ARTHUR
ANDERSEN

ARTHUR ANDERSEN & CO. SC

Chalcon Plating Technology Limited

Accounts 31 December 1995
together with directors' and auditors' reports

Registered number: 127195

Directors' report

For the year ended 31 December 1995

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1995.

Principal activity and business review

The principal activity of the company continues to be that of metal finishers. On 1 March 1995 the company changed its name to Chalcon Plating Technology Limited.

Turnover for the year was £6,769,000, compared to £6,796,000 in the preceding year. The company generated a loss on ordinary activities before taxation of £1,931,000, compared to a profit of £3,000 in the preceding year. The directors expect the company to return to profitability in the ensuing year.

Results and dividends

	£'000
Results for the year are as follows:	
Retained profit, beginning of year	662
Loss for the financial year	(1,931)
Transfer from revaluation reserve	1,130
Accumulated deficit, end of year	(139)

The directors do not propose payment of any dividend (1994 - £Nil).

The directors have received notice from the immediate parent company, Chalcon Limited, which has a 100% interest in the preference shares of the company, of its intention to unconditionally waive all past accrued and future preference dividends.

Directors and their interests

The directors who served during the year were as follows:

C M B Akers
J M A Akers (Chairman)
D G Blagden
J L Hatton
P W Maxwell (resigned 14 February 1996)
M McLoughlin (appointed 3 April 1995); (resigned 7 July 1995)
A J Stevens
M C Williams

J M A Akers and J L Hatton are directors of the ultimate parent company, Ferrum Holdings PLC and accordingly their interests in the shares of that company are disclosed in its accounts. The other directors had no interests in the shares of the company, or other group companies, requiring disclosure under Schedule 7 of the Companies Act 1985.

Directors' report (continued)

Directors' responsibilities

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

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

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

Fixed assets

Information relating to fixed assets is given in notes 9 and 10 to the accounts.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

PO Box 25
Hospital Street
Walsall
West Midlands
WS2 8QQ

By order of the Board,

S M Kittoe

Secretary

28 June 1996

Auditors' report

Birmingham

To the Shareholders of Chalcon Plating Technology Limited:

We have audited the accounts on pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 to 8.

Respective responsibilities of directors and auditors
As described on page 2, the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company, 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 accounts 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 accounts.

Going concern
In forming our opinion, we have considered the adequacy of the disclosures made on page 6 concerning the uncertainty as to the continuation and renewal of the Group's bank overdraft facilities. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

Opinion
In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1995 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 Victoria Square
Birmingham
B1 1BD

28 June 1996

Profit and loss account

For the year ended 31 December 1995

	Notes	1995 £'000	1994 £'000
Turnover	2	6,769	6,796
Cost of sales		(5,675)	(5,279)
Gross profit		1,094	1,517
Other operating expenses	3	(1,866)	(1,486)
Restructuring costs	4	(1,130)	-
Operating (loss) profit		(1,902)	31
Interest payable and similar charges	5	(29)	(28)
(Loss) profit on ordinary activities before taxation	6	(1,931)	3
Tax on (loss) profit on ordinary activities	8	-	-
(Loss) profit for the financial year	16, 17	(1,931)	3

A statement of movements in reserves is given in note 16.

The profit and loss accounts for both years relate entirely to continuing activities.

Statement of total recognised gains and losses

For the year ended 31 December 1995

	1995 £'000	1994 £'000
(Loss) profit for the financial year	(1,931)	3
Unrealised surplus on revaluation of plant and machinery	-	1,130
Total recognised (losses) gains relating to the year	(1,931)	1,133

The accompanying notes are an integral part of this profit and loss account and statement of total recognised gains and losses.

Balance sheet

31 December 1995

	Notes	1995 £'000	1994 £'000
Fixed assets			
Tangible assets	9	490	1,997
Investments	10	-	-
Current assets			
Stocks	11	195	302
Debtors	12	1,702	1,798
Cash at bank and in hand		2	1
		1,899	2,101
Creditors: Amounts falling due within one year	13	(2,200)	(1,944)
Net current assets		(301)	157
Total assets less current liabilities		189	2,154
Provisions for liabilities and charges	14	(180)	(214)
Net assets		9	1,940
Capital and reserves			
Equity interests:			
Ordinary share capital	15	48	48
Profit and loss account	16	(139)	662
Revaluation reserve	16	-	1,130
		(91)	1,840
Non-equity interests:			
Preference shares	15	100	100
Shareholders' funds	17	9	1,940

Signed on behalf of the Board

J L Hatton Director

28 June 1996

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

For the year ended 31 December 1995

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of plant and machinery. Assets and liabilities are recognised in the accounts where, as a result of past transactions or events, the company has rights or other access to future economic benefits controlled by the company, or obligations to transfer economic benefits. The accounts have been prepared in accordance with applicable accounting standards.

The company is party to bank guarantees with its ultimate parent (note 21) and other Group companies. The nature of the Group's business is such that there can be considerable unpredictable variation in the timing of cash inflows. The directors have prepared projected cash flow information for the period ending twelve months from the date of their approval of these accounts. On the basis of this cash flow information and discussions with the Group's bankers, the directors consider that the Group will continue to operate within the facilities currently agreed and those which they expect to be agreed on renewal. The current facilities fall due for renewal in February 1997. However, the margin of facilities over requirements is not large and, inherently there can be no certainty in relation to these matters. To the extent that there is any such deterioration in the projected cash flow of the Group as a whole, the ability of the Group to operate within the facilities will depend on the further support of its creditors and short-term management actions to avoid breaches in the facilities. On this basis, the directors consider it appropriate to prepare the accounts on the going concern basis. The accounts do not include any adjustments that would result from a withdrawal of the overdraft facilities by the Group's bankers.

b) Cash flow statement

No cash flow statement has been provided as the ultimate parent company has provided a consolidated cash flow statement in accordance with FRS1.

c) Tangible fixed assets

Fixed assets are shown at original cost or valuation, any related government grants being reported as deferred income and amortised over the expected useful lives of the assets concerned.

Depreciation is provided at rates calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives, as follows:

Plant and machinery	10% - 25%	per annum
Fixtures and fittings	10% - 20%	per annum
Computer equipment	25%	per annum
Motor vehicles	25%	per annum

Notes to accounts (continued)

d) Stocks

Stocks are stated at the lower of cost and net realisable value.

Cost incurred in bringing each product to its present location and condition is based on:

Raw materials	-	purchase cost on a first-in, first-out basis including transport
Work-in-progress and finished goods	-	cost of direct materials and labour, plus a reasonable proportion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

e) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

The company is part of a UK group and accordingly may take advantage of the group relief provisions whereby current taxable profits may be offset by current tax losses arising in other companies in the group. The group's policy is that tax benefits arising from group reliefs are recognised in the accounts of the recipient companies.

Deferred taxation (which arises from differences in the timing of the recognition of items, principally depreciation, in the accounts and by the tax authorities) has been calculated on the liability method. Deferred taxation is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of the reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

f) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

g) Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) of goods and services in the normal course of business.

Notes to accounts (continued)

h) Leases

Assets held under finance leases are initially reported at the fair value of the asset, with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. However, in the case of a hire purchase contract which has the characteristics of a finance lease, the asset is depreciated over its useful life. Finance charges are allocated to accounting period over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability.

i) Pension costs

The company operates an administered contributory pension scheme independent of the company's finances. The scheme is a fully defined benefit scheme and contributions are paid in accordance with the recommendation of independent actuaries. The company's contributions are charged in the profit and loss account so as to spread the cost over the anticipated service lives of employees. Differences between the amounts charged to the profit and loss account and amounts funded or paid directly to members of unfunded schemes are shown as either provisions or prepayments in the balance sheet.

2 Turnover

The company's turnover and operating (loss) profit were derived solely from the principal activity in the United Kingdom.

3 Other operating expenses

	1995 £'000	1994 £'000
Distribution and selling costs	168	117
Administrative expenses	1,698	1,369
	1,866	1,486

4 Restructuring costs

The current year charge reflects the loss on closure of the Coventry plant.

5 Interest payable and similar charges

	1995 £'000	1994 £'000
On bank loans, overdrafts and other loans - repayable within five years, not by instalments	29	28

Notes to accounts (continued)

6 (Loss) profit on ordinary activities before taxation

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

	1995 £'000	1994 £'000
Depreciation of tangible fixed assets	265	146
Hire of plant and machinery:		
- under operating leases	97	85
Auditors' remuneration:		
- audit services	7	7
Staff costs (see note 7)	3,056	2,870

7 Staff costs

Particulars of employees (including executive directors) are as shown below:

	1995 £'000	1994 £'000
Employee costs during the year amounted to:		
Wages and salaries	2,781	2,608
Social security costs	254	252
Other pension costs	21	10
	3,056	2,870

The average monthly number of persons employed by the company during the year was as follows:

	1995 Number	1994 Number
Production	170	198
Distribution	8	8
Administration	28	29
	206	235

7 Staff costs (continued)

Directors' remuneration:

The employee costs shown above include the following remuneration in respect of directors of the company:

	1995 £'000	1994 £'000
Emoluments (including pensions and pension contributions)	139	100

The directors' remuneration (excluding pensions and pension contributions) shown above included:

	1995 £'000	1994 £'000
Highest paid director	36	38

The chairman received no emolument in his capacity as a director of the company in either year.

The remuneration of the Chairman and one other director were paid by the ultimate parent company and are disclosed within the ultimate parent company accounts (Note 21). It is not practicable to identify the portion of remuneration received by these directors in relation to the services provided to Chalcon Plating Technology Limited.

Directors received emoluments (excluding pensions and pension contributions) in the following ranges:

	1995 Number	1994 Number
Up to £5,000	3	5
£10,001 - £15,000	1	-
£15,001 - £20,000	1	-
£30,001 - £35,000	2	2
£35,001 - £40,000	1	1

8 Tax on (loss) profit on ordinary activities

There was no tax charge in either year.

Notes to accounts (continued)

9 Tangible fixed assets

The movement in the year was as follows:

	Plant and machinery £'000	Fixtures and Fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation					
Beginning of year, at cost or valuation	3,222	169	68	57	3,516
Additions	48	58	-	14	120
Disposals	(1,439)	(63)	-	(10)	(1,512)
End of year, at cost	1,831	164	68	61	2,124
Depreciation					
Beginning of year	1,340	75	67	37	1,519
Charge	215	43	-	7	265
Disposals	(145)	(3)	-	(2)	(150)
End of year	1,410	115	67	42	1,634
Net book value					
Beginning of year	1,882	94	1	20	1,997
End of year	421	49	1	19	490

Included in the net book value of tangible fixed assets is £39,000 (1994 - £33,000) in respect of assets held under finance leases. The depreciation charge for the year on these assets was £8.000 (1994 - £22,000).

10 Fixed asset investments

The company owns 51% of the issued ordinary share capital of The BB Plating Co Limited, a company, registered in England and Wales. The consideration for the acquisition of the shares was £2. The principal activity of The BB Plating Co Limited is that of metal finishing. Chalcon Plating Technology Limited has taken advantage of the available exemption under section 228 of the Companies Act 1985 permitting it not to prepare consolidated accounts.

Notes to accounts (continued)

11 Stocks

The following are included in the net book value of stocks:

	1995 £'000	1994 £'000
Raw materials and consumables	107	169
Work-in-progress	85	129
Finished goods and goods held for resale	3	4
	195	302

In the opinion of the directors, there is no significant difference between the replacement cost and the book value of stocks at the balance sheet date.

12 Debtors

The following are included in the net book value of debtors, all falling due within one year:

	1995 £'000	1994 £'000
Trade debtors	1,019	1,270
Amounts owed by group undertakings	549	432
Prepayments and accrued income	134	96
	1,702	1,798

Notes to accounts (continued)

13 Creditors: Amounts falling due within one year

	1995 £'000	1994 £'000
Bank loan and overdraft	499	141
Trade creditors	918	1,152
Amounts owed to group undertakings	191	-
Other creditors		
- social security and PAYE	195	185
- VAT	268	180
- other	39	272
Accruals and deferred income	90	14
	2,200	1,944

The bank loan and overdraft are secured by a debenture dated 7 August 1989 on the company's plant and machinery, and by a first fixed charge over all book debts.

There is also a fixed charge on the company's assets including its fixed assets, book debts and investments, and a floating charge on all the undertaking and assets of the company given as security for certain borrowings of the ultimate parent company.

14 Provisions for liabilities and charges

The movement on the pension provision comprises:

	£'000
Beginning of year	214
Transfer to profit and loss account	(34)
End of year	180

15 Called-up share capital

	1995 £'000	1994 £'000
Authorised, allotted, called-up and fully-paid		
Equity interests:		
48,000 ordinary shares of £1 each	48	48
	48	48
Non-equity interests:		
50,000 10% cumulative participating preference shares of £1 each	50	50
50,000 10% cumulative redeemable preference shares of £1 each	50	50
	148	148

The 10% cumulative redeemable preference shares are redeemable at par in five equal annual instalments of 10,000 shares each from 20 May 1998.

16 Reserves

The movement on reserves in the year was as follows:

	Profit and loss account £'000	Revaluation reserve £'000
Beginning of year	662	1,130
Retained loss for the year	(1,931)	-
Transfer	1,130	(1,130)
End of year	(139)	-

The revaluation reserve arose in 1994. It represented the excess of a formal valuation based on existing use of certain plant carried out by Grimley Property Advisers, in February 1995 over the price granted in an option to purchase this plant on 1 July 1994. During 1995, the directors decided not to continue operation of the plant, thus the option was not exercised. The revaluation reserve has therefore been fully written-off in the year.

Notes to accounts (continued)

17 Reconciliation of movements in shareholders' funds

	1995 £'000	1994 £'000
(Loss) profit for the financial year, being net (decrease) increase in shareholders' funds	(1,931)	3
Revaluation	-	1,130
Opening shareholders' funds	1,940	807
Closing shareholders' funds	9	1,940

18 Note of historical cost profits and losses

	1995 £'000	1994 £'000
Reported (loss) profit on ordinary activities before taxation	(1,931)	3
Add back write-off of revaluation reserve	1,130	-
Historical cost profit on ordinary activities before taxation	(801)	3
Historical cost profit for the year retained after taxation, minority interests and dividends	(801)	3

19 Guarantees and other financial commitments

a) Capital commitments

There were no capital commitments at the end of either year.

b) Pension arrangements

The company operates a pension scheme providing benefits based on final pensionable pay for its employees. The assets of the scheme are held separately from those of the company, being invested with insurance companies. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was as at 6 April 1993. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 9% per annum, that salary increases would average 6% per annum and that present and future pensions would increase at the rate of 4% per annum on the post 1988 Guaranteed Minimum Pension.

The most recent actuarial valuation shows that the market value of the scheme's assets was £2,417,000 and that the actuarial value of those assets represents 103% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The company was on a pension contribution holiday until 6 April 1994 when contributions recommenced.

Notes to accounts (continued)

19 Guarantees and other financial commitments (continued)

b) Pension arrangements (continued)

The pension charge for the year was as follows:

	1995	1994
	£'000	£'000
Regular charge	(13)	(2)
Amortisation of pension provision	34	12
	21	10

b) Operating leases)

Annual commitments for plant and machinery under operating leases are as follows:

	1995	1994
	£'000	£'000
Expiry date:		
- within one year	1	-
- between two and five years	89	82
	90	82

20 Related party transactions

During the year, the company made sales of £448,000 (1994 - £623,000) to fellow subsidiary undertakings, and purchases from fellow subsidiary undertakings of £31,000 (1994 - £192,000). In addition the company was charged £139,000 (1994 - £81,000) in respect of management charges by its ultimate parent company.

21 Ultimate parent company

The ultimate parent company is Ferrum Holdings PLC, a company registered in England, which heads the only group in which the company's results are consolidated and whose consolidated accounts may be obtained from its head office at PO Box 25, Hospital Street, Walsall, West Midlands, WS2 8QQ.