ARTHUR
ANDERSEN

ARTHUR ANDERSEN & Co. SC

The Bronx Engineering Company Limited

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

Registered Number: 1119794

Directors' report

For the year ended 31 January 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 January 1995.

Principal activities and business review

The principal activities of the company continue to be the manufacture, supply and installation of heavy machinery lines for use in the steel, construction and metal forming industries.

Turnover and loss for the financial year were £3,392,000 and £853,000 respectively (1994 - £3,263,000 and £708,000 respectively).

Results and dividends

The results for the year were as follows:

	£'000
Accumulated deficit at 1 February 1994	6,799
Loss for the financial year	853
Transfer to revaluation reserve	794
Accumulated deficit at 31 January 1995	8,446

No dividend can be paid.

Directors and their interests

The directors who served during the year were:

A. N. Brown
C. E. Tomkins
R. I. Eyres
J. M. Henderson
A. R. Partridge

J. M. Henderson and R. I. Eyres are directors of the company's ultimate holding company, Verson International Group plc. Their interests in the share capital of the holding company are shown in the accounts of that company.

Directors' report (continued)

Directors and their interests (continued)

A. N. Brown holds options on 50,000 (1994 - 50,000) ordinary shares of 10p each of Verson International Group plc, exercisable at any time prior to 13 September 1997 at a price of 10p per share, and 10,000 (1994 - 10,000) options exercisable at any time prior to 26 April 1999 at a price of 34½p per share.

There are no other directors' interests required to be disclosed under Schedule 7 of the Companies Act 1985.

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 year. 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 changes in tangible fixed assets is given in note 7 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.

Dudley Road
Lye
West Midlands
DY9 8DS

By order of the Board,

B. Robinson

B. Robinson

Secretary

27 November 1995

Auditors' report

Birmingham

To the Shareholders of The Bronx Engineering Company Limited.

We have audited the accounts on pages 5 to 20 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 8 to 11.

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.

Fundamental uncertainty

During the year ended 31 January 1995 Verson International Group plc and subsidiary undertakings (the group) sustained operating losses of £5.9m and a loss for the financial year of £11.6m. As at the year end the group's borrowing and net assets were £57.9m and £6.6m respectively. In forming our opinion, we have considered the adequacy of the disclosures made in the accounts concerning the group directors' plans for ensuring the group has adequate funds for its future operations. Further details of these plans are given in note 1.

Because of the significance of the cross guarantee for group indebtedness (note 16b), if the group were unable to continue in operational existence for the foreseeable future, the company might also be unable to continue as a going concern. In that event adjustments would have to be made in these accounts to the balance sheet values of assets, provisions for further liabilities that might arise would be required, and changes to the balance sheet classifications of assets and liabilities would be needed. Our opinion is not qualified in this respect.

Auditors' report (continued)

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31 January 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

27 November 1995

Profit and loss account

For the year ended 31 January 1995

	Notes	1995 £'000	1994 £'000
Turnover	2	3,392	3,263
Cost of sales		(3,185)	(2,804)
Gross profit		207	459
Other operating expenses, net	3	(391)	(494)
Operating loss		(184)	(35)
Interest payable and similar charges	4	(669)	(673)
Loss for the financial year	5	(853)	(708)
Accumulated deficit, beginning of year		(6,799)	(6,111)
Transfer (to) from revaluation reserve		(794)	20
Accumulated deficit, end of year		(8,446)	(6,799)

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

The accompanying notes are an integral part of this profit and loss account.

Note of historical cost profits and losses

For the year ended 31 January 1995

	1995 £'000	1994 £'000
Reported loss for the financial year	(853)	(708)
Effect of revaluations on depreciation charge	21	20
Historical cost loss for the financial year	(832)	(688)

The accompanying notes are an integrate part of this statement.

Balance sheet

31 January 1995

	Notes	1995 £'000	1994 £'000
Fixed assets			
Tangible assets	7	4,781	1,910
Current assets			
Stocks	8	399	418
Debtors	9	1,441	2,562
		1,840	2,980
Creditors: Amounts falling due within one year	10	(13,776)	(11,009)
Net current liabilities		(11,936)	(8,029)
Total assets less current liabilities		(7,155)	(6,119)
Creditors: Amounts falling due after more than one year	11	-	(88)
Provisions for liabilities and charges	12	(274)	(369)
Net liabilities		(7,429)	(6,576)
Capital and reserves			
Called-up share capital	13	100	100
Revaluation reserve	14	917	123
Profit and loss account	14	(8,446)	(6,799)
Shareholders' funds - all equity	15	(7,429)	(6,576)

Signed on behalf of the Board

A.N. Brown Director

27 November 1995

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

Notes to accounts

For the year ended 31 January 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 certain tangible fixed assets and on the going concern basis (see k) below).

The accounts have been prepared in accordance with applicable accounting standards.

No cash flow statement is presented as a consolidated cash flow statement is included in the accounts of the ultimate holding company.

b) Tangible fixed assets

Tangible fixed assets are shown at professional valuation or cost, less accumulated depreciation. Related government grants are reported as deferred income, and amortised over the expected useful life of the asset concerned.

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

Land and buildings	40 years
Plant and machinery	5 to 20 years
Design archives	15 years

Profits or losses on the disposal of fixed assets are included in the calculation of operating profit.

c) Stocks and long-term contracts

In the case of long-term contracts turnover represents the estimated contract revenues on work done during the year. Contract revenues and profits are computed on the percentage-of-completion method, primarily by reference to labour hours, profit being determined after making reserves against all anticipated costs including possible warranty claims.

Long-term contract balances included in stocks comprise costs incurred on long-term contracts, net of amounts transferred to cost of sales, after deducting foreseeable losses and related payments on account. Costs include all direct material and labour costs incurred in bringing a contract to its state of completion at the year end, including an appropriate proportion of indirect expenses. Provisions for estimated losses on contracts are made in the period in which such losses are foreseen. Long-term contract balances do not include attributable profit.

Notes to accounts (continued)

1 Accounting policies (continued)

c) Stocks and long-term contracts (continued)

The excess of payments received over amounts recorded as turnover is classified under creditors due within one year. Amounts recoverable on contracts, being the amount by which recorded turnover is in excess of payments on account, is classified under debtors.

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

Provision is made for obsolete, slow-moving or defective items where appropriate.

d) Taxation

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

The company is part of a UK group and accordingly may use the group relief provisions whereby current taxable profits can be offset by current tax losses arising in other companies in the group. The group has a policy that no payment is made or received for tax losses received from or surrendered to other group companies.

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 reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

e) Pension costs

Pension contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company.

f) Foreign currency

Normal trading activities denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction, or where appropriate, at the exchange rate in the related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end, or where appropriate, at the exchange rate in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the profit and loss account.

g) Turnover

Turnover, other than that related to long-term contracts, comprises the value of sales (excluding VAT and trade discounts) of goods and services made in the normal course of business.

h) Research and development

Research and development expenditure is written off in the year of expenditure.

Notes to accounts (continued)

1 Accounting policies (continued)

i) Leases

The company enters into operating and finance 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. 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.

j) Revaluation reserve

Surpluses arising on the revaluation of tangible fixed assets are credited to a non-distributable revaluation reserve. Where depreciation charges are increased following a revaluation, an amount equal to such an increase is transferred annually from this reserve to the profit and loss account. On the disposal of a revalued tangible fixed asset any remaining surplus corresponding to the item is also transferred to the profit and loss account.

k) Basis of preparation of the accounts

The company and other subsidiary undertakings of Verson International Group plc (together the group) are liable under a cross guarantee for group indebtedness (see note 16b).

The continued losses of recent years have progressively weakened the group's financial position. At 31 January 1995, the group's net assets (which included intangible fixed assets of £8.5 million) were £6.6 million, and group borrowings (excluding guarantees and other contingent liabilities) were £57.9 million.

For some time now, it has been clear that group indebtedness is too high in relation to the group's net assets and scale of operations. The groups' directors have given consideration to the alternatives available to the group to achieve a significant reduction in borrowings. They have determined that, given the size of the group's debt and the expected increased requirement for working capital, the group's debt cannot be meaningfully reduced through improved operating performance alone and concluded that, as a first step, the group should dispose of British Federal Limited, which disposal was completed on 23 October 1995.

Late last year the group's directors announced that it was considering the partial demerger of its principal US operations via a listing on the NASDAQ stock exchange in the United States of America. However, since this announcement a number of US, European and Japanese businesses have approached the group with suggestions of various financial, and/or operational alliances with regard to the group's US businesses. The group's directors are still assessing the merits of these approaches.

1 Accounting policies (continued)

k) Basis of preparation of the accounts (continued)

The group's directors are committed, if possible, to materially reducing the group's debt at the earlier practical opportunity via the sale or partial flotation of one of its US operations, or via the entry into one or more financial and strategic alliances with regard to one or both of them.

Consistent with its arrangements in recent years the bank facilities which have been agreed by the group and its subsidiary undertakings in the United Kingdom, the United States and Belgium are solely for the benefit of the group's subsidiaries located in those countries. Accordingly, the group has limited ability to cross fund operations. The group continues to have the support of its principal banks in the United States, Belgium and the United Kingdom. The group has been in breach of certain of the covenants contained within the facilities made available by its principal bank in the United States and while fresh facilities have been offered to the group, certain terms, including new covenants, need to be negotiated with the bank. Certain of the group's small facilities will, also, need to be renegotiated.

Overall, the group is currently trading at the limit of its bank facilities and in order to continue to operate within its agreed facilities, a significant improvement in sales and margin levels is required. This in turn will depend upon, inter alia, a substantial and early improvement in the level of order intake in comparison with the year to date.

Shareholders should recognise that the group's principal facilities are repayable on demand at any time and, in addition to the above matters, it remains at risk, inter alia, from the fluctuations in cashflows inherent in the group's operations, from unforeseen events in the terms of trading and particularly the pattern of cashflows with its suppliers and customers, and from unforeseen events.

To the extent that the group is unable to continue to operate within its facilities, it would need to seek the further support of its banks.

Whilst the directors recognise that there are significant uncertainties as to the outcome of the above, they believe that it is appropriate for the accounts to be prepared on the going concern basis.

Notes to accounts (continued)

2 Segment information

All turnover and operating losses derive from the company's principal continuing activities, which are carried out wholly in the United Kingdom.

Contributions to turnover by geographical destination were as follows:

	1995 £'000	1994 £'000
United Kingdom	2,116	1,367
Other European Countries	268	124
North America	64	315
Africa	894	762
Far East	31	541
Other	19	154
	3,392	3,263

3 Other operating expenses, net

	1995 £'000	1994 £'000
Selling, marketing and distribution costs	392	431
Group management charge	150	80
Other (including exchange gains and losses)	(151)	(17)
	391	494

4 Interest payable and similar charges

	1995 £'000	1994 £'000
On bank overdraft and other loans, repayable within 5 years, not by instalments	493	476
On amounts due to ultimate holding company	150	158
On finance leases and hire purchase contracts	26	39
	669	673

Notes to accounts (continued)

5 Loss for the financial year

Loss for the financial year is stated after charging:

	1995 £'000	1994 £'000
Depreciation of tangible fixed assets		
- owned	147	131
- held under finance leases and hire purchase contracts	103	105
Hire of plant and machinery under operating leases	47	46
Other operating lease rentals	161	161
Auditors' remuneration		
- audit services	13	11
- other services	12	2
Staff costs (note 6)	1,442	1,441

6 Staff costs

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

Employee costs during the year amounted to:

	1995 £'000	1994 £'000
Wages and salaries	1,283	1,329
Social security costs	106	112
Pension costs	53	-
	1,442	1,441

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

	1995 Number	1994 Number
Design and manufacturing	59	64
Sales and marketing	10	8
Management and administration	11	13
	80	85

Notes to accounts (continued)

6 Staff costs (continued)

Directors' remuneration

Directors' remuneration was as follows:

	1995 £'000	1994 £'000
Emoluments (including pension contributions)	131	114

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

	1995 £'000	1994 £'000
Highest paid director	54	55

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

	1995 Number	1994 Number
Up to £ 5,000	2	4
£ 25,001 - £ 30,000	-	1
£ 30,001 - £ 35,000	-	1
£ 35,001 - £ 40,000	1	-
£ 40,001 - £ 45,000	1	-
£ 50,001 - £ 55,000	1	1

Notes to accounts (continued)

7 Tangible fixed assets

a) The movement in the year was as follows:

	Land and buildings £'000	Plant and machinery £'000	Design archives £'000	Total £'000
Cost or valuation				
Beginning of year	-	3,712	310	4,022
Additions	-	83	-	83
Transfer from parent undertaking	3,481	-	-	3,481
End of year	3,481	3,795	310	7,586
Depreciation				
Beginning of year	-	2,009	103	2,112
Charge	-	229	21	250
Transfer from parent undertaking	443	-	-	443
End of year	443	2,238	124	2,805
Net book value				
Beginning of year	-	1,704	207	1,910
End of year	3,038	1,557	186	4,781

b) Included in plant and machinery are leased assets with a net book value of £368,000 (1994 - £471,000).

c) Design archives are included in the accounts, based upon a professional valuation at 31 January 1986. Additions subsequent to that date are included at cost.

d) Certain items of plant and machinery were professionally valued in 1989.

e) Original cost and aggregate depreciation based on cost of land and buildings:

	1995 £'000	1994 £'000
Original cost	2,551	-
Depreciation based on cost	(619)	-
	1,932	-

Notes to accounts (continued)

8 Stocks

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

	1995 £'000	1994 £'000
Work-in-progress	391	252
Raw materials and spare parts	180	166
	571	418
Less progress payments	(172)	-
	399	418

9 Debtors

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

	1995 £'000	1994 £'000
Trade debtors	324	1,019
Amounts recoverable on contracts	372	793
Supplier deposits	-	28
Amounts owed by other group undertakings	600	466
VAT	31	68
Other debtors	17	102
Prepayments and accrued income	97	86
	1,441	2,562

10 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	1995 £'000	1994 £'000
Obligations under finance leases and hire purchase contracts	98	169
Bank loan and overdrafts (secured)	6,849	6,373
Payments received on account and contract completion reserves	210	456
Trade creditors	442	505
Amounts owed to other group undertakings	5,789	3,092
Other creditors		
- Social security and PAYE	78	76
Accruals and deferred income	310	338
	13,776	11,009

Bank borrowings are secured by a fixed and floating charge over the assets of the company.

Certain of the amounts owed to group undertakings bear interest at market rates.

11 Creditors: Amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

	1995 £'000	1994 £'000
Obligations under finance leases and hire purchase contracts	-	88

12 Provisions for liabilities and charges

Provisions for liabilities and charges comprise:

	1995 £'000	1994 £'000
Deferred taxation	161	161
Provisions for repairs under warranty	113	208
	274	369

a) Deferred taxation

Deferred taxation has been provided to the extent that the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is probable that part of the liability will crystallise.

Notes to accounts (continued)

12 Provisions for liabilities and charges (continued)

a) Deferred taxation (continued)

Deferred taxation provided and not provided comprises:

	1995 £'000 Provided	1995 £'000 Not provided	1994 £'000 Provided	1994 £'000 Not provided
Excess of tax allowances over book depreciation of fixed assets	161	-	161	-
Tax on capital gains deferred under roll-over provisions	-	-	-	108
	161	-	161	108

No deferred taxation has been provided in respect of the revaluation reserve.

b) Provision for repairs under warranty

The movement in the provision for repairs under warranty was as follows:

	1995 £'000	1994 £'000
Beginning of year	208	122
Charged to profit and loss account in year	60	120
Expenditure in year	(155)	(34)
End of year	113	208

13 Called-up share capital

Called-up share capital comprises:

	1995 £'000	1994 £'000
Authorised, allotted, called-up and fully- paid:		
100,000 ordinary shares of £1 each	100	100

Notes to accounts (continued)

14 Reserves

The movement on reserves was as follows:

	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
Beginning of year	123	(6,799)	(6,676)
Transfer from (to) revaluation reserve			
- current year	(21)	21	-
- arising on transfer from group company	815	(815)	-
Retained loss for the year	-	(853)	(853)
End of year	917	(8,446)	(7,529)

The transfer from retained earnings to the revaluation reserve of £815,000 arises as a result of the transfer during the year from the holding company of a property formerly owned by the company. The revaluation reserve released to retained earnings at the time of the original transfer has been reinstated less an amount for amortisation during the intervening period.

15 Reconciliation of movement in shareholders' funds

The movement in shareholders' funds was as follows:

	1995 £'000	1994 £'000
Loss for the financial year	(853)	(708)
Shareholders' funds, beginning of year	(6,576)	(5,868)
Shareholders' funds, end of year	(7,429)	(6,576)

16 Guarantees and other financial commitments

a) Capital commitments

The company had no capital commitments at either year end.

b) Contingent liabilities

i. The company has given guarantees in respect of advance payments and performance bonds totalling £184,000 (1994 - £202,000).

ii. The company is liable under a guarantee given to the group's bankers as security for group indebtedness. The total amount of indebtedness covered by this guarantee at 31 January 1995, excluding borrowings reflected in the company's balance sheet and guarantees in respect of advance payments and performance bonds set out above, was approximately £31,817,000 (1994 - £27,935,000).

Notes to accounts (continued)

16 Guarantees and other financial commitments (continued)

c) Operating leases

The company has entered into non-cancellable operating leases in respect of certain items of plant and machinery.

The minimum annual rentals under these leases are as follows:

	1995 £'000	1994 £'000
Operating leases which expire:		
- within 1 year	41	40
- within 2-5 years	49	49
	90	89

d) Pension arrangements

The majority of the employees of the company belong to the Verson International Group Pension Fund (the Scheme), which provides benefits based on final pensionable pay. The assets of the Scheme are held in a separate trustee administered fund. Contributions to the Scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with each company within the Verson group.

The contributions are determined by a qualified actuary (on the basis of periodic valuations) using the projected unit credit method of funding. For the purposes of calculating the charge to the profit and loss account, it was assumed that the investment return value would be 10% per annum, that salary increases would average 7% per annum, and that pensions in payment would be indexed in accordance with statutory requirements as at the date of the actuarial valuation.

The most recent valuation was at 6 April 1994. Further details of the Scheme and the actuarial valuation are given in the accounts of the company's parent company, Verson International Group plc.

17 Ultimate holding company

The ultimate holding company is Verson International Group plc, whose registered office is at Dudley Road, Lye, West Midlands, England, DY9 8DS. Verson International Group plc produces accounts into which the company's results are consolidated, which are available from the same address.