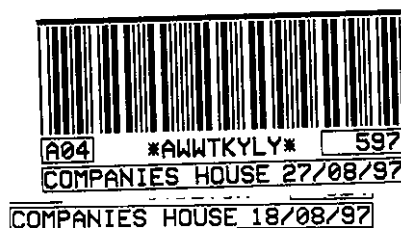


ARROW ENGINEERING COMPONENTS LIMITED

COMPANY NUMBER:- 2235902

DIRECTORS' REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MAY 1997



McELHINNEY
HUGHES

Portland House
431 Chester Road
Old Trafford
Manchester M16 9HA
Tel: 0161 877 2828
Fax: 0161 877 6060

ARROW ENGINEERING COMPONENTS LIMITED

Company Information

Directors	R Arrowsmith J Arrowsmith J L Arrowsmith
Secretary	J L Arrowsmith
Company Number	2235902
Registered Office	72 Liverpool Street Salford Manchester M5 4LT
Auditors	McElhinney Hughes Chartered Certified Accountants and Registered Auditors Portland House 431 Chester Road Old Trafford Manchester M16 9HA

ARROW ENGINEERING COMPONENTS LIMITED

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Trading, Profit and Loss Account	13

ARROW ENGINEERING COMPONENTS LIMITED

DIRECTORS' REPORT

The Directors present their Report and the Financial Statements for the year ended 31st May 1997.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 period. 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
- 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The Company's principal activities continues to be those of the sale of bearings, transmission components and ancillary equipment and the provision of engineering services.

The results for the year are set out on page 4.

The Directors report a loss for the year to 1997. This was due largely to the costs incurred in an extensive marketing drive throughout the period. It is hoped that the Company will enjoy the fruits of this investment in the forthcoming year.

DIVIDENDS

The Directors do not recommend the payment of a dividend. The retained losses of £24,233 (1996 - Profits of £40,919) will be transferred to reserves.

FUTURE DEVELOPMENTS

The Directors intend to pursue the Company's current trading policies and they are cautiously optimistic about future profitability.

FIXED ASSETS

Details of movements in fixed assets are set out in Note 8 to the financial statements.

ARROW ENGINEERING COMPONENTS LIMITED

DIRECTORS' REPORT (CONT/D)

DIRECTORS

The Directors who served during the year and their beneficial interest in the Company's issued ordinary share capital were:-

	<u>1997</u>	<u>1996</u>
R Arrowsmith	115500	115500
J Arrowsmith	16500	16500
J L Arrowsmith	33000	33000
	<hr/>	<hr/>
	165000	165000
	<hr/>	<hr/>

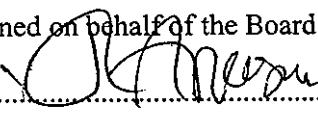
AUDITORS

The auditors, McElhinney Hughes will be proposed for reappointment in accordance with Section 385, of the Companies Act 1985.

This report was approved by the Board on

..... (Date)

Signed on behalf of the Board of Directors


.....

J L ARROWSMITH

(Secretary)

AUDITORS REPORT TO THE SHAREHOLDERS OF ARROW ENGINEERING COMPONENTS LIMITED

We have audited the financial statements on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 1 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

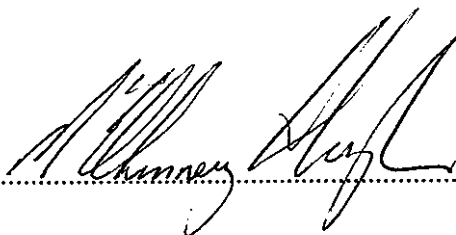
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 mis-statement, 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 31st May 1997 and of its loss for the year then ended and have been properly prepared in accordance with the requirements of the Companies Act 1985.

Signed



Dated

15th August 1997

McELHINNEY HUGHES

Chartered Certified Accountants and Registered Auditors

Portland House

431 Chester Road

Old Trafford

Manchester

M16 9HA

ARROW ENGINEERING COMPONENTS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST MAY 1997

	<u>Note</u>	<u>1997</u>	<u>1996</u>
		<u>£</u>	<u>£</u>
<u>TURNOVER</u>	2	1455079	1360388
<u>Add:</u> Increase in Stocks		48424	73783
		<hr/>	<hr/>
		1503503	1434171
<u>Less:</u> Purchases and Consumables		889787	823824
Staff Costs		345443	304921
Depreciation Less Profit on Sale of Assets		30071	20285
Other Operating Charges		236991	209742
		<hr/>	<hr/>
<u>OPERATING PROFIT</u>	5	1211	75399
Interest Payable	6	25444	18647
		<hr/>	<hr/>
<u>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</u>		(24233)	56752
<u>TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES</u>	7	-	15833
		<hr/>	<hr/>
<u>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</u>		(24233)	40919
<u>RETAINED EARNINGS BROUGHT FORWARD (ADVERSE BALANCE)</u>		31939	(8980)
		<hr/>	<hr/>
<u>RETAINED EARNINGS CARRIED FORWARD</u>		7706	31939
		<hr/>	<hr/>

There were no recognised gains or losses other than those included in the Profit and Loss Account.

The attached notes on pages 6 - 12 form an integral part of these Accounts.

ARROW ENGINEERING COMPONENTS LIMITED

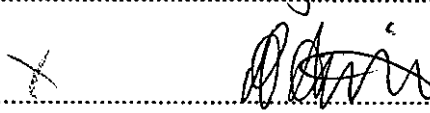
BALANCE SHEET

AS AT 31ST MAY 1997

	<u>Note</u>	<u>1997</u>	<u>1996</u>
		<u>£</u>	<u>£</u>
<u>FIXED ASSETS</u>			
Tangible Assets	8	76823	73826
<u>CURRENT ASSETS</u>			
Stocks	9	382500	334076
Debtors	10	368296	346989
Cash in Hand		400	350
		<hr/>	<hr/>
		751196	681415
<u>LESS: CREDITORS</u> Amounts Falling Due Within One Year	11	648568	539250
		<hr/>	<hr/>
<u>NET CURRENT ASSETS</u>		102628	142165
		<hr/>	<hr/>
<u>TOTAL ASSETS LESS CURRENT LIABILITIES</u>		179451	215991
<u>LESS: CREDITORS</u> Amounts Falling Due After More Than One Year	11	6745	19052
		<hr/>	<hr/>
<u>NET ASSETS</u>		172706	196939
		<hr/>	<hr/>
<u>CAPITAL AND RESERVES</u>			
Called-Up Share Capital	12	165000	165000
Profit and Loss Account		7706	31939
		<hr/>	<hr/>
<u>SHAREHOLDERS' FUNDS - ALL EQUITY</u>	13	172706	196939
		<hr/>	<hr/>

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED ON THEIR BEHALF ON

14th August 1997

SIGNED ) R ARROWSMITH (DIRECTOR)

SIGNED ) J ARROWSMITH (DIRECTOR)

The attached Notes on pages 6 to 12 form an integral part of these Accounts.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

1.1 Basis of Preparation of Financial Accounts

The financial statements are prepared under the Historical Cost Convention and include the results of the Company's operations which are described in the Directors' Report and all of which are continuing. The Company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cash flow statement on the grounds that it is a small company.

1.2 Accounting for Tangible Fixed Assets

Tangible Fixed Assets are stated at cost less depreciation.

Expenditure on tangible fixed assets including those subject to hire purchase agreements is capitalised.

1.3 Depreciation

Depreciation has been provided on a straight line basis. This provision is estimated to write off the cost of the Assets over their estimated effective lives at the following rates:-

Motor Vehicles	25%
Plant and Machinery	10%
Fixtures and Equipment	10%
Computer Equipment	33.33%

Motor Vehicle Registration Plates are not depreciated.

1.4 Operating Leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor, are charged to Profit and Loss Account as incurred.

1.5 Stocks and Work-in-Progress

Stocks and Work-in-Progress are valued consistently at the lower of cost and Net Realisable Value. Net Realisable Value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

1.6 Staff Pension Costs

The Company pays annual contributions into a fully insured defined contribution pension scheme covering present Directors and senior employees. The pension charge represents the amounts payable by the Company to the fund in respect of the year.

1.7 Turnover

Turnover comprises the invoiced value of goods and services supplied by the Company, net of Value Added Tax and trade discounts.

1.8 Deferred Taxation

The Directors are of the opinion that no provision for Deferred Taxation is necessary in the Financial Statements of the Company. The Directors intend to continue their policy of expansion over the forthcoming years and consequently it is expected that no reversal of timing differences will occur.

ARROW ENGINEERING COMPONENTS LIMITED

NOTES TO THE ACCOUNTS (CONT/D)

2. TURNOVER

The whole of the turnover and profit before taxation is attributable to the main activities of the Company as stated on Page 1. A geographical analysis of sales during the year was as follows:-

	<u>1997</u> <u>£</u>	<u>1996</u> <u>£</u>
United Kingdom	1439128	1360388
Channel Islands	2111	-
Eire	12938	-
Denmark	470	-
Israel	432	-
	<hr/>	<hr/>
	1455079	1360388
	<hr/>	<hr/>

3. STAFFING AND STAFF COSTS

Staff Costs, including Directors' emoluments were:-

	<u>1997</u> <u>£</u>	<u>1996</u> <u>£</u>
Wages and Salaries	314855	277294
Social Security Costs	27900	25129
Other Pension Costs	2688	2498
	<hr/>	<hr/>
	345443	304921
	<hr/>	<hr/>

The average weekly number of employees, including Directors during the year was 29 (1996 - 26) and these were engaged in the following activities:-

	<u>1997</u>	<u>1996</u>
Directors	3	3
Administrative and Clerical	2	2
Production	24	21
	<hr/>	<hr/>
	29	26
	<hr/>	<hr/>

ARROW ENGINEERING COMPONENTS LIMITED

NOTES TO THE ACCOUNTS (CONT/D)

4. DIRECTORS' REMUNERATION

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Emoluments of the Directors (including pension contributions)	57700	47508
Emoluments of the Chairman (excluding pension contributions)	27050	23308
Emoluments of the Highest Paid Director (excluding pension contributions)	27050	23308

Contributions under the Pension Scheme amounted to £1,200 (1996 - £1,200).

5. OPERATING PROFIT

Operating Profit is stated after charging the following:-

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Depreciation - Owned Assets	11562	12920
- Assets held under Hire Purchase Contracts	19033	13815
Profit on Sale of Assets	(524)	(6450)
Auditors' Remuneration	4850	4500
Directors' Remuneration	57700	47508
Office Equipment Hire	-	233

6. INTEREST PAYABLE AND SIMILAR CHARGES

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
On Loans Repayable Within 5 Years:-		
Overdrafts	2402	674
Sundry Loans	20152	17247
Hire Purchase Contracts (Repayable by Instalments)	2890	726
	<hr/>	<hr/>
	25444	18647
	<hr/>	<hr/>

ARROW ENGINEERING COMPONENTS LIMITED

NOTES TO THE ACCOUNTS (CONT/D)

7. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
United Kingdom Corporation Tax on Profits for the Year at 25%/24%	-	15833
	<hr/>	<hr/>

If full provision had been made at the Balance Sheet date for the potential amount of Deferred Taxation this would have amounted to £Nil (1996 - £Nil).

8. TANGIBLE FIXED ASSETS

<u>COST</u>	<u>Balance</u> <u>1.6.1996</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>31.5.1997</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Motor Vehicle Registration Plates	798	-	-	798
Motor Vehicles	63883	20871	1450	83304
Plant and Machinery	32203	2510	-	34713
Fixtures and Equipment	43592	4681	-	48273
Computer Equipment	9560	6256	-	15816
	<hr/>			
	150036	34318	1450	182904
	<hr/>			<hr/>

<u>DEPRECIATION</u>	<u>Balance</u> <u>1.6.1996</u>	<u>Provided In</u> <u>The Year</u>	<u>Eliminated</u> <u>On Disposal</u>	<u>Balance</u> <u>31.5.1997</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Motor Vehicles	19918	20826	724	40020
Plant and Machinery	20992	2434	-	23426
Fixtures and Equipment	28699	2677	-	31376
Computer Equipment	6601	4658	-	11259
	<hr/>			
	76210	30595	724	106081
	<hr/>			<hr/>

<u>WRITTEN DOWN VALUE</u>	<hr/>
	76823
	<hr/>

ARROW ENGINEERING COMPONENTS LIMITED

NOTES TO THE ACCOUNTS (CONT/D)

8. TANGIBLE FIXED ASSETS (CONT/D)

The Net Book Value of motor vehicles includes assets held under Hire Purchase Contracts amounting to £43,284 (1996 - £41,446).

Certain Fixed Assets have been fully depreciated and are still in use, these are as follows:-

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Motor Vehicles (at original cost)	7172	-
Plant and Machinery (at original cost)	16340	-
Fixtures and Equipment (at original cost)	27073	-
Computer Equipment (at original cost)	8399	1847
	<u>58984</u>	<u>1847</u>

9. STOCKS AND WORK-IN-PROGRESS

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Components, Bearings, Transmissions and Ancillary Equipment	<u>382500</u>	<u>334076</u>

10. DEBTORS

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Trade Debtors	358002	335964
Other Debtors	156	1522
Prepayments and Accrued Income	10138	9503
	<u>368296</u>	<u>346989</u>

All Debtors fall due for payment within one year of the Balance Sheet date.

ARROW ENGINEERING COMPONENTS LIMITED

NOTES TO THE ACCOUNTS (CONT/D)

11. CREDITORS

Amounts Falling Due Within One Year

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Bank Overdraft	69071	35592
Hire Purchase Creditors	25625	19878
Payments Received Against Factored Trade Debtors	261207	226740
Trade Creditors	234079	185254
Taxation and Social Security	29698	41828
Directors' Current Accounts	22577	24324
Accruals and Deferred Income	6311	5634
	<hr/> 648568	<hr/> 539250

Amounts Falling Due After More Than One Year

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
Hire Purchase Creditors	6745	19052
	<hr/>	<hr/>

The Hire Purchase Creditors are secured on the assets concerned.

12. CALLED-UP SHARE CAPITAL

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
<u>Authorised</u>		
Ordinary Shares of £1 each	200000	200000
	<hr/>	<hr/>
<u>Allotted, Called-Up and Fully Paid</u>		
Ordinary Shares of £1 each	165000	165000
	<hr/>	<hr/>

ARROW ENGINEERING COMPONENTS LIMITED

NOTES TO THE ACCOUNTS (CONT/D)

13. MOVEMENT ON SHAREHOLDERS' FUNDS

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
(Loss)/Profit for the Year	(24233)	40919
Opening Shareholders' Funds	196939	156020
	<hr/>	<hr/>
Closing Shareholders' Funds	172706	196939
	<hr/>	<hr/>

14. TRANSACTIONS WITH DIRECTORS

The Company occupies premises owned by Mr and Mrs R Arrowsmith. Rents were charged to the Company for the year amounting to £39,173 (1996 - £40,600). At the Balance Sheet date the amount outstanding was £Nil (1996 - £Nil).