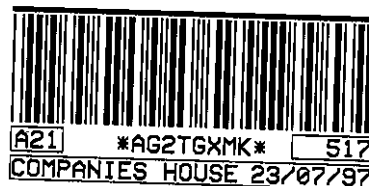


MBS DISTRIBUTION LIMITED
(REGISTERED NUMBER 199318)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 December 1996



MBS DISTRIBUTION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996

The directors present their annual report together with the audited financial statements for the year ended 31 December 1996.

REVIEW OF THE COMPANY'S BUSINESS AND FINANCIAL POSITION

The principal activity of the Company is the distribution of industrial fastenings.

The directors consider the financial position at the year end to be satisfactory.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £992,000 (1995 - £1,628,000). An interim dividend of £1,852,000 has been paid (1995 - £Nil). The directors do not recommend payment of a final dividend (1995 - £Nil).

FIXED ASSETS

Details of changes in fixed assets are given in note 8 to the financial statements.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year were as follows:

SA Smith	
PJ Henwood	
F Thorpe	
SC Wheeler	(Resigned 6 December 1996)
PJ Bytheway	
AO Fischer	(Appointed 6 December 1996)
I Fisher	(Appointed 6 December 1996)
AT Fletcher	(Appointed 6 December 1996) (Chairman)

AT Fletcher, A Fischer and I Fisher are also directors of the ultimate parent undertaking, Vector Industries Limited, and their interests in the share capital of that company are shown in the accounts of Vector Industries Limited.

No other director had any interest in the share capital of Vector Industries Limited throughout the period.

At 31 December 1996 none of the directors held any beneficial interest in the shares of the company.

MBS DISTRIBUTION LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996 (CONTINUED)

EMPLOYEES

1 Employment and training

The maintenance of a well-trained and professional work force is a key to the future of our business. Health, safety and training matters all receive close and regular attention throughout the organisation and it is company policy to ensure that continued employment is offered to employees who become temporarily or permanently disabled. Also, the company offers equal employment opportunities to disabled people.

2 Employment involvement and communication

Information on the company results is circulated monthly and communication meetings are being set up to ensure company issues are discussed on a regular basis.

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

DONATIONS

The company made charitable donations in the year of £105 (1995 - £170).

CLOSE COMPANY STATUS

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

MBS DISTRIBUTION LIMITED

**REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 1996
(CONTINUED)**

AUDITORS

Price Waterhouse have expressed their willingness to continue as auditors and a resolution to re-appoint them will be proposed at the Annual General Meeting.

By Order of the Board

A handwritten signature in black ink, appearing to read 'P Henwood', is written over the printed name.

P Henwood
Secretary

11 April 1997

Registered Office
2a Bracebridge Street
Birmingham
B6 4NE

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF MBS DISTRIBUTION LIMITED

We have audited the financial statements on pages 5 to 15 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 2 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as 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.

**PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors**

11 April 1997

MBS DISTRIBUTION LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1996

	Notes	Year end 31 December 1996 £'000	Year end 31 December 1995 £'000
TURNOVER	2	26,328	24,409
Cost of sales		<u>(19,186)</u>	<u>(18,174)</u>
GROSS PROFIT		7,142	6,235
Administrative expenses		<u>(4,777)</u>	<u>(4,596)</u>
OPERATING PROFIT	3	2,365	1,639
Interest payable and similar charges		<u>-</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,365	1,639
Taxation	6	<u>(1,373)</u>	<u>(11)</u>
PROFIT FOR THE YEAR		992	1,628
Dividends (22.3p per share)		<u>(1,852)</u>	<u>-</u>
RETAINED (DEFICIT)/PROFIT	15, 16	<u>(860)</u>	<u>1,628</u>

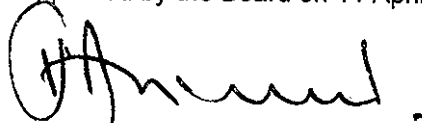
There are no recognised gains or losses other than the profit for the year. There is no difference between the results disclosed above and the results on an unmodified historical cost basis.

MBS DISTRIBUTION LIMITED

BALANCE SHEET - 31 DECEMBER 1996

	Notes	1996 £'000	1995 £'000
FIXED ASSETS			
Tangible assets	8	<u>1,094</u>	<u>1,007</u>
CURRENT ASSETS			
Stocks	9	3,400	3,459
Debtors	10	5,236	5,008
Cash at bank and in hand		<u>1,150</u>	<u>734</u>
		9,786	9,201
CREDITORS (amounts falling due within one year)	11	<u>(5,362)</u>	<u>(4,107)</u>
NET CURRENT ASSETS		<u>4,424</u>	<u>5,094</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,518	6,101
CREDITORS (amounts falling due after more than one year)	12	(2,770)	(2,493)
PROVISIONS FOR LIABILITIES AND CHARGES	13	<u>(17)</u>	<u>(17)</u>
NET ASSETS		<u>2,731</u>	<u>3,591</u>
CAPITAL AND RESERVES			
Called up share capital	14	2,075	2,075
Share premium account	16	413	413
Profit and loss account	16	<u>243</u>	<u>1,103</u>
SHAREHOLDERS' FUNDS	15	<u>2,731</u>	<u>3,591</u>

Approved by the Board on 11 April 1997.



PJ Henwood

DIRECTOR

MBS DISTRIBUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996

1 ACCOUNTING POLICIES

(1) Accounting convention

The financial statement have been prepared under the historical cost convention in accordance with applicable Accounting Standards.

(2) Goodwill

Purchased goodwill is eliminated immediately on acquisition against reserves.

(3) Tangible fixed assets

Tangible fixed assets are stated at cost. These assets are written off using the straight line method.

Depreciation is provided to write off the book amount of tangible fixed assets over the expected useful lives at the following rates per annum:

Leasehold land and buildings	20%
Plant and machinery	10%
Fixtures and fittings	10%
Motor vehicles	33%

(4) Stocks

Stocks and work in progress are stated at the lower of cost and estimated net realisable value. Cost of finished goods comprises materials.

(5) Operating leases

Rentals under operating leases are charged to the profit and loss account, as incurred, over the term of the lease.

(6) Foreign currencies

Trading items are translated into sterling at average rates of exchange for the relevant accounting period. Balance sheet items in foreign currencies are translated into sterling at mid-market rates of exchange at the balance sheet date. All foreign currency gains and losses are taken to the profit and loss account.

(7) Deferred taxation

Deferred taxation is provided on the liability method at current rates of taxation in respect of short term timing differences between profits computed for taxation purposes and profits as stated in the financial statements. Provision is made for other timing differences where a liability is expected to arise in the foreseeable future.

MBS DISTRIBUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(8) Pensions

The retirement benefit obligations of the Company are financed by contributions to separate funds, which are subject to actuarial valuations every three years.

Pension costs deferred benefit pensions schemes are charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the Schemes.

2 TURNOVER

Turnover represents the invoiced value of sales made to third parties, net of Value Added Tax.

The analysis of turnover by geographical destinations is set out below:

	<u>1996</u> £'000	<u>1995</u> £'000
United Kingdom	26,155	24,325
Continental Europe	118	50
Other	<u>55</u>	<u>34</u>
	<u>26,328</u>	<u>24,409</u>

3 OPERATING PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>1996</u> £'000	<u>1995</u> £'000
The operating profit is stated after charging/(crediting)		
Amounts charged by the Company's auditors:		
Audit fees and expenses	13	13
Tax and consultancy fees	1	1
Rentals payable under operating leases:		
Plant and machinery	155	144
Land and buildings	308	348
Depreciation charge for the year:		
Tangible fixed assets	291	268
Loss on disposal of tangible fixed assets	5	16
	<u> </u>	<u> </u>

MBS DISTRIBUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (CONTINUED)

4 STAFF COSTS AND NUMBERS

The average weekly number of persons (including executive directors) employed by the Company during the year was:

<u>1996</u>	<u>1995</u>
Number	Number
166	166
==	==

<u>1996</u>	<u>1995</u>
£'000	£'000

The aggregate payroll cost of these persons was:

Wages and salaries	2,423	2,315
Social security costs	230	216
Other pension costs (note 17)	<u>7</u>	<u>-</u>
	2,660	2,531
	==	==

5 EMOLUMENTS OF DIRECTORS

Directors' emoluments (including pension contributions) amounted to £207,661 (1995 - £162,568). The chairman received no emoluments. The emoluments (excluding pension contributions) of the highest paid director were £91,529 (1995 - £83,195).

The numbers of directors who received emoluments (excluding pension contributions) within the following ranges were:

	<u>1996</u>	<u>1995</u>
	Number	Number
£0 to £5,000	5	2
£15,001 to £20,000	-	1
£50,001 to £55,000	1	-
£55,001 to £60,000	-	1
£65,001 to £70,000	1	-
£80,001 to £85,000	-	1
£90,001 to £95,000	1	-
	==	==

MBS DISTRIBUTION LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996
(CONTINUED)**

6 NET INTEREST RECEIVABLE

	<u>1996</u> £'000	<u>1995</u> £'000
Interest receivable and similar income	-	-
	=	=

7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	<u>1996</u> £'000	<u>1995</u> £'000
United Kingdom corporation tax at 33% (1995 : 33%)	800	-
Deferred tax	-	-
Prior year adjustment - corporation tax	<u>573</u>	<u>11</u>
	1,373	11
	=	=

MBS DISTRIBUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (CONTINUED)

8 TANGIBLE FIXED ASSETS

	Long leasehold land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
<u>Cost</u>					
At 1 January 1996	120	1,206	656	225	2,207
Additions	-	241	93	50	384
Disposals	-	(7)	-	(29)	(36)
At 31 December 1996	120	1,440	749	246	2,555
	—	—	—	—	—
<u>Depreciation</u>					
At 1 January 1996	10	612	427	151	1,200
Charge for year	1	170	69	51	291
Disposals	-	(2)	-	(28)	(30)
At 31 December 1996	11	780	496	174	1,461
	—	—	—	—	—
<u>Net book value</u>					
At 31 December 1996	109	660	253	72	1,094
	==	==	==	==	==
At 1 January 1996	110	594	229	74	1,007
	==	==	==	==	==

9 STOCKS

	<u>1996</u> £'000	<u>1995</u> £'000
Finished goods and goods for resale	3,400	3,459
	==	==

MBS DISTRIBUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (CONTINUED)

10 DEBTORS

	<u>1996</u> £'000	<u>1995</u> £'000
Trade debtors	5,055	4,702
Amounts owed by fellow subsidiaries	3	73
Other debtors	3	-
Prepayments and accrued income	<u>175</u>	<u>233</u>
	<u>5,236</u>	<u>5,008</u>

11 CREDITORS (amounts falling due within one year)

	<u>1996</u> £'000	<u>1995</u> £'000
Bank overdraft	16	-
Trade creditors	3,717	3,183
Amounts owed to parent undertaking	-	121
Amounts owed to fellow subsidiary undertakings	1	10
Other creditors	23	84
Other taxation and social security costs	372	342
Accruals and deferred income	433	367
Corporation tax	<u>800</u>	<u>-</u>
	<u>5,362</u>	<u>4,107</u>

12 CREDITORS (amounts falling due after more than one year)

	<u>1996</u> £'000	<u>1995</u> £'000
Amount owned to ultimate parent undertaking	<u>2,770</u>	<u>2,493</u>

Amounts owed to the ultimate parent undertaking bear interest at a commercial rate. There are no fixed repayment terms on these amounts. The ultimate parent undertaking has confirmed that it has no present intention to request repayment of these amounts.

MBS DISTRIBUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (CONTINUED)

13 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation provided in the accounts, and the full potential liability including the amounts for which provision has been made, are as follows:

	<u>Amount provided</u>		<u>Full potential liability</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£'000	£'000	£'000	£'000
Tax effect of timing differences due to:				
Excess of capital allowances over depreciation	21	29	33	42
Other timing difference	(4)	(12)	(4)	(12)
	17	17	29	30
	=	=	=	=

14 SHARE CAPITAL

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Authorised		
8,300,000 ordinary shares of 25p each	2,075	2,075
	=	=
Allotted, issued up and fully paid		
8,300,000 ordinary equity shares of 25p each	2,075	2,075
	=	=

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1996</u>	<u>1995</u>
	£'000	£'000
Opening shareholders' funds	3,591	1,963
Retained (deficit)/profit for the year	(860)	1,628
Closing shareholders' funds	2,731	3,591
	=	=

MBS DISTRIBUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (CONTINUED)

16 RESERVES

	<u>Share premium</u> £'000	<u>Profit and loss account</u> £'000
Balance at 1 January 1996	413	1,103
Retained deficit for the year	—	<u>(860)</u>
Balance at 31 December 1996	413	243
	<u>==</u>	<u>==</u>

17 PENSIONS

Following the acquisition of the company by Vector Industries Limited on 10 December 1996, the company's employees are continuing, for a temporary period, as members of various pension schemes operated by the previous parent company. The assets of these schemes are held in separate trustee administered funds, contributions being based on pension costs across the group as a whole. The company contributions in respect of the above schemes for the period 11 December 1996 to 31 December 1996 were to £7,351.

18 CAPITAL COMMITMENTS

	<u>1996</u> £'000	<u>1995</u> £'000
Contracted but not provided	10	—
	<u>==</u>	<u>==</u>
Authorised but not contracted	16	49
	<u>==</u>	<u>==</u>

MBS DISTRIBUTION LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 1996 (CONTINUED)

19 OPERATING LEASE COMMITMENTS

At 31 December the Company had annual commitments under non-cancellable operating leases as follows:

	<u>Land and buildings</u>		<u>Plant and equipment</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
	£'000	£'000	£'000	£'000
Leases expiring:				
Within one year	-	-	24	20
Within two to five years	-	-	193	222
In over five years	<u>329</u>	<u>348</u>	<u>-</u>	<u>-</u>
	329	348	217	242
	<u>==</u>	<u>==</u>	<u>==</u>	<u>==</u>

20 CONTINGENT LIABILITIES

The company has entered into an unlimited cross guarantee arrangement in respect of the borrowings of all companies in the Vector Industries Limited group. At 31 December 1996 the net bank borrowings of the group amounted to approximately £99,000,000.

The bank holds a debenture in respect of the company incorporating a fixed and floating charge over all assets.

At 31 December 1996 the Company had contingent liabilities arising in the ordinary course of business of £61,616 (1995 - £150,417).

21 CASH FLOW STATEMENT

A consolidated cash flow statement has been included in the accounts of the parent Company which include the accounts of MBS Distribution Limited.

Accordingly, as permitted by FRS1, no cash flow statement is presented with these accounts.

22 ULTIMATE PARENT UNDERTAKING

On 10 December 1996, the ultimate parent undertaking became Vector Industries Limited, a company registered in England. The Vector Industries group is both the smallest and the largest group into which the company's accounts are consolidated.