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MASSEY-FERGUSON (UNITED KINGDOM) LIMITED

REPORT AND FINANCIAL STATEMENTS

31ST JANUARY, 1988

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## CONTENTS

## Page

Notice of Meeting	1
Directors and Company Information	2
Directors' Report	3-5
Profit and Loss Account	6
Balance Sheet	7
Statement of Source and Application of Funds	8-9
Notes to the Financial Statements	10-20
Auditors' Report	21

MASSEY-FERGUSON (UNITED KINGDOM) LIMITED

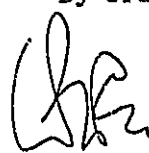
35 DAVIES STREET, LONDON, W1Y 2EA

NOTICE OF MEETING

Notice is hereby given that the annual general meeting of the Company will be held at the Registered Office, 35 Davies Street, London, W1Y 2EA on Friday, October 21, 1988 at 9.30 am to transact the following business:

1. To approve and adopt the Company's Financial Statements for the year ended January 31, 1988 together with the Reports of the Directors and Auditors thereon.
2. To re-elect Directors.
3. To re-appoint the Auditors.
4. To authorise the Directors to fix the remuneration of the Auditors.

By Order of the Board



C. PIKETT  
Secretary

September 28, 1988

A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member.

MASSEY-FERGUSON (UNITED KINGDOM) LIMITED

35 DAVIES STREET, LONDON, W1Y 2EA

NOTICE OF MEETING

Notice is hereby given that the adjourned annual general meeting of the Company will be resumed and held at the Registered Office, 35 Davies Street, London, W1Y 2EA on Friday, March 3rd, 1989 at 9.30 am to transact the following business:

To approve and adopt the Company's Financial Statements for the year ended January 31, 1988 together with the Reports of the Directors and Auditors thereon.

By Order of the Board



C. PIKETT

7th February, 1989

A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member.

DIRECTORS

M.G. Bird, Chairman

F.J. Chapman

D.I. Franklin

A.D. Jones

A.P. Jones

SECRETARY

C. Pikett

REGISTERED OFFICE

35 Davies Street  
London  
W1Y 2EA

## DIRECTORS' REPORT

The directors of Massey-Ferguson (United Kingdom) Limited have pleasure in submitting their annual report and the Company's financial statements for the year ended January 31, 1988.

### BUSINESS REVIEW

The principal activities of the Company are marketing and selling agricultural and industrial tractors, combine harvesters and agricultural machinery and implements.

The demand for tractors world-wide remained depressed during 1987, despite this the Company improved its global market share for the fourth consecutive year. Notable gains were made in France, Germany, North America and the territories handled by International Operations.

Apart from some possible growth in North America, no significant improvements in the market are anticipated during 1988.

The financial results are summarised below.

	Year to January 31, 1988	Year to January 31, 1987 Restated
	£000	£000
TURNOVER	<u>334,927</u>	<u>293,131</u>
Profit on ordinary activities before taxation	2,388 =====	803 =====
Retained profit for the year	2,388 =====	2,566 =====

### DIVIDEND

The directors recommend that no dividend be declared for the year ended January 31, 1988 in accordance with the terms of the refinancing agreements set out in notes 2 and 3 to the financial statements.

### SHARE CAPITAL

The Company is a wholly-owned subsidiary of Massey-Ferguson Manufacturing Limited, a Company wholly-owned by Varity Holdings Limited, the shares of which are subject to a voting trust agreement whereby the rights attaching to the shares may be exercised by trustees for the UK Group's lenders on the occurrence of an "enabling event" under the refinancing agreement.

The Company's ultimate holding company is Varity Corporation, a company incorporated in Canada.

## DIRECTORS

The following were directors of the Company who served throughout 1987:

M.G. Bird  
A.C. Hodson

Mr. J.B. Westrope resigned on April 3, 1987, Mr. T.S. Glover resigned on May 1, 1987, Mr. E.D. Gregory resigned on July 31, 1987, and Mr. A.C. Hodson resigned on July 13, 1988.

Mr. A.D. Jones was appointed on May 1, 1987, Mr. D.I. Franklin was appointed on May 6, 1987, and Mr. F.J. Chapman was appointed on July 13, 1988.

Mr. A.P. Jones was appointed on January 20, 1989.

The present directors are shown on page 2. In accordance with the Articles of Association, the present directors all retire and, being eligible, offer themselves for re-election.

## TANGIBLE FIXED ASSETS

A professional valuation of the Company's interest in land and buildings was carried out as at April 30, 1980. The surplus arising over book values has been credited to reserves.

In the opinion of the directors, the market value of certain of the Company's properties is in excess of book value, but in the absence of a professional valuation the directors are unable to quantify this amount.

Additions to tangible fixed assets during the year amounted to £1,000. (1987 £ Nil)

## DIRECTORS' INTERESTS

No director had any beneficial interest in any shares or debentures of the Company or any other UK Group company at any time during the financial year, or at the date of this report. There were no contracts, including service contracts, subsisting between any director and the Company either during or at the end of the financial year, or at the date of this report.

## AMOUNTS GIVEN FOR POLITICAL OR CHARITABLE PURPOSES

Donations to charitable organisations amounted to £70. There were no political contributions.

## STATUS OF REFINANCING

On May 9th, 1986, Varity Corporation (the Company's ultimate holding company), together with its subsidiaries (the World-wide Group), successfully completed negotiations for a radical refinancing plan with its lenders and the Governments of Canada, Ontario, and the United Kingdom. This involved the disposal of the Canadian Combines Division and debt and share capital restructuring. The impact of these agreements upon Varity Holdings Limited and its subsidiaries (the UK Group) is set out in notes 2 & 3 to the financial statements.

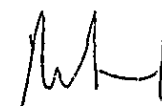
During the period under review, the UK Group failed to meet some of the requirements under the Refinancing Agreements but successfully renegotiated lower requirements with its lenders under supplementary agreements entered into in April 1987. These revised requirements were effective until March 31, 1988 when the original 1986 Agreement undertakings reverted. The UK Group has been successful in agreeing, in principal, with its lenders to extend lower requirements for a further year and all these arrangements are set out in notes 2 & 3 to the financial statements.

At January 31, 1988, and at the date of this report, the UK Group was in compliance in all material respects with all the covenants included in the Refinancing Agreements as amended.

#### AUDITORS

Arthur Young have expressed their willingness to continue in office as auditors and a resolution re-appointing them will be proposed at the Annual General Meeting.

On behalf of the Board

  
M.G. BIRD  
Chairman

February 7 1989  
~~September 28, 1988~~



Massey-Ferguson (United Kingdom) Limited

Profit and Loss Account and Statement of Retained Earnings  
For the year ended January 31, 1988

	Notes	Year to January 31, 1988 £000	Year to January 31, 1987 Restated £000
TURNOVER	4	334,927	293,131
Cost of sales		(306,389)	(267,880)
GROSS PROFIT		28,538	25,251
Administration expenses		(6,227)	(6,684)
Interest receivable and similar income	5	4,522	5,221
Interest payable and similar charges	6	(24,445)	(23,459)
Exceptional items	7	—	474
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	8	2,388	803
Tax on profit on ordinary activities	22	—	1,763
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED PROFIT FOR THE YEAR		2,388	2,566
Retained loss brought forward	9	(13,642)	(16,217)
Transfer from revaluation reserve in respect of depreciation on revaluation surplus	19	9	9
RETAINED LOSS CARRIED FORWARD		(11,245)	(13,642)
		=====	=====

The notes on pages 10 to 20 form part of these financial statements

# Macsey-Ferguson (United Kingdom) Limited

Balance Sheet  
January 31, 1988

	Notes	January 31, 1988 £000	January 31, 1987 Restated £000
<b>FIXED ASSETS:</b>			
Tangible assets	10	86	102
Investments	11	<u>385</u>	<u>474</u>
		<u>471</u>	<u>576</u>
<b>CURRENT ASSETS:</b>			
Stock	12	1,621	6,701
Debtors	13	215,843	206,074
Lease receivables from a group company	14	9,810	11,057
Cash at bank and in hand		<u>245</u>	<u>96</u>
		227,519	222,928
Creditors: amounts falling due within one year	15	<u>(26,457)</u>	<u>(22,415)</u>
		201,062	201,513
Net current assets		201,533	202,089
Total assets less current liabilities		<u>(212,727)</u>	<u>(215,671)</u>
Creditors: amounts falling due after more than one year	16	<u>(11,194)</u>	<u>(13,582)</u>
<b>NET LIABILITIES</b>			
<b>CAPITAL AND RESERVES:</b>			
Called up share capital	18	10	10
Revaluation reserve	19	41	50
Profit and loss account		<u>(11,245)</u>	<u>(13,642)</u>
		<u>(11,194)</u>	<u>(13,582)</u>

The notes on pages 10 to 20 form part of these financial statements.

APPROVED BY THE BOARD OF DIRECTORS  
on ~~September 28, 1988~~ February 7, 1989

M.G. BIRD

Director

F.J. CHAPMAN

Director

Massey-Ferguson (United Kingdom) Limited

Statement of Source and Application of Funds  
For the year ended January 31, 1988

	Year to January 31, 1988	Year to January 31, 1987 Restated
	£000	£000
<b>SOURCE OF FUNDS:</b>		
Profit on ordinary activities before taxation (excluding interest forgiveness)	2,388	329
Adjustment for items not involving the movement of funds:		
Depreciation	17	17
Translation difference	64	33
Reclassification	<u>-</u>	<u>106</u>
Total generated from operations	2,469	485
Other sources:		
Decrease in lease receivables	1,247	-
Interest forgiveness (exceptional item)	-	474
Disposal of investments	25	62
Group relief received	<u>-</u>	<u>1,763</u>
	3,741	2,784
	=====	=====
<b>APPLICATION OF FUNDS:</b>		
Purchase of fixed assets	1	-
Increase in lease receivables	-	1,435
Loans repaid	2,944	186
Increase in working capital - Note A	<u>796</u>	<u>1,163</u>
	3,741	2,784
	=====	=====

The notes on pages 10 to 20 form part of these financial statements.

	Year to January 31, 1988 £000	Year to January 31, 1987 Restated £000
NOTE A		
INCREASE IN WORKING CAPITAL:		
Stocks	(5,080)	1,436
Debtors	9,769	(4,074)
Creditors	<u>(3,706)</u>	<u>4,102</u>
	983	1,464
(Decrease)/increase in net liquid funds:		
Cash at bank and in hand	149	(359)
Bank overdraft	<u>(336)</u>	<u>58</u>
Increase in working capital	796	1,163
	=====	=====

The notes on pages 10 to 20 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

#### Basis of accounting

Certain land and buildings are stated at revalued amounts; all other items are stated in the financial statements under the historical cost convention. The Company has received assurances from Varity Holdings Limited, and from its fellow subsidiaries, that they will continue to provide financial support to enable the Company to meet its liabilities as they fall due.

#### Exchange

Assets and liabilities denominated in foreign currencies have been translated into Sterling at the appropriate rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are translated into Sterling at the rate ruling at the date of the transaction. All exchange differences are included in arriving at the profit on ordinary activities for the year.

#### Stock

Stock is stated at the lower of cost and estimated net realisable value. Cost includes direct material and labour together with related overhead expenses. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

#### Fixed Assets

Government grants have been deducted from the cost of the relevant fixed assets and depreciation provided on the net amount. Depreciation is provided on a straight-line basis in order to write-off each asset over the term of its estimated useful life. The annual rates applied to cost or valuation are set out below:

Short term leases	- Over the period of the lease
Plant and equipment	- 10-20 %
Fixtures and fittings and other equipment	- 10-20 %

#### Leasing commitments

Rentals paid under operating leases are charged to income on a straight-line basis over the term of the lease.

#### Leasing interest

The interest element of the rental income is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments receivable.

## Revaluation reserve

The revaluation reserve represents the difference between the net book values of revalued assets and the equivalent amounts on a historical cost basis. This requires an annual transfer from the revaluation reserve to retained profits of an amount equal to the portion of the depreciation charge that relates to the revaluation surplus (see note 19).

## Deferred taxation

Deferred taxation is provided under the liability method on all timing differences to the extent that they are expected to reverse in the future, calculated at the rate at which it is estimated that tax will be payable.

## 2. REFINANCING

Varity Corporation, a company incorporated in Canada, which, together with its subsidiaries, is referred to as the World-wide Group, is the ultimate holding company of Varity Holdings Limited and its subsidiaries (the UK Group). The UK Group engages in a substantial volume of purchases from and sales to overseas members of the World-wide Group and is associated by means of cross default clauses with certain important debt agreements entered into by overseas members of the World-wide Group. At January 31, 1988 £198,368,000 (1987 £201,774,000) was owing to the Company by overseas members of the World-wide Group. The Company had at that date contingent liabilities in respect of discounted bills drawn on overseas members of the World-wide Group amounting to £21,771,000 (1987 £16,146,000).

## 3. REFINANCING - COVENANTS AND UNDERTAKINGS

On May 9, 1986, Varity Corporation and its major subsidiaries (including the finance subsidiary) entered into refinancing agreements with substantially all of the World-wide Group's lenders. These provided for covenants on a world-wide consolidated basis, in addition to covenants by the individual subsidiaries. The agreements also contain various cross default provisions which, if breached, may cause acceleration of substantially all indebtedness (including that of the finance subsidiary) and the reinstatement of certain debt obligations.

The major obligations under this agreement for the UK Group in respect of the balance sheet were:-

- (a) UK Group net worth as defined (including subordinated debt) will not at any time fall below £130 million on or after May 9, 1986.
- (b) The ratio of the UK Group's total liabilities to net worth will not at any time exceed 3:1.
- (c) The amount of trade and services debt owing by non-UK companies within the World-wide Group to the UK Group will not exceed £100 million and £3.1 million respectively and all such amounts must be within the UK Group's normal terms of intercompany trade as defined in the agreements.
- (d) The maintenance of borrowing base ratios, i.e. the relationship of major assets to the level of borrowings, must be in excess of 100 per cent.

In addition, other clauses concerning operational matters, such as disposal of major fixed assets, additional borrowing and relationship with finance subsidiary, were included.

During the period to January 31, 1987 the UK Group failed to meet the borrowing base test and as at January 31, 1987 was unable to comply with the net worth covenant. In December 1986 the UK Group renegotiated the borrowing base level to March 1987.

In April 1987 the UK Group successfully renegotiated further lower net worth and borrowing base covenants covering the period to March 31, 1988 in the following minimum amounts and percentages:

	<u>Net Worth Covenant</u> <u>£ Million</u>	<u>Borrowing Base Covenant</u> <u>%</u>
Up to and including May 2, 1987	110	72.5
May 3, 1987 to October 31, 1987	107	70
November 1, 1987 to January 30, 1988	107	75
On January 31, 1988	115	85
February 1, 1988 to March 31, 1988	110	75

At January 31, 1988 the UK Group was in compliance in all material respects with all the covenants included in the Refinancing Agreements as amended.

The lenders have agreed in principle to extending the above scheme for 1988 as follows:

	<u>Net Worth Covenant</u> <u>£ Million</u>	<u>Borrowing Base Covenant</u> <u>%</u>
April 1, 1988 to July 29, 1988	115	80
July 30, 1988 to January 30, 1989	120	80
On January 31, 1989	130	100
February 1, 1989 to March 31, 1989	130	90
April 1, 1989 onwards	130	

In the case of the borrowing base the 1989 covenant would be renegotiated prior to the end of March 1989.

The annual report for the year to January 31, 1988 of Varity Corporation contains the following statement concerning covenant compliance:

"Management believes that the Company will remain in compliance in all material respects with its covenants during the year ending January 31, 1989. However, if any events of non-compliance should occur, management believes that the Company has the ability to repair such an event or, if necessary, renegotiate the related covenant."

#### 4. TURNOVER

Turnover comprises amounts receivable (net of related value added tax) by the Company for goods sold and services provided. Turnover includes sales to overseas Massey-Ferguson companies of £62,844,000 (1987 £57,328,000). All products for resale are purchased from a fellow UK subsidiary.

	Year to January 31, 1988 £000		Year to January 31, 1987 £000	
		%		%
Geographical analysis by market:				
United Kingdom	84,552	25	83,942	29
Europe	78,646	24	64,080	22
North America	51,117	15	46,929	16
Asia	49,477	15	44,610	15
Africa	61,176	18	44,719	15
South America	5,404	2	6,706	2
Australasia	<u>4,555</u>	<u>1</u>	<u>2,145</u>	<u>1</u>
	334,927	100	293,131	100
	=====	===	=====	===

#### 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year to January 31, 1988 £000	Year to January 31, 1987 Restated £000
Interest and other income receivable from third parties	18	31
Lease rentals receivable from a group company	401	355
Interest and other income receivable from World-wide Group companies	<u>4,103</u>	<u>4,835</u>
	4,522	5,221
	=====	=====



# 6. INTEREST PAYABLE AND SIMILAR CHARGES

Year to January 31, 1988 £000	Year to January 31, 1987 £000
--	--

Interest and similar charges payable to third parties in respect of bank loans, overdrafts and other loans

- wholly repayable within five years  
- repayable in more than five years

2,466	1,663
1,567	1,931

Interest and similar charges payable to World-wide Group companies in respect of loans

- wholly repayable within five years  
- repayable in more than five years

14,856	15,507
488	-

Finance charges paid to a fellow subsidiary

<u>5,068</u>	<u>4,358</u>
--------------	--------------

24,445	23,459
=====	=====

# 7. EXCEPTIONAL ITEMS

Year to January 31, 1988 £000	Year to January 31, 1987 £000
--	--

Interest forgiven under refinancing agreements (see note 2)

-	474
===	===

# 8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Year to January 31, 1988 £000	Year to January 31, 1987 £000
--	--

Profit on ordinary activities before taxation is after charging/ (crediting) the following:

Transaction exchange gain  
Depreciation  
Operating lease rentals

(1,100)	(1,067)
17	17
11	11

The Company has no employees. No auditors' fees, directors' fees, or other emoluments were incurred during the year ending January 31, 1988, or the year ending January 31, 1987.

## 9. PRIOR YEAR ITEM

The Company has previously incorrectly accounted for the rental receivable on certain lease receivables from a group company for the years ended January 31, 1985, January 31, 1986 and January 31, 1987. The comparative figures have been restated to record the rentals correctly as lease receivables as opposed to tangible fixed assets.

The effect of this restatement on the reserves of the Company is as follows :

	Year to January 31, 1988 £000	Year to January 31, 1987 £000
Profit and loss account balance as previously reported	(13,862)	(16,323)
Additional interest income for lease rentals	<u>220</u>	<u>106</u>
Reserves brought forward restated	(13,642) =====	(16,217) =====

## 10. TANGIBLE FIXED ASSETS

	Short Leases £000	Plant and Equipment £000	Fixtures Fittings and other Equipment £000	Total £000
Cost or valuation				
At January 31, 1987	198	46	16	260
Additions	<u>-</u>	<u>-</u>	<u>1</u>	<u>1</u>
At January 31, 1988	<u>198</u>	<u>46</u>	<u>17</u>	<u>261</u>
At cost	-	46	17	63
At valuation				
April 30, 1980	198 ===	- ===	- ===	198 ===
Depreciation				
At January 31, 1987	101	42	15	158
Charge for the year	<u>15</u>	<u>2</u>	<u>-</u>	<u>17</u>
At January 31, 1988	<u>116</u>	<u>44</u>	<u>15</u>	<u>175</u>
Net book value at				
January 31, 1988	82 ===	2 ===	2 ===	86 ===
Net book value at				
January 31, 1987	97 ===	4 ===	1 ===	102 ===

Short leases were valued at April 30th, 1980 by Jackson Stops & Staff, Chartered Surveyors, on the basis of open market value, assuming vacant possession of those properties occupied by the UK Group but otherwise subject to existing tenancies.

The historical cost of tangible fixed assets at valuation and depreciation calculated thereon, are as follows:-

Short Leases	£000
At January 31, 1988	
Cost	127
Depreciation	(127)
Net book value	-
	====
At January 31, 1987	
Cost	127
Depreciation	(126)
Net book value	. 1
	====

#### 11. INVESTMENTS

The investments are stated at cost less provisions.

	Shares in group companies £000	Other investments (unlisted) £000	Total £000
At January 31, 1987	1	473	474
Exchange	-	(64)	(64)
Disposals	-	(25)	(25)
At January 31, 1988	1	384	385
	===	===	===

#### Shares in group companies

The Company is the beneficial owner of the allotted share capitals of Massey-Ferguson Group Limited and Massey-Ferguson (Export) Limited (both registered in England). These subsidiaries have not traded during the year to January 31, 1988. Group accounts are not submitted as the Company is a wholly-owned subsidiary of Massey-Ferguson Manufacturing Limited, which is itself a wholly-owned subsidiary of Varity Holdings Limited.

#### Other investments (unlisted)

Comprise a 1.3 per cent equity investment in I.M.A.P.E. S.A., an investment holding company incorporated in Brazil.

## 12. STOCK

	January 31, 1988 £000	January 31, 1987 £000
Finished goods and parts	1,621 =====	6,701 =====

## 13. DEBTORS

	January 31, 1988 £000	January 31, 1987 £000
Trade debtors	15,865	1,832
Amounts owed by Varity Corporation	-	289
Amounts owed by fellow subsidiaries	199,606	200,536
Other debtors	166	813
Amounts owed by related companies	-	2,375
Prepayments and accrued income	206	229
	215,843 =====	206,074 =====

## 14. LEASE RECEIVABLES FROM A GROUP COMPANY

	January 31, 1988 £000	January 31, 1987 Restated £000
Lease receivables brought forward	11,057	9,705
Additions in year	558	2,751
Repayments	(1,805)	(1,399)
Lease receivables carried forward	9,810 =====	11,057 =====

Included within lease receivables are amounts of £7,863,000 (1987 £9,252,000) due after more than one year. The cost of assets under finance leases amount to £14,005,000 (1987 £13,447,000).

Aggregate lease receivables for the year amounted to £2,206,000 (1987 £1,755,000).

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	January 31, 1988 £000	January 31, 1987 £000
Payments on account	1,484	-
Trade creditors	11,908	9,206
Overdrafts (secured - see note 17)	364	28
Amounts owed to fellow subsidiaries	3,005	1,229
Amounts owed to related companies	-	227
Accruals and deferred income	<u>9,696</u>	<u>11,725</u>
	26,457	22,415
	=====	=====

Amounts owed to fellow subsidiaries

Included in the amount owed to fellow subsidiaries is £783,000 (1987 £411,000) accrued interest on a subordinated Canadian Dollar loan from Massey-Ferguson Nederland N.V. Interest is accrued in respect of this loan at 1 per cent over the Canadian prime rates of the Canadian Imperial Bank of Commerce and The Royal Bank of Canada on the last business day of the month preceding the month in which the interest is payable. The loan is repayable on demand after July 16, 1991.

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	January 31, 1988 £000	January 31, 1987 Restated £000
Amounts owed to fellow subsidiaries	<u>212,727</u>	<u>215,671</u>
	=====	=====

(a) Included in the balance owed to fellow subsidiaries is a loan of £35,150,000 from Massey-Ferguson Manufacturing Limited (1987 £35,150,000). Interest applicable to the loan is identical to that charged by the banks on the syndicated loans to Massey-Ferguson Manufacturing Limited and Perkins Engines Group Limited, which is LIBOR plus 7/8 per cent.

(b) The remaining loans are not interest bearing.

17. CHARGE ON ASSETS

A fixed and floating charge over the assets of the UK Group, excluding the Finance Company, has been given to the UK lending banks, to the Export Credits Guarantee Department and to the Varity Holdings Limited Debenture Stock holders.

# 18. SHARE CAPITAL

	January 31, 1988 £000	January 31, 1987 £000
Ordinary shares:		
Authorised: 10,000 shares of £1 per share	10 ==	10 ==
Allotted, called up and fully paid	10 ==	10 ==

# 19. REVALUATION RESERVE

	January 31, 1988 £000	January 31, 1987 £000
At January 31, 1987	50	59
Transfer to profit and loss in respect of depreciation on revaluation surplus (see note below)	(9)	(9)
At January 31, 1988	41 ==	50 ==

The Company's accounting policy for depreciation is that a transfer is made from revaluation reserve to retained profits each year equivalent to the depreciation charge which relates to the revaluation surplus. All depreciation is charged in arriving at profit for the year.

# 20. COMMITMENTS

Capital commitments, for which no provision has been made in these accounts, were as follows:

	January 31, 1988 £000	January 31, 1987 £000
Committed	28	1,771
Authorised, but not committed	<u>575</u>	<u>1,780</u>
	603 =====	3,551 =====

# 21. CONTINGENT LIABILITIES

At January 31, 1988 there were contingent liabilities in respect of bills discounted amounting to £21,771,000 (1987 £16,146,000) after deduction of amounts estimated to be recoverable on the exercise of rights of recourse to the Export Credits Guarantee Department.

The Company has counter-indemnified Lloyds Bank Plc and Sun Alliance Insurance Group Plc in respect of performance bonds amounting to £780,000. (1987 £1,972,000). The bonds have been insured with the Export Credits Guarantee Department against unfair calling.

## 22. TAX ON PROFIT ON ORDINARY ACTIVITIES

	January 31, 1988 £000	January 31, 1987 £000
Group tax relief surrendered to finance subsidiary	- =====	1,763 =====

There is no UK tax charge for the year (1987 £ nil) due to the utilisation of tax losses brought forward, and group relief surrendered by a group company.

Deferred taxation provided in the accounts amounts to £ nil. (1987 £ nil).

The amounts not provided are as follows:-

	January 31, 1988 £000	January 31, 1987 £000
Capital allowances in advance of depreciation	1,342	1,276
Other timing differences	<u>(276)</u>	<u>(146)</u>
	1,066 =====	1,130 =====

This liability is offset by the Company's tax losses carried forward which amount to approximately £3,158,000 (1987 £3,457,000) (gross).

AUDITORS' REPORT

TO THE MEMBERS OF MASSEY-FERGUSON (UNITED KINGDOM) LIMITED

We have audited the financial statements on pages 6 to 20 in accordance with approved Auditing Standards.

In our opinion, the financial statements, which have been prepared under the historical cost convention, as modified by the revaluation of certain land and buildings, give a true and fair view of the state of affairs of the Company at January 31, 1988, and of the results and source and application of funds of the Company for the year then ended, and comply with the Companies Act, 1985.

Arthur Young

February 28, 1989.

ARTHUR YOUNG  
Chartered Accountants  
London