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MASSEY-FERGUSON (UNITED KINGDOM) LIMITED

REPORT AND FINANCIAL STATEMENTS

31ST JANUARY 1985



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MASSEY-FERGUSON (UNITED KINGDOM) LIMITED


33 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 Massey-Ferguson House, 33 Davies Street, London, W1Y 2EA on July 25, 1985 at 9.15 a.m. to transact the following business:

1. To approve and adopt the Company's Financial Statements for the year ended January 31, 1985 together with the Reports of the Directors and Auditors thereon.
2. To re-elect Directors.
3. To reappoint the Auditors.
4. To authorise the Directors to fix the remuneration of the Auditors.

By Order of the Board



B.D. GREGORY  
Secretary

July 3, 1985

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

D.L. Burn

T.S. Glover

J.H. Westrope

SECRETARY

B.D. Gregory

REGISTERED OFFICE

Massey-Ferguson House  
33 Davies Street  
London  
W1Y 2EA

MASSEY-FERGUSON (UNITED KINGDOM) LIMITED

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, 1985.

Status of Refinancing

The status of the compliance of Massey-Ferguson Limited (the Company's ultimate holding company) with the debt covenants which are included in the refinancing agreements which came into effect on March 7, 1983 is set out in notes 2 and 3 to the financial statements. Certain overseas Massey-Ferguson Companies, with which the UK Group is linked by cross default clauses, may not be able to comply with some aspects of their debt covenants during the current year; this uncertainty is referred to in the auditor's report on these financial statements. The directors of Massey-Ferguson Limited in Toronto and the directors of the Company in the UK are confident that any such situations will be satisfactorily resolved if they arise.

Business Review

The principal activities of the Company are marketing and selling agricultural and industrial tractors, combine harvesters and agricultural machinery and implements. The financial results are summarised below:

	Year to January 31, 1985 £000	Year to January 31, 1984 £000
TURNOVER	<u>365,139</u>	<u>339,754</u>
(Loss)/profit on ordinary activities before tax and exceptional items	<u>(7,997)</u>	<u>2,195</u>
Retained (loss)/profit for the financial period	<u>(7,072)</u>	<u>451</u>

Despite a limited improvement in sales and the improvements resulting from stringent cost control and the benefits of the refinancing programme, the Company has made a loss of £7,997,000 for the year to January 31, 1985. This significant change in the level of profitability resulted from supplier price increases.

### Dividend

The directors recommend that no dividend be declared for the year ended January 31, 1985, 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 Massey-Ferguson 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 agreements.

### Directors

The following were directors of the Company who served throughout 1984:

M.G. Bird  
D.L. Burn  
T.S. Glover  
J.H. Westrope

In accordance with the Articles of Association the present directors all retire and, with the exception of Mr. D.L. Burn, 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 30th, 1980. The surplus arising over book values has been credited to reserves. In the opinion of the directors the value of these assets has not changed significantly since the date of the valuation.

There were no additions to fixed assets during the year or in the prior year.

### 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.

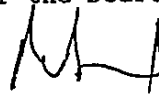
Amounts Given for Political or Charitable Purposes

There were no donations to political or charitable organisations during the year ending January 31, 1985.

Auditors

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

By Order of the Board



M.G. Bird  
Chairman

July 3, 1985

Massey-Ferguson (United Kingdom) Limited

Profit and Loss Account and Statement of Retained Earnings  
For year ended January 31, 1985

	Notes	Year to January 31, 1985 £000	Year to January 31, 1984 £000
TURNOVER	4	365,139	339,754
Cost of sales		<u>(341,557)</u>	<u>(300,485)</u>
GROSS PROFIT		23,582	39,269
Administrative costs		(8,769)	(9,252)
Interest receivable and similar income	5	3,792	1,563
Interest payable and similar charges	6	(26,602)	(29,385)
Exceptional items	7	<u>925</u>	<u>424</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	8	(7,072)	2,619
Tax on loss on ordinary activities	20	-	-
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(7,072)</u>	<u>2,619</u>
Dividend	9	-	(2,168)
Retained (loss)/profit for year		<u>(7,072)</u>	<u>451</u>
Revenue reserves brought forward		(3,679)	(4,171)
Retained (loss)/profit for year		(7,072)	451
Transfer from revaluation reserve in respect of depreciation on revaluation surplus	18	<u>10</u>	<u>41</u>
RETAINED RESERVES CARRIED FORWARD		<u>(10,741)</u>	<u>(3,679)</u>

The notes on pages 10 to 19 form part of these financial statements



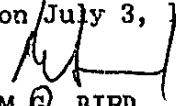
Massey-Ferguson (United Kingdom) Limited

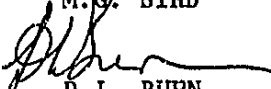
Balance Sheet at  
January 31, 1985

		January 31, 1985 £000	January 31, 1984 £000
<b>FIXED ASSETS:</b>	<b>Notes</b>		
Tangible assets	10	137	158
Investments	11	<u>7,489</u>	<u>210</u>
		7,626	368
<b>CURRENT ASSETS:</b>			
Stock	12	5,069	2,728
Debtors	13	199,221	203,934
Cash at bank and in hand		<u>2,075</u>	<u>396</u>
		206,365	207,058
Creditors: amounts falling due within one year	14	<u>(11,720)</u>	<u>(8,822)</u>
Net Current Assets		<u>194,645</u>	<u>198,236</u>
Total Assets less Current Liabilities		202,271	198,604
Creditors: amounts falling due after more than one year	15	<u>(212,935)</u>	<u>(202,196)</u>
NET LIABILITIES		<u>(10,664)</u>	<u>(3,592)</u>
<b>CAPITAL AND RESERVES:</b>			
Called up share capital	17	10	10
Revaluation reserve	18	67	77
Profit and loss account		<u>(10,741)</u>	<u>(3,679)</u>
		<u>(10,664)</u>	<u>(3,592)</u>

The notes on pages 10 to 19 form part of these financial statements.

APPROVED BY THE BOARD OF DIRECTORS  
on July 3, 1985

  
M.G. BIRD Director

  
D.L. BURN Director

MASSEY-FERGUSON (UNITED KINGDOM) LIMITED

Statement of Source and Application of Funds

Year to January 31, 1985

	Year to January 31, 1985 £000	Year to January 31, 1984 £000
<b>SOURCE OF FUNDS:</b>		
Refinancing (including net loans received and interest forgiveness)	193	161,967
Proceeds from disposal of fixed assets and investments	6	-
Creditors: amounts falling due after more than one year	11,471	-
Decrease in working capital - Note A	3,588	-
	<u>15,258</u>	<u>161,967</u>
<b>APPLICATION OF FUNDS:</b>		
Loss/(profit) on ordinary activities before taxation (excluding interest forgiveness)	7,997	(2,195)
Adjustment for items not involving the movement of funds:		
Depreciation	(61)	(12)
Provision against loans	-	(50)
Other	(44)	-
	<u>7,932</u>	<u>(2,264)</u>
Funds absorbed/(generated) by operations	7,932	(2,264)
Dividend paid to a Group Company	-	2,168
Increase in lease receivables	6,726	-
Investment in subsidiary	600	1
Investment in third party	-	20
Increase in working capital - Note A	-	162,042
	<u>15,258</u>	<u>161,967</u>

## NOTE A

## DECREASE/(INCREASE) IN WORKING CAPITAL:

	Stocks	(2,341)	(497)
	Debtors	4,713	89,143
	Creditors: amounts falling due within one year	<u>2,756</u>	<u>(250,869)</u>
		<u>5,128</u>	<u>(162,223)</u>
	(Increase)/Decrease in net liquid funds:		
	Cash at banks and in hand	(1,679)	181
	Overdrafts	<u>139</u>	<u>-</u>
		<u>(1,540)</u>	<u>181</u>
	Decrease/(Increase) in working capital	<u>3,588</u>	<u>(162,042)</u>
ar to y 31, 1984 £000			
1,967			
-			
-			
-			
1,967			
2,195)			
(19)			
(50)			
-			
2,264)			
2,168			
-			
1			
20			
62,042			
61,967			

## 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 Group's financial statements.

#### Basis of Accounting

Certain freehold land and buildings are stated at revalued amounts; all other items are stated in the financial statements under the historical cost accounting rules.

#### Exchange

Assets and liabilities denominated in foreign currencies have been translated into Sterling at the appropriate rates of exchange ruling at the end of the financial year. Transactions denominated in foreign currencies are translated into Sterling at the rate ruling at the date of the transaction.

#### Stock

Stock and work in progress are stated at the lower of cost and estimated net realisable value. Cost includes direct material and labour together with related overhead expenses.

#### 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 useful life. The annual rate applied to cost or valuation are set out below:

Short term leases	- Over the period of the lease
Machinery and equipment	- 10-20%

Fixed assets leased since October 31, 1976 are capitalised and included at equivalent cash cost if the lease term is equal to 75% or more of the estimated economic life of the leased asset. Depreciation is provided as noted above.

#### 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 18).

## Deferred Taxation

The Company provides for deferred taxation at anticipated future tax rates in respect of all timing differences of material amount in the recognition of income and expenditure for taxation and accounting purposes other than those which, in the opinion of the directors, can be demonstrated with reasonable probability to continue in the foreseeable future.

## 2. REFINANCING

Massey-Ferguson Limited, a company incorporated in Canada, which together with its subsidiaries is referred to as the Worldwide Group, is the ultimate holding company of Massey-Ferguson Holdings Limited and its subsidiaries (the UK Group) which include the Company. The UK Group engages in a substantial volume of purchases from and sales to overseas members of the Worldwide Group and is associated by means of cross default clauses with certain important debt agreements entered into by overseas members of the Worldwide Group. At January 31, 1985 £176,187,000 (1984 £186,358,000) was owing to the Company by overseas members of the Worldwide Group and the Company also had at that date contingent liabilities in respect of discounted bills drawn on overseas members of the Worldwide Group amounting to £11,541,000 (1984 £14,568,996).

On March 7, 1983 the Worldwide Group entered into refinancing agreements with its lenders. The principal effects for the UK Group were:

- (i) forgiveness of a proportion of the UK Group's interest charge both by the UK Banks and by the Export Credits Guarantee Department and the introduction of new capital by Massey-Ferguson Limited;
- (ii) maintenance of outstanding credit facilities and the creation of further export lines of credit backed by the Export Credits Guarantee Department; utilisation of these facilities together with the Debenture Stock has been secured by a fixed and floating charge over the assets of the UK Group, excluding the UK Finance Company and overseas subsidiaries; and
- (iii) conversion of £ 11,12 ,000 of trade debt owed to the UK Group by Massey-Ferguson S.A. France into an equity investment in the company and in addition a loan by the UK Group of FF120 million to the French company in the form of an interest bearing Pret Participatif having a term of 15 years.

### 3. REFINANCING - COVENANTS AND UNDERTAKINGS

The refinancing agreements entered into by Massey-Ferguson Limited and its major subsidiaries (including the finance subsidiaries) on March 7, 1983 with substantially all of the Worldwide Group's lenders provide for covenants on a worldwide consolidated basis in addition to covenants by the individual subsidiaries. The agreements also contain various cross default provisions which may cause acceleration of substantially all indebtedness (including that of the finance subsidiaries), cessation of the interest waiver and conversion programme and the reinstatement of certain debt obligations.

The UK Group has agreed in particular to maintain certain balance sheet ratios:

- (a) UK Group net worth (as defined which includes subordinated debt) should not be less than £105 Million at January 31, 1985 and
- (b) the ratio of the UK Group's total liabilities to net worth will not at any time exceed 3:1.

During the period to January 31, 1985 the UK Group, which includes the Company, was in compliance with all the covenants included in the agreements. However, the annual report for the year to January 31, 1985 of Massey-Ferguson Limited contained the following statement concerning covenant compliance:

"In October 1984 and subsequent to the year end, the Company was not in compliance with net worth and working capital debt covenants of certain subsidiaries. Management successfully renegotiated these covenants and the company is in compliance therewith. In view of the likelihood of continuation of depressed market conditions which, if protracted, may require further operational restructuring actions not presently ascertainable, and the adverse impact of such conditions on Company results, and given the numerous complexities of the refinancing agreements, management believes it is probable that further events of non-compliance will occur in the period to January 31, 1986.

Management believes that any further events of non-compliance can also be resolved through appropriate actions including discussions with lenders and governments. Failure to resolve such events of non-compliance could result in the Company being declared in default of its covenants and/or the possible eventual acceleration of its debt. Such an acceleration could affect the Company's ability to continue realising its assets and discharging its liabilities in the usual course of business"

#### 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 £71,954,000 (1984 £60,752,000). All products for resale are purchased from a fellow UK subsidiary.

	Year to January 31, 1985 £000		%	Year to January 31, 1984 £000		%
Geographical Analysis by Market:						
United Kingdom	93,886	26		118,926	35	
Europe	50,456	14		48,238	14	
North America	55,458	15		30,712	9	
Asia	102,388	28		77,610	23	
Africa	43,408	12		47,061	14	
South America	10,502	3		11,008	3	
Australasia	9,041	2		6,199	2	
	<hr/>	<hr/>		<hr/>	<hr/>	
	365,139	100		339,754	100	

#### 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year to January 31, 1985 £000	Year to January 31, 1984 £000
Interest and other income receivable from Worldwide Group companies	<u>3,792</u>	<u>1,563</u>

# 6. INTEREST PAYABLE AND SIMILAR CHARGES

	Year to January 31, 1985 £000	Year to January 31, 1984 £000
Interest payable and similar charges to third parties in respect of bank loans overdrafts and other loans repayable within five years	3,467	1,767
Interest payable and similar charges to Worldwide Group companies in respect of loans repayable		
- within five years	16,275	21,325
- in more than five years	802	680
Finance charges paid to a fellow subsidiary	<u>6,058</u>	<u>5,613</u>
	<u>26,602</u>	<u>29,385</u>

# 7. EXCEPTIONAL ITEMS

	Year to January 31, 1985 £000	Year to January 31, 1984 £000
Interest forgiveness under refinancing agreements (see Note 2)	<u>925</u>	<u>424</u>

# 8. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year to January 31, 1985 £000	Year to January 31, 1984 £000
Loss on ordinary activities before taxation is after charging the following:		
Depreciation	<u>21</u>	<u>19</u>

The Company has no employees. No auditors' fees or directors' fees and other emoluments were incurred during the year ending January 31, 1985 or the year ending January 31, 1984.



## 9. DIVIDEND

A dividend of £2,168,000 was paid to Perkins Engines Group Limited on September 30th, 1983. At the time the dividend was paid, the Company had a positive balance on its profit and loss account of £2,646,000.

## 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, 1984	198	50	16	264
Disposals	-	(4)	-	(4)
	<u>198</u>	<u>46</u>	<u>16</u>	<u>260</u>
At January 31, 1985				
At cost	-	46	16	62
At valuation				
April 30, 1983	<u>198</u>	<u>-</u>	<u>-</u>	<u>198</u>
Depreciation				
At January 31, 1984	54	39	13	106
Charge for the year	17	3	1	21
On disposal	-	(4)	-	(4)
	<u>71</u>	<u>38</u>	<u>14</u>	<u>123</u>
At January 31, 1985				
Net book value at				
January 31, 1985	<u>127</u>	<u>8</u>	<u>2</u>	<u>137</u>
Net book value at				
January 31, 1984	<u>144</u>	<u>11</u>	<u>3</u>	<u>158</u>

oluments  
31,

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

The amounts of tangible fixed assets determined according to the historical cost accounting rules are as follows:-

	Short Leases £000	Plant and Equipment £000	Fixtures Fittings and other Equipment £000	Total £000
At January 31, 1985				
At cost	262	46	16	324
Depreciation	201	38	14	253
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value	<u>61</u>	<u>8</u>	<u>2</u>	<u>71</u>

#### 11. INVESTMENTS

The investments are stated at cost less amounts written-off.

	Shares in Group Companies £000	Loans £000	Lease Receivables Group £000	Other Investments (Unlisted) £000	Total £000
At January 31, 1984	1	131	-	78	210
Additions	-	-	6,726	605	7,331
Disposals & Provisions	-	(52)	-	-	(52)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At January 31, 1985	<u>1</u>	<u>79</u>	<u>6,726</u>	<u>683</u>	<u>7,489</u>

#### Shares in Group Companies

The Company is the beneficial owner of the allotted share capitals of Massey-Ferguson (World Export Operations) Limited and Massey-Ferguson (Export) Limited (both registered in England). The subsidiaries have not traded during the year to January 31, 1985. 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 Massey-Ferguson Holdings Limited.

## Loans

This is non interest bearing with no fixed repayment date.

## Lease Receivables (Group)

On December 21, 1984 the Company commenced leasing Machinery and Equipment to Massey-Ferguson Manufacturing Limited, interest being chargeable at commercial rates.

## Other Investments

On July 3, 1984 trade receivables of \$678,480 (£600,000) due to the Company from Massey-Ferguson Brazil S.A. were converted into a 1.3% equity investment in this Company. The Company owns one other investment this is unlisted and the directors are of the opinion that the value of the investment is at least equal to its book amount at the balance sheet date.

### 12. STOCK

	January 31, 1985 £000	January 31, 1984 £000
Finished goods and parts for resale	<u>5,069</u>	<u>2,728</u>

### 13. DEBTORS

	January 31, 1985 £000	January 31, 1984 £000
Trade debtors	20,621	17,558
Amounts owed by fellow subsidiaries	172,437	181,721
Other debtors	2,413	-
Prepayments and accrued income	-	18
Amounts owed by related companies	3,750	4,637
	<u>199,221</u>	<u>203,934</u>

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	January 31, 1985 £000	January 31, 1984 £000
Trade creditors	1,524	-
Overdrafts	139	-
Amounts owed to fellow subsidiaries	69	-
Accruals and deferred income	9,988	8,822
	<u>11,720</u>	<u>8,822</u>

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

	January 31, 1985 £000	January 31, 1984 £000
Terms Bank Loans (secured - see Note 16)	-	732
Amounts owed to fellow subsidiaries	212,935	201,464
	<u>212,935</u>	<u>202,196</u>

Term bank loans at normal commercial rates of interest

- repayable between 1 and 5 years	732
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Amounts owed to Fellow Subsidiaries

- (a) Included in the amount owed to fellow subsidiaries is a subordinated Canadian Dollar loan and accrued interest thereon from Massey-Ferguson Nederland N.V. amounting in aggregate to £9,402,000. Interest is accrued in respect of this loan at 1% 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.
- (b) Included in the balance owed to fellow subsidiaries is a further loan of £35,150,000 from Massey-Ferguson Manufacturing Limited (1984 £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%
- (c) The remaining loans are not interest bearing.

## 16. 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 Export Credits Guarantee Department and to the Debenture Stock holders.

## 17. SHARE CAPITAL

	January 31, 1985 £000	January 31, 1984 £000
Ordinary shares:		
Authorised		
10,000 shares of £1 per share	<u>10</u>	<u>10</u>
Allotted, called up and fully paid	<u>10</u>	<u>10</u>

## 18. REVALUATION RESERVE

	£000
At January 31, 1984	77
Transfer to profit and loss in respect of depreciation on revaluation surplus see Note below)	(10)
At January 31, 1985	<u>67</u>

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 initially charged on arriving at profit for the year.

## 19. CONTINGENT LIABILITIES

At January 31, 1985 there were contingent liabilities in respect of bills discounted amounting to £11,541,000 (1984 £14,568,996) 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 two banks in respect of performance bonds amounting to £1,950,000. These bonds have been insured with the Export Credits Guarantee Department against unfair calling.

## 20. TAX ON LOSS ON ORDINARY ACTIVITIES

There is no UK tax charge for the year (1984 Nil) due to the utilisation of tax losses brought forward.

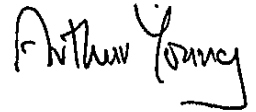
## AUDITORS REPORT

TO THE MEMBERS OF MASSEY-FERGUSON (United Kingdom) LIMITED

We have audited the financial statements set out on pages 6 to 19 in accordance with approved Auditing Standards.

Note 3 to the financial statements refers to the probability that certain Massey-Ferguson companies may not be able to comply with debt covenants entered into as part of the March 1983 refinancing agreements and that this would permit the lenders to Massey-Ferguson Limited and its subsidiaries, including the Company to require the repayment of debt to be accelerated. The financial statements have been prepared on a going concern basis on the assumption that, if a Massey-Ferguson company is unable to comply with its debt covenants, appropriate action will be taken by management, after discussions with the lenders, to ensure that the situation is satisfactorily resolved.

Subject to the uncertainty referred to in the previous paragraph, the financial statements set out on pages 6 to 19 give a true and fair view of the state of affairs of the Company at January 31, 1985 and of the loss and source and application of funds of the Company for the year to that date and comply with the Companies Act 1985.



July 3, 1985

ARTHUR YOUNG  
Chartered Accountants  
London