferred by the said resolution as if Section 89 (1) of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited:

(a) to the allotment of equity securities (within the meaning of Section 94 of the Companies Act 1985) in connection with rights issues in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them;

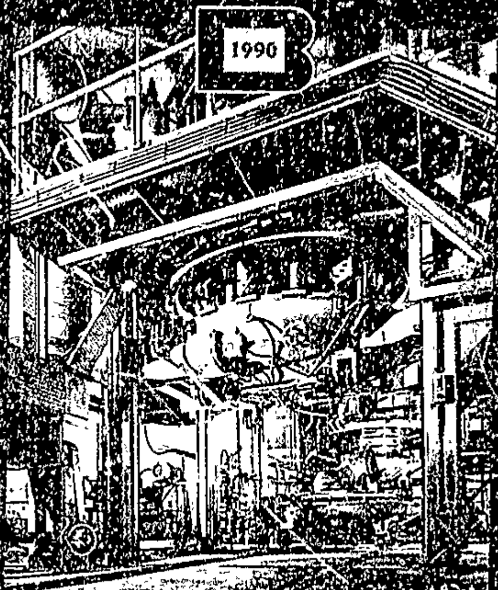
(b) to the allotment of equity securities pursuant to the terms of the Bodycote International Senior Executive Share Option Scheme; and

(c) to the allotment (otherwise than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal value of £315,122 being 5% of the issued share capital of the company at 31st December 1990

Group five year financial summary

	1990 £000	1989 £000	1988 £000	1987 £000	1986 £000
Turnover					
Metal technology	**22,797**	15,910	12,249	9,001	7,584
EHCO-KLM	**25,720**	25,053	17,679	16,758	16,750
Packaging	**16,979**	12,600	11,988	7,725	332
Industrial and general	**9,961**	25,297	25,548	27,884	22,024
	75,457	78,860	67,464	61,368	46,690
Operating profit	**11,660**	10,416	10,314	8,234	4,727
Interest	**1,109**	610	487	177	145
Profit before taxation	**10,551**	9,806	9,827	8,057	4,582
Taxation	**3,256**	2,875	3,083	2,767	1,502
Profit after taxation	**7,295**	6,931	6,744	5,290	3,080
Dividends	**2,206**	1,955	1,699	1,157	829
Earnings per share (pence)	**27.1**	26.3	26.7	21.7	15.3
Dividend per share (pence)	**8.75**	8.0	7.0	5.0	4.0
Assets employed					
Fixed assets	**30,867**	24,894	19,714	15,722	12,879
Other net assets (excluding net borrowings)	**9,354**	10,073	12,158	10,942	6,759
	40,221	34,967	31,872	26,664	19,638
Financed by					
Share capital	**6,302**	6,110	6,077	5,740	2,625
Reserves	**27,778**	21,966	18,062	13,635	14,569
Shareholders' funds	**34,080**	28,076	24,139	19,375	17,194
Minority interest	**4,572**	3,381	2,626	2,588	2,444
Net borrowings	**1,569**	3,510	4,334	1,654	—
Deferred purchase consideration	—	—	773	3,047	—
	40,221	34,967	31,872	26,664	19,638
Net assets per share (pence)	**135.2**	114.9	99.3	84.4	81.9
Return on capital employed (%)	**31.0**	31.2	35.2	35.6	27.5

BODYCOTE INTERNATIONAL plc



ANNUAL REPORT AND ACCOUNTS

DESIGNED AND PRODUCED BY GRANVILLE JAGGER MARKETING LTD. TEL: 0253 729070 FAX: 0253 728528