ARTHUR ANDERSEN

Chalcon Plating Technology Limited

Accounts 31 December 1996

together with directors' and auditors' reports

Registered number: 127195

Directors' report

For the year ended 31 December 1996

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 1996.

Principal activity and business review

The principal activity of the company continues to be that of metal finishers.

Turnover for the year was £4,235,000, compared to £6,769,000 in the preceding year. The company generated a profit on ordinary activities before taxation of £33,000, compared to a loss of £1,931,000 in the preceding year.

Results and dividends

Results for the year are as follows:

	£'000
Accumulated deficit, beginning of year	(139)
Profit for the financial year	33
Accumulated deficit, end of year	(106)

The directors do not propose payment of any dividend (1995 - £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 and subsequently were as follows:

C M B Akers (resigned 20 September 1996)
J M A Akers (Chairman)
D G Blagden
J L Hatton
P W Maxwell (resigned 14 February 1996)
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 judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the 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 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.

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

S M Kittoe 27th Jan 1997

Secretary

Auditors' report

Birmingham

To the Shareholders of Chalcon Plating Technology Limited:

We have audited the accounts on pages 4 to 14 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 judgements 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 regarding the uncertainty as to whether the shareholders will approve the resolutions concerning the issue of shares and the reorganisation and reduction of share capital. 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 1996 and of its profit 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

27 June 1997

Profit and loss account

For the year ended 31 December 1996

	Notes	1996 £'000	1995 £'000
Turnover	2	4,235	6,769
Cost of sales		(2,932)	(5,675)
Gross profit		1,303	1,094
Other operating expenses	3	(1,270)	(1,866)
Restructuring costs	4	-	(1,130)
Operating profit (loss)		33	(1,902)
Interest payable and similar charges	5	-	(29)
Profit (loss) on ordinary activities before taxation	6	33	(1,931)
Tax on profit (loss) on ordinary activities	8	-	-
Profit (loss) for the financial year	16	33	(1,931)
(Accumulated loss) retained profit, beginning of year		(139)	1,792
Accumulated loss, end of year		(106)	(139)

There are no recognised gains or losses in either year other than the profit (loss) for each financial year.

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

Note of historical cost profits and losses

	1996 £'000	1995 £'000
Profit (loss) on ordinary activities before taxation	33	(1,931)
Add back write-off of revaluation reserve	-	1,130
Historical cost profit (loss) on ordinary activities before taxation	33	(801)

The accompanying notes are an integral part of this profit and loss account and this note of historical cost profit and losses.

Balance sheet

31 December 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	9	491	490
		491	490
Current assets			
Stocks	10	155	195
Debtors	11	1,297	1,702
Cash at bank and in hand		1	2
		1,453	1,899
Creditors: Amounts falling due within one year	12	(1,714)	(2,200)
Net current liabilities		(261)	(301)
Total assets less current liabilities		230	189
Creditors: Amounts falling due after more than one year	13	(4)	-
Provisions for liabilities and charges	14	(184)	(180)
Net assets		42	9
Capital and reserves			
Equity interests:			
Ordinary share capital	15	48	48
Profit and loss account		(106)	(139)
		(58)	(91)
Non-equity interests:			
Preference shares	15	100	100
Shareholders' funds	16	42	9

Signed on behalf of the Board

J L Hatton Director

17/6/97

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

Notes to accounts

For the year ended 31 December 1996

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 and in accordance with applicable accounting standards.

The company is party to bank guarantees with its ultimate parent and other Group companies. During the period, the Group met its day to day working capital requirements through overdraft facilities which were repayable on demand.

On 27 June 1997, the Group announced proposals to raise approximately £3,070,000 (net of expenses) by means of the subscription and open offer in conjunction with a reorganisation and reduction in share capital and other proposals. The full details of these transactions are set out in the circular to shareholders dated 27 June 1997 and are subject to the approval of shareholders at the Extraordinary General Meeting on 22 July 1997.

The Directors have prepared projected cash flow information covering the period to 31 December 1998 on the assumption that the transactions referred to above are approved. On this basis the cash flow information shows the Group continuing to operate within its proposed new bank facilities. However if the transactions are not approved by shareholders, the Directors will have to negotiate alternative bank facilities and seek the continued support of creditors.

In view of the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis.

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, net of depreciation. 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 relief 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) Turnover

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

g) 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 periods 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.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Notes to accounts (continued)

h) 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 to 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 profit (loss) were derived solely from the principal activity in the United Kingdom.

3 Other operating expenses

	1996 £'000	1995 £'000
Distribution and selling costs	106	168
Administrative expenses	1,164	1,698
	1,270	1,866

4 Restructuring costs

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

5 Interest payable and similar charges

	1996 £'000	1995 £'000
Bank loans and overdrafts	-	25
Finance leases and hire purchase contracts	-	4
	-	29

Notes to accounts (continued)

6 Profit (loss) on ordinary activities before taxation

Profit (loss) on ordinary activities before taxation is stated after charging:

	1996 £'000	1995 £'000
Depreciation of tangible fixed assets		
- owned	108	257
- held under finance leases and hire purchase contracts	3	8
Hire of plant and machinery under operating leases	89	97
Auditors' remuneration:		
- audit fees	8	7
Staff costs	2,225	3,056
Loss on sale of fixed assets	2	-

7 Staff costs

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

	1996 £'000	1995 £'000
Employee costs during the year amounted to:		
Wages and salaries	2,017	2,781
Social security costs	183	254
Other pension costs	25	21
	2,225	3,056

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

	1996 Number	1995 Number
Production	114	170
Distribution	5	8
Administration	19	28
	138	206

Notes to accounts (continued)

7 Staff costs (continued)

Directors' remuneration:

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

	1996 £'000	1995 £'000
Emoluments (including pensions and pension contributions)	120	139

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

	1996 £'000	1995 £'000
Highest paid director	36	36

The chairman received no emoluments 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. 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:

	1996 Number	1995 Number
Up to £5,000	3	3
£10,001 - £15,000	-	1
£15,001 - £20,000	1	1
£30,001 - £35,000	1	2
£35,001 - £40,000	2	1

8 Tax on profit (loss) on ordinary activities

There was no tax charge in either year due to the benefit of trading losses arising in previous years.

Notes to accounts (continued)

9 Tangible fixed assets

	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost					
Beginning of year	1,831	164	68	61	2,124
Additions	103	12	3	-	118
Disposals	-	-	-	(47)	(47)
End of year	1,934	176	71	14	2,195
Depreciation					
Beginning of year	1,410	115	67	42	1,634
Charge	80	26	1	4	111
Disposals	-	-	-	(41)	(41)
End of year	1,490	141	68	5	1,704
Net book value					
Beginning of year	421	49	1	19	490
End of year	444	35	3	9	491

Included in the net book value of tangible fixed assets is £8,805 (1995 - £39,000) in respect of assets held under finance leases.

10 Stocks

	1996 £'000	1995 £'000
Raw materials and consumables	81	107
Work-in-progress	65	85
Finished goods and goods held for resale	9	3
	155	195

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

Notes to accounts (continued)

11 Debtors

	1996 £'000	1995 £'000
Trade debtors	856	1,019
Amounts owed by group undertakings	324	549
Prepayments and accrued income	117	134
	1,297	1,702

12 Creditors: Amounts falling due within one year

	1996 £'000	1995 £'000
Obligations under finance leases and hire purchase contracts	2	-
Bank loan and overdraft	435	499
Trade creditors	541	918
Amounts owed to group undertakings	447	191
Other creditors		
- social security and PAYE	155	195
- VAT	27	268
- other	21	39
Accruals and deferred income	86	90
	1,714	2,200

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 undertakings and assets of the company given as security for certain borrowings of the ultimate parent company.

13 Creditors: Amounts falling due after more than one year

	1996 £'000	1995 £'000
Obligation under finance leases and hire purchase contracts	4	-

Notes to accounts (continued)

14 Provisions for liabilities and charges

The movement on the pension provision comprises:

	£'000
Beginning of year	180
Amounts paid to pension fund	(21)
Transfer to profit and loss account	25
End of year	184

There is no material unprovided deferred taxation in either year.

15 Called-up share capital

	1996 £'000	1995 £'000
Authorised, allotted, called-up and fully-paid		
Equity interests:		
48,000 ordinary shares of £1 each	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 Reconciliation of movement in shareholders' funds

	1996 £'000	1995 £'000
Profit (loss) for the financial year, being net increase (decrease) in shareholders' funds	33	(1,931)
Opening shareholders' funds	9	1,940
Closing shareholders' funds	42	9

Notes to accounts (continued)

17 Guarantees and other financial commitments

a) Capital commitments

There were no capital commitments at either year end.

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 1996. 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 8.5% 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 £3,861,695 and that the actuarial value of those assets represents 105% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The company is on a pension contribution holiday until 6 October 1997 when contributions will recommence.

The pension charge for the year was £25,000 (1995 - £21,000). This is made up of £47,000 (1995 - £34,000) regular cost less a variation from regular cost of £22,000 (1995 - £13,000).

c) Operating leases

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

	1996 £'000	1995 £'000
Expiry date:		
- within one year	31	1
- between two and five years	36	89
	67	90

18 Related party transactions

The company has taken advantage of the exemption granted within FRS 8, which does not require disclosure of transactions between a subsidiary undertaking and other group undertakings, as more than 90% of the company's voting rights are controlled within the group.

19 Ultimate parent company and controlling party

The ultimate parent company and controlling party is Ferrum Holdings PLC, 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.