ASSOCIATED BRITISH ENGINEERING PLC
Registered No. 110663

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COMPANIES HOUSE 29/10/96

CONTENT

FINANCIAL HIGHLIGHTS

	1996 £000s	1995 £000s
TURNOVER - CONTINUING OPERATIONS	31,350	31,923
PROFIT BEFORE TAXATION - CONTINUING OPERATIONS	189	907
	PENCE	PENCE
EARNINGS PER ORDINARY SHARE - CONTINUING OPERATIONS	-	0.25
NET ORDINARY DIVIDEND PER SHARE	0.06	0.06
NET ASSETS PER ORDINARY SHARE (calculated from unaudited proforma balance sheet)	2.3	2.6
GEARING RATIO (calculated from unaudited proforma balance sheet)	45%	46%

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CHAIRMAN'S STATEMENT

The report this year covers a period of major reorganisation and restructuring. The Group has made a pre-tax loss of £1,840,000 compared to a profit in the previous year of £583,000. The Group's loss is arrived at after taking into account both trading losses and closure costs in those parts of the Catering Equipment business which have been discontinued together with losses in Dawson-Keith, the diesel powered generating set business. The total losses of these discontinued operations amounted to £2,029,000. The continuing business of Catering Equipment together with Danway, British Polar Engines and ABE Diesels produced a combined pretax profit of £189,000; in particular, Danway, the Middle East subsidiary, had another very successful trading year.

Since the financial year end, your board has taken advantage of consolidation taking place in the diesel generating set industry and completed the sale of Dawson-Keith at a profit to the Group of £1,585,000. In accordance with FRS 2 "Accounting for Subsidiary Undertakings" and the Companies Act 1985 the profit on disposal will be accounted for in the 1996/97 financial year.

However, because of the significance of the profit on the Dawson-Keith disposal and the resultant reduction in gearing a proforma Profit and Loss Account and Balance Sheet is shown to illustrate the effects of the transaction as if it had occurred at 31st March 1996. Completion and payment actually took place on 24th May 1996. The Proforma Statement shows a loss for the year of £392,000 with shareholders' funds increased to £6,852,000 and gearing substantially reduced to 45%.

The board has reviewed the present financial position of the Company extremely carefully. Account has been taken of the actions taken to restructure the Catering Equipment company, the profitable sale of Dawson-Keith and expectations for a profitable outcome for the Group for the current financial year and the directors accordingly have recommended the payment of a final dividend for the year of 0.06p net per ordinary share which is the same as last year.

In the current year we expect to see the achievement of another satisfactory performance from Danway in the Middle East. Both British Polar Engines and ABE Diesels are faced with a number of uncertainties which are outlined in the chief executive's review. The prospects for the Catering Equipment division appear to have improved recently but the board is monitoring the situation very closely.

The Board has carried out a review of its own membership. I am pleased to say that Mrs. K.M. Hill was appointed finance director on 24th June 1996 and Mr. R.R. Harris was appointed a non-executive director on 17th July 1996. I have been chairman of the Company for just over ten years and it is my intention to retire from the board and as chairman at the close of the annual general meeting to be held on 11th September 1996. It is intended that The Hon. J.H. Davies will become chairman of the Company.

Overall, a successful re-organisation of the Group has been carried out. The objective now is to concentrate the Group's resources on the profitable subsidiaries where future growth can be achieved.

P.A. Lovegrove
Chairman

14th August 1996

REVIEW OF THE GROUP

MIDDLE EAST OPERATIONS

The business had another very successful year with turnover at £14 million and an operating profit of £1 million. Although neither reached the level of the previous record year the reduction was largely attributable to a policy decision to reduce exposure to large construction sub-contracts.

The trading environment has continued to be favourable. The Government in the United Arab Emirates is committed to the economic development of the country and is spending a substantial amount on the infrastructure.

Corporate law has been developing in the United Arab Emirates over the last few years and during 1995/96 the legal structure of our activities was finally settled to comply with the changing requirements of both the Emirates and the Federal Government.

We have expanded our activities by opening offices in Saudi Arabia and Qatar and we are very pleased to have been awarded ISO 9002 certification.

The Group's profits are derived from four types of activities:

The electrical systems division is a manufacturing operation, producing electrical and electronic control systems. Turnover increased by 68 per cent and profits more than sevenfold.

The electrical products division, which supplies components for the National Grid system, faced severe competition and had a difficult year resulting in no increase in turnover and a reduction in profits.

The industrial products division, which acts as a distribution agent for a number of substantial international corporations, increased turnover by 26 per cent and profits by 57 per cent. The fire pump business was particularly successful and benefitted from the buoyant conditions in the construction market.

The contracting division offers a turnkey service for electrical engineering contracts based on applications for the company's wide product range. Profits were restricted by the board's decision to exercise some restraint over becoming too dependent on a few large contracts.

In the current year we expect high levels of infrastructure spending to benefit all our divisions. In particular we expect the contracts division which has now forged strong working relationships with multi-national construction companies to demonstrate a much improved performance.

Economic conditions in the United Arab Emirates remain very favourable. This has generated an influx of competition which is depressing margins. At the same time the high level of economic activity is leading to inflationary pressures on our costs. We have budgeted for increased levels of turnover but with lower gross margins. While the political environment in the United Arab Emirates remains stable we expect to experience another successful year.

REVIEW OF THE GROUP

CATERING EQUIPMENT

As foreshadowed in last year's review a fundamental restructuring of the business was carried out during the year. The business now consists of seven branches:

- a distribution centre covering London and the South East
- a distribution centre covering Birmingham and the West Midlands
- a national projects business designing and installing commercial kitchens
- a retail outlet in Central London
- an importing business supplying both caterers and specialist retail sectors
- an export business to outlets in the third world
- a service and spares business.

These seven outlets as a whole produced a small trading profit of £25,000 for the year.

During the period 1979 to 1988 the catering market, which comprises most of our customer base, enjoyed buoyant market conditions and a high rate of growth. This period coincided with a similar period of growth and profitability in our catering equipment distribution business. 1988 to 1994 was a time of stagnation in the catering market which led to extremely difficult conditions in the equipment market, with over capacity, discounting wars and a squeeze on distributors from the manufacturers. During this very difficult period of a major recession a significant reduction in the size of the business has been undertaken while seeking to retain a viable entity capable of making profits from the hoped for cyclical recovery.

In the latter part of 1995 and during the first half of 1996 there has been a recovery in the catering market and a return to trading profits in our continuing equipment distribution business. Although a return of the buoyant conditions of 1979/88 is not forecast a more benign trading environment than that experienced in the last five years is expected with a continuing recovery trend over the next few years.

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REVIEW OF THE GROUP

DIESEL ENGINEERING

The diesel engineering activities experienced a difficult year. In the generating set market structural changes in the industry which involved the acquisition of several generating set manufacturers by large multi-national corporations led to severe competitive pressures and losses being incurred at Dawson-Keith. The board took advantage of the movement in the industry to sell the company at a profit to the Group of £1,585,000. The sale was completed on 24th May 1996 and will be accounted for in 1996/97.

At British Polar Engines the growth in the commercial spares business of the last few years did not continue as customers restricted their maintenance budgets and fewer owners were prepared to take their vessels out of service for scheduled maintenance. The naval spares business declined in line with expectations and no major customers undertook refit programmes because of defence budgetary constraints. These same budgetary constraints are however delaying the commissioning of new submarines and we believe this will lead to a recovery in our spares market.

In order to combat these difficult conditions British Polar Engines is developing a business maintaining non marine diesel engines and generating sets and has also succeeded in attracting specialised sub-contract engineering work. In line with the reduced potential for the business a restructuring to reduce costs has been completed. The prospects for the current year however rest overwhelmingly on a recovery in our specialised commercial and defence marine sectors.

At ABE Diesels, the automotive division the business has remained dependent on one customer who purchases over 90% of turnover. The requirement for truck application Leyland engines has reduced sharply because of the ageing vehicle fleet. The downturn in truck engine orders was compounded in mid year when demand for high value rail application engines ended abruptly as a result of the operator's decision to change engine specifications.

This loss of turnover has been replaced by a sixfold increase in bus engines which has been stimulated by changes in the bus industry and a joint marketing initiative with the division's major customer. Nevertheless the bus engine market is very competitive with severe pressure being exerted on prices. Production cost problems caused by the age and condition of units returned for remanufacture and by parts supply constraints have compounded the situation and there has therefore been a significant reduction in gross margin.

Demand for other products has remained stable during the year and continues to make an important contribution to turnover and profit.

Into 1996/97 bus engine demand continues to grow and to be the major influence on business performance. Efforts are being concentrated on securing sufficient old units to support the level of demand, and on improving operational performance to achieve lower product cost. Plans are also now in hand to launch the first non-Leyland engine range.

CORPORATE GOVERNANCE

The directors confirm that the Company has complied throughout the period, other than in respect of the terms of office of non-executive directors, with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance. The Company does not appoint its non-executive directors for specified terms, although they are subject to the normal retirement provisions in the Articles of Association. In practice, three of the non-executive directors have been in office for more than six years. The Company does not automatically change its non-executive directors as they all have a vast accumulated knowledge and experience of the Group. In the board's opinion this minor departure from paragraph 4.16 of the Code has been made in the best interests of the Group. Set out below is a summary of how the Company operates in the principal areas of Corporate Governance.

BOARD OF DIRECTORS

The board, which meets at least six times a year, currently comprises two executive and three independent non-executive directors. No director's contract runs for more than two years and renewal of these contracts is not automatic. The roles of chairman and chief executive are separated. The chief executive is charged with the day-to-day running of the Group but the board has a formal schedule of matters in respect of which decisions are reserved to it, covering key areas including strategy formulation, approval of budgets, financial results, board appointments and proposals for dividend payments.

There is a formal procedure by which any director may take professional advice in connection with his duties, at the Company's expense. A number of issues are dealt with through committees of the board consisting of the non-executive directors and chaired by P.A. Lovegrove. Minutes of these committee meetings are available to all board members.

PRINCIPAL BOARD COMMITTEES

The Audit, Remuneration and Nominations Committees are composed exclusively of all the non-executive directors and are chaired by P.A. Lovegrove.

The Audit Committee reviews internal controls and deals with accounting and financial reporting matters. It meets at least twice a year to review the annual and interim accounts before they are submitted to the board. The committee also monitors proposed changes in accounting policy and discusses the accounting implications of major transactions.

The Remuneration Committee meets at least once a year to decide annual salary, bonus and benefits for the executive directors and other senior executives of the Group.

The Nominations Committee brings to the board recommendations for the appointment of any new director.

INTERNAL FINANCIAL CONTROL

The directors are responsible for the Group's system of internal financial controls. Financial controls are considered to be essential to achieve the Group's objectives. These controls can only provide reasonable but not absolute assurance that assets are safeguarded against material loss or unauthorised use, that proper accounting records are maintained and that the information used internally, or for publication, is accurate and reliable.

CORPORATE GOVERNANCE

INTERNAL FINANCIAL CONTROL (continued)

The Group's organisational structure has clear lines of responsibility. Operating and financial responsibility for subsidiary companies is delegated to the local boards and there are set limits which apply to capital expenditure and significant contracts. On completion of major projects, a management review is undertaken to ascertain whether original targets have been achieved.

A specific exercise has been undertaken to review and assess the risks facing each of the Group's businesses and to enhance the systems which manage the key risks identified. All subsidiaries are required to assess key risks and related control and monitoring procedures. Divisional management establishes control procedures in response to each of the key risks identified. Divisional management reports whether its key controls have functioned effectively.

The Group has set accounting policies and financial and accounting procedures. The Group budget is approved by the board and is compiled from the individual operating company budgets. Each operating company prepares management accounts, which include a cash flow forecast, on a monthly basis. The management accounts report actual against budgeted results and variances are thoroughly investigated. The board reviews the Group's actual and forecast results at least once a quarter.

The acquisition or disposal of a business may not be completed without the approval of the board.

Control of funding arrangements, interest cost and foreign exchange exposure is centralised within the Group head office.

The directors and Audit Committee have reviewed the operation and effectiveness of this framework during the year.

GOING CONCERN

After making appropriate enquiries, the directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

The Auditors' Report on Corporate Governance is set out on page 39.

ABE

REPORT OF THE REMUNERATION COMMITTEE

The remuneration committee is comprised exclusively of non-executive directors. They are as follows:

Mr. P.A. Lovegrove
Mr. S.J. Cockburn
Hon. J.H. Davies
Mr. R.R. Harris

The Company has complied throughout the period with section A of the best practice provisions for directors' remuneration annexed to the London Stock Exchange's Listing Rules, which concerns the membership and operation of the remuneration committee.

The Company's remuneration committee decides the remuneration policy that applies to executive directors and the Group's other senior management. In determining that policy it has given full consideration to section B of the best practice provisions for directors' remuneration annexed to the London Stock Exchange's Listing Rules. In setting the policy it considers a number of factors including:

(a) the basic salaries and benefits available to executive directors of comparable companies.
(b) the need to attract and retain directors of an appropriate calibre.
(c) the need to ensure executive directors' commitment to the continued success of the Company by means of incentive schemes.

REMUNERATION OF NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive directors for the year ended 31st March 1996 is set out in Note 4.

The non-executive directors each receive a fee for their services, which is agreed by the board after reviewing comparable organisations and appointments.

None of the non-executive directors receive any pension or other benefits from the Company, nor do they participate in any of the bonus or incentive schemes or share option schemes.

The non-executive directors do not have service contracts with the Company. In accordance with the articles of association, at the annual general meeting each year one third of the directors, other than the managing director, retire by rotation. Mr. S.J. Cockburn is retiring at the next annual general meeting and is eligible for reappointment.

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REPORT OF THE REMUNERATION COMMITTEE

REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

The remuneration of the executive directors for the year ended 31st March 1996 is set out in Note 4.

The Company's remuneration policy for executive directors is to:

(a) have regard to the directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality.

(b) link individual remuneration packages to the Group's long-term performance through the award of share options and incentive schemes.

(c) provide post retirement benefits in accordance with their contracts of employment.

(d) provide employment related benefits including the provision of a company car, life assurance, insurance relating to the directors' duties and medical insurance.

PERFORMANCE RELATED INCENTIVE PLAN

Annual bonus

The committee introduced a performance related incentive plan in 1980 for Mr. M.J. Barry. Payments under the plan are related to the growth in profit before taxation.

Share options

A share option scheme was introduced in 1989. The performance target is based on the percentage increase in the earnings per share being equal or greater than the percentage increase in the General Index of Retail Prices. Details of share options held by directors are set out in the directors' report on page 12.

PENSIONS

The Group has set up a self administered money purchase scheme for Mr. M.J. Barry. His normal retirement age is 60 years although he may retire earlier or later with the board's consent.

In the current and previous years only the basic salary was pensionable.

CONTRACTS OF SERVICE

Mr. M.J. Barry has a contract of service with the Company which can be terminated with a notice period of two years by either party. The Company considers that this is appropriate for the chief executive of the Company.

The committee reviews each case of early termination individually in order to ensure compensation settlements are made which are appropriate to the circumstances, taking care to ensure that poor performance is not rewarded.

DIRECTORS' REPORT

The directors submit their report and audited accounts for the year ended 31st March 1996.

ACTIVITIES

During the year the Company has acted as a parent undertaking for subsidiaries engaged in catering equipment and other distribution and engineering. Details of the trading subsidiary and associated undertakings are set out on page 38.

A review of the Group's businesses and prospects is set out on pages 4 to 6.

RESULTS AND DIVIDENDS

The Group profit for the year on ordinary activities before taxation from continuing operations amounted to £189,000 (1995 £907,000) and from discontinued operations amounted to a loss of £2,029,000 (1995 loss of £324,000). This gives a total Group loss for the year on ordinary activities before taxation of £1,840,000 (1995 profit £583,000)

It is the board's policy to pay a single annual dividend on the ordinary shares. The directors recommend a maintained dividend for the year of 0.06p (1995 0.06p) net per ordinary share to be paid on 1st October 1996.

POST BALANCE SHEET EVENTS

On 24th May 1996 the Company sold the whole of the issued share capital of Dawson-Keith Limited to TTG Investments Limited, a directly owned subsidiary of TT Group plc. The cash consideration paid for the shares was £1,300,000. In addition Dawson-Keith Limited's interest in a long leasehold property has been transferred to the Company.

The consideration payable shall be subject to adjustment to the extent that there is any excess in the net liabilities of Dawson-Keith Limited over £535,000 at the completion balance sheet date of 24th May 1996.

Because of the significance of the Group profit on this transaction amounting to an estimated £1,585,000 the board has produced an unaudited proforma profit and loss account, balance sheet and cash flow to reflect the effect of this transaction as if it had actually occurred on 31st March 1996. Further information is disclosed in Note 6 to the accounts.

The consideration has been applied by the Group to provide additional working capital for its continuing businesses.

In the directors' opinion the sale of the shares in Dawson-Keith Limited will not give rise to any additional tax liabilities in the Group.

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS

The names of the directors are:

Mr. P.A. Lovegrove (Chairman - non-executive)
Mr. M.J. Barry (Managing Director and Chief Executive)
Mr. S.J. Cockburn (Non-executive Director)
Hon. J.H. Davies (Non-executive Director)
Mr. R.R. Harris (Non-executive Director) – appointed 17th July 1996
Mrs. K.M. Hill (Finance Director and Company Secretary) – appointed 24th June 1996

Biographical details of the non-executive directors are set out on page 41.

All the directors served throughout the year except Mrs. K.M. Hill and Mr. R.R. Harris who offer themselves for election. Mrs. K.M. Hill has a contract of service with the Company which can be terminated with a notice period of one year by either party. Mr. R.R. Harris does not have a service contract with the Company or any of its subsidiaries.

In accordance with the Articles of Association Mr. S.J. Cockburn retires by rotation and, being eligible, offers himself for re-election. He does not have a service contract with the Company or any of its subsidiaries.

The beneficial interests of the directors in the share capital of the Company as at 31st March were as follows:

	Ordinary shares		4.9 per cent cumulative preference shares		8 per cent cumulative redeemable preference shares	
	1996	1995	1996	1995	1996	1995
P.A. Lovegrove	25,244	25,244	-	-	-	-
M.J. Barry	2,200,000	2,200,000	-	-	-	-
S.J. Cockburn	250,000	250,000	60,314	30,314	2,000	2,000
J.H.Davies	168,303	168,303	-	-	-	-
R.R.Harris	10,000,000	9,000,000	-	-	-	-
K.M. Hill	100,000	100,000	-	-	-	-

At the relevant dates S.J. Cockburn also had a non beneficial interest in 10,000 4.9 per cent cumulative preference shares. No director had any interest in the shares of any subsidiary.

At the relevant dates the executive directors also had the following options to subscribe for ordinary shares in the Company after a period of three years and within a period of ten years from date of grant:

	Date of grant	Exercise price	Number of options
M.J. Barry	9th July 1990	4p	2,500,000
	11th July 1994	$4^1/_4$p	2,500,000
K.M. Hill	13th December 1991	4p	96,000
	11th July 1994	$4^1/_4$p	200,000

None of the non-executive directors participate in the Company's share option scheme.

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS (continued)

The exercise price is the market price at the date of issue of the options. No options were granted or exercised during the year.

Since 31st March 1996 and up to and including 23rd July 1996 there have been no changes in the directors' interests in the share capital of the Company.

R.R. Harris is the senior partner and M.J. Barry is a limited partner in Seligmann, Harris & Co. which from time to time may hold shares in the Company on behalf of Seligmann, Harris & Co's discretionary and non-discretionary clients. As at 23rd July 1996 Seligmann, Harris & Co's holding on behalf of its discretionary clients amounted to 33,900,000 ordinary shares in the capital of the Company. This holding includes The Bulldog Fund Limited and Sunpen Nominees Limited Account No. 456.

SUBSTANTIAL SHAREHOLDINGS

As at 23rd July 1996 the Company had been notified of the following substantial interests in the issued ordinary share capital of the Company:

M & G Investment Management Limited	7 .3 per cent
The Bulldog Fund Limited	5.7 per cent
R.R. Harris and R.H. Cutts (registered in the name of Sunpen Nominees Limited which is a subsidiary of Sun Life Holdings Plc)	3.8 per cent
Betelgeuse Limited	3.1 per cent
Mr. and Mrs. M.H. Dresner	3.0 per cent

CHARITABLE AND POLITICAL DONATIONS

The Group makes no charitable or political donations.

EMPLOYEE INVOLVEMENT

We have maintained our commitment to employee involvement throughout the business.

Staff are kept informed of the performance and objectives of the Group through the interim and annual published results and staff meetings. Working teams allow management to meet with staff representatives which provide opportunities for staff to contribute to the everyday running of the business. The chief executive regularly visits the subsidiaries to discuss with the staff matters of current interest and concern to the business.

We have an executive share option scheme. The options granted under this scheme are set out in Note 19.

DISABLED PERSONS

It is the Company's policy to give sympathetic consideration to the recruitment, training, career development and promotion of disabled persons.

DIRECTORS' REPORT

INSURANCE OF DIRECTORS

The Group maintains insurance for one of the Company's directors in respect of his duties as a director of the Company.

CREDITOR PAYMENT POLICY

The Company's current policy concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU). For other suppliers, the Company's policy is to:

(a) settle the terms of payment with those suppliers when agreeing the terms of each transaction;

(b) ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and

(c) pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception. Wherever possible UK subsidiaries follow the same policy and overseas subsidiaries are encouraged to adopt similar policies, by applying local best practices.

ANNUAL GENERAL MEETING SPECIAL BUSINESS RESOLUTION

Resolution 7 - Disapplication of pre-emption rights

In accordance with Section 95 of the Companies Act 1985, it is proposed to renew for a further year the authority of the directors to allot equity securities for cash without first being required to offer such securities to existing shareholders. This authority is limited to the allotment of equity securities to shareholders of the Company and, in other cases, to any issue of equity securities representing no more than 13,134,278 ordinary shares equivalent to 5 per cent of the issued ordinary share capital of the Company. The authority will terminate no later than fifteen months after the passing of this resolution.

AUDITORS

In accordance with section 384 of the Companies Act 1985 a resolution to re-appoint Coopers & Lybrand as auditors to the Company and authorise the directors to fix their remuneration will be put to the Annual General Meeting.

On behalf of the board
Mrs. K.M. Hill
Finance Director and Secretary

14th August 1996

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ACCOUNTING POLICIES

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

BASIS OF ACCOUNTING

The accounts are prepared on the historical cost basis modified to include the revaluation of certain land and buildings.

BASIS OF CONSOLIDATION

The Group accounts incorporate the accounts of Associated British Engineering plc and its subsidiary undertakings made up to 31st March.

The Group accounts include the results of subsidiaries acquired or disposed of during the year from or to the effective date of acquisition or disposal. The difference between the price paid for new subsidiary undertakings and the fair value of net assets acquired is written off through the Group's reserves in the year of acquisition.

UNAUDITED PROFORMA INFORMATION

On 24th May 1996 the disposal of Dawson-Keith was completed. In order to provide shareholders with additional information as to the financial impact of this disposal, the directors have included, in these accounts, proforma information as at 31st March 1996. This has been prepared on a basis that illustrates the effect, had the disposal been completed, the proceeds been received, and the costs paid out on 31st March 1996. More information on the disposal is given in the directors' report on page 11 and in Note 6 to the accounts.

ASSOCIATED UNDERTAKINGS

The Group accounts incorporate the Group's share of the net assets and post acquisition results of associated undertakings. Associated undertakings are undertakings other than subsidiaries where the Group has a participating interest and over whose operating and financial policies it exercises a significant influence.

TURNOVER

With the exception of long term contracts, turnover represents amounts invoiced for goods sold and services rendered, net of value added tax.

For long term contracts turnover represents the sales value of work done, according to the stage reached in the contract, calculated by reference to the total sales value of each contract.

STOCK

With the exception of long term contracts, stocks of raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. Work in progress and finished goods include an appropriate allocation of overhead.

For long term contracts, work in progress is valued at cost including attributable overheads, less amounts transferred to cost of sales relating to the turnover recognised on these contracts and related foreseeable losses.

ACCOUNTING POLICIES

GOVERNMENT GRANTS

Fixed assets purchased with the assistance of grants are recorded at their full cost with the corresponding grant included within accruals and deferred income.

Grants received and receivable in respect of additions to fixed assets and which have been credited to deferred income are credited to the profit and loss account at the same rates at which the assets are depreciated.

RESEARCH AND DEVELOPMENT

Research and development costs are charged to the profit and loss account in the year of expenditure.

LEASED ASSETS

The annual rentals on operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

DEPRECIATION

Freehold land is not depreciated. Other fixed assets are depreciated over their estimated useful lives at the following annual rates applied to cost or valuation:

Freehold & long leasehold buildings	2 - 5 per cent
Short leasehold buildings	Over life of lease
Plant & machinery	10 - 33$^1/_3$ per cent
Fixtures & fittings	7$^1/_2$ - 33$^1/_3$ per cent
Motor vehicles	25 - 33$^1/_3$ per cent

DEFERRED TAXATION

Provision is made for deferred taxation in respect of timing differences using the liability method to the extent that, in the opinion of the directors, a taxation liability is expected to crystallise.

FOREIGN CURRENCIES

The results of overseas companies are translated into sterling at the rates of exchange ruling at each month end. Assets and liabilities of overseas companies in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and consequential adjustments to balances are dealt with through reserves. All other financial exchange differences are taken to the profit and loss account in the year in which they arise.

PENSIONS

Contributions to the Group's defined benefit pension scheme are charged to the profit and loss account so as to spread the cost over the average service lives of the participating employees.

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GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST MARCH 1996

	Notes	Unaudited proforma 1996 £000s	Audited 1996 £000s	Audited 1995 £000s
Turnover – Continuing operations	1	31,350	31,350	31,923
– Discontinued operations		21,911	21,911	28,318
		53,261	53,261	60,241
Operating profit/(loss) – Continuing operations	2	765	765	1,338
– Discontinued operations		(535)	(535)	(222)
		230	230	1,116
Loss attributable to interest in associated undertaking		(26)	(26)	(28)
Exceptional costs on discontinued catering equipment business	5	(1,385)	(1,385)	-
Exceptional profit on sale of Dawson-Keith - discontinued operations	6	1,585	-	-
Profit/(loss) on ordinary activities before finance costs				
– Continuing operations		739	739	1,310
– Discontinued operations		(335)	(1,920)	(222)
		404	(1,181)	1,088
Net finance costs – Continuing operations	7	(550)	(550)	(403)
– Discontinued operations		(109)	(109)	(102)
		(659)	(659)	(505)
(Loss)/profit on ordinary activities before taxation				
– Continuing operations	1	189	189	907
– Discontinued operations		(444)	(2,029)	(324)
		(255)	(1,840)	583
Taxation	8	(49)	(49)	(94)
(Loss)/profit on ordinary activities after taxation		(304)	(1,889)	489
Equity minority interest	22	(88)	(88)	(126)
(Loss)/profit for the financial year	23	(392)	(1,977)	363
Dividends (including dividends in respect of non-equity shares)	9	(198)	(198)	(198)
(Loss)/retained profit	10	(590)	(2,175)	165
(Loss)/earnings per ordinary share –				
– Continuing operations	11	-	-	0.25p
– Basic		(0.16)p	(0.77)p	0.12p

The effects of the sale of Dawson-Keith will be accounted for in the statutory accounts for the year ending 31st March 1997. The unaudited proforma information above has been included to illustrate the financial effect had the disposal been completed on 31st March 1996.

The accounting policies on pages 15 and 16 and the notes on pages 22 to 38 form part of these accounts.

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STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Unaudited proforma 1996 £000s	Audited 1996 £000s	Audited 1995 £000s
(Loss)/profit for the financial year	(392)	(1,977)	363
Foreign exchange adjustment	191	191	(234)
Unrealised loss on revaluation of properties	(124)	(124)	-
Total recognised gains and losses for the year	(325)	(1,910)	129

The foreign exchange adjustment represents exchange gains during the year relating to the restatement of the balance sheet and results of Danway, trading in the United Arab Emirates, using the exchange rate at 31st March 1996.

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Reported (loss)/profit on ordinary activities before taxation	(255)	(1,840)	583
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	5	5	5
Historical cost (loss)/profit on ordinary activities before taxation	(250)	(1,835)	588
Historical cost (loss)/profit for the year after taxation, minority interests and dividend	(585)	(2,170)	170

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Total recognised gains and losses for the year	(325)	(1,910)	129
Dividends paid and proposed	(198)	(198)	(198)
Net decrease in shareholders' funds	(523)	(2,108)	(69)
Shareholders' funds at 1st April 1995	7,375	7,375	7,444
Shareholders' funds at 31st March 1996	6,852	5,267	7,375

The effects of the sale of Dawson-Keith will be accounted for in the statutory accounts for the year ending 31st March 1997. The unaudited proforma information above has been included to illustrate the financial effect had the disposal been completed on 31st March 1996.

GROUP BALANCE SHEET

AS AT 31ST MARCH 1996

	Notes	Unaudited proforma 1996 £000s	Audited 1996 £000s	Audited 1995 £000s
FIXED ASSETS				
Tangible assets	12	3,190	3,428	3,930
CURRENT ASSETS				
Stock	15	5,428	6,185	6,225
Debtors - amounts falling due after one year	16	180	180	355
Debtors - amounts falling due within one year	16	11,604	16,743	18,093
Cash at bank and in hand		31	31	158
		17,243	23,139	24,831
Creditors - amounts falling due within one year	17	12,375	20,094	20,265
Net current assets		4,868	3,045	4,566
Total assets less current liabilities		8,058	6,473	8,496
Creditors - amounts falling due after one year	17	792	792	809
Provisions for liabilities and charges	18	57	57	62
Net assets		7,209	5,624	7,625
CAPITAL AND RESERVES				
Called up ordinary share capital	19	2,627	2,627	2,627
Share premium account		5,038	5,038	5,038
Revaluation reserve	20	370	370	494
Other reserves		11	11	11
Profit and loss account	23	(1,906)	(3,491)	(1,507)
Equity shareholders' funds		6,140	4,555	6,663
Non-equity shareholders' funds				
– Called up preference share capital	19	712	712	712
Total shareholders' funds		6,852	5,267	7,375
Equity minority interests	22	357	357	250
		7,209	5,624	7,625

The effects of the sale of Dawson-Keith will be accounted for in the statutory accounts for the year ending 31st March 1997. The unaudited proforma information above has been included to illustrate the financial effect had the disposal been completed on 31st March 1996.

The accounting policies on pages 15 and 16 and the notes on pages 22 to 38 form part of these accounts.

ABE

BALANCE SHEET

AS AT 31ST MARCH 1996

	Notes	Unaudited proforma 1996 £000s	Audited 1996 £000s	Audited 1995 £000s
FIXED ASSETS				
Tangible assets	12	1,347	1,067	1,076
Investments	14	2,646	3,976	5,694
		3,993	5,043	6,770
CURRENT ASSETS				
Debtors - amounts falling due after one year	16	853	853	1,668
Debtors - amounts falling due within one year	16	3,005	3,005	3,005
Cash at bank and in hand		2,794	1,744	1,206
		6,652	5,602	5,879
Creditors - amounts falling due within one year	17	401	401	362
Net current assets		6,251	5,201	5,517
Total assets less current liabilities		10,244	10,244	12,287
Creditors - amounts falling due after one year	17	589	589	600
Provisions for liabilities and charges	18	57	57	62
Net assets		9,598	9,598	11,625
CAPITAL AND RESERVES				
Called up ordinary share capital	19	2,627	2,627	2,627
Share premium account		5,038	5,038	5,038
Revaluation reserve	20	250	250	250
Other reserves	21	212	212	887
Profit and loss account	23	759	759	2,111
Equity shareholders' funds		8,886	8,886	10,913
Non-equity shareholders' funds - Called up preference share capital	19	712	712	712
Total shareholders' funds		9,598	9,598	11,625

The effects of the sale of Dawson-Keith will be accounted for in the statutory accounts for the year ending 31st March 1997. The unaudited proforma information above has been included to illustrate the financial effect had the disposal been completed on 31st March 1996.

Approved by the board on 14th August 1996 and signed on its behalf by:

Michael Barry
Jonathan Davies

M.J. Barry, Director
J.H. Davies, Director

The accounting policies on pages 15 and 16 and the notes on pages 22 to 38 form part of these accounts.

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST MARCH 1996

	Unaudited proforma 1996 £000s	Audited 1996 £000s	Audited 1995 £000s
OPERATING ACTIVITIES			
Net cash flow from operating activities	(434)	(434)	(261)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Finance income received	221	221	226
Finance costs paid	(880)	(880)	(731)
Dividends paid	(198)	(198)	(171)
Net cash flow from returns on investments and servicing of finance	(857)	(857)	(676)
TAXATION			
UK Taxation paid	(49)	(49)	(43)
INVESTING ACTIVITIES			
Purchase of tangible fixed assets	(416)	(416)	(607)
Net proceeds on sale of tangible fixed assets	32	32	27
Net proceeds on redemption of fixed asset investments	-	-	238
Sale of subsidiary	1,856	-	-
Net cash flow from investing activities	1,472	(384)	(342)
Net cash flow before financing	132	(1,724)	(1,322)
FINANCING			
Repayment of loans	(106)	(106)	(156)
Increase/(decrease) in cash and cash equivalents	26	(1,830)	(1,478)

The effects of the sale of Dawson-Keith will be accounted for in the statutory accounts for the year ending 31st March 1997. The unaudited proforma information above has been included to illustrate the financial effect had the disposal been completed on 31st March 1996.

A detailed analysis is given in Note 24.

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NOTES TO THE ACCOUNTS

1. SEGMENTAL ANALYSIS

	Turnover		(Loss)/profit before taxation		Net assets	
	1996	1995	1996	1995	1996	1995
	£000s	£000s	£000s	£000s	£000s	£000s
Middle East operations	14,047	16,010	1,031	1,302	3,994	3,372
Catering equipment	12,622	10,885	25	(78)	(2,218)	157
Diesel engineering	4,681	5,028	(31)	394	2,272	2,582
	31,350	31,923	1,025	1,618	4,048	6,111
Common expenses/ net assets	-	-	(260)	(280)	1,796	1,310
Continuing operations	31,350	31,923	765	1,338	5,844	7,421
Catering equipment	1,340	5,604	(272)	(639)	-	-
Diesel engineering	20,571	22,714	(263)	417	(220)	204
Discontinued operations	21,911	28,318	(535)	(222)	(220)	204
Turnover/net assets	53,261	60,241			5,624	7,625
Operating profit			230	1,116		
Loss attributable to interest in associated undertaking			(26)	(28)		
Exceptional item - discontinued catering equipment business			(1,385)	-		
Net finance costs			(659)	(505)		
(Loss)/profit before taxation			(1,840)	583		

All turnover, profits and losses and net assets, other than those of the Middle East operations, originate in the United Kingdom. During the year there were no continuing inter-segment sales (1995 nil).

Analysis of turnover by geographical destination:	1996		1995	
	Continuing	Discontinued	Continuing	Discontinued
	£000s	£000s	£000s	£000s
United Kingdom	15,112	9,797	14,286	12,305
Europe	865	799	421	1,204
Middle East	14,542	890	16,251	2,075
Far East and Australasia	254	10,250	372	12,679
Africa	166	8	169	-
North and South America	411	167	424	55
	31,350	21,911	31,923	28,318

In the unaudited proforma profit and loss account the figures reported are identical to those disclosed above except that they include the exceptional profit on the sale of Dawson-Keith which has reduced the loss before taxation from £1,840,000 to £255,000.

NOTES TO THE ACCOUNTS

2. OPERATING PROFIT

	1996 Continuing £000s	1996 Discontinued £000s	1995 Continuing £000s	1995 Discontinued £000s
Turnover	31,350	21,911	31,923	28,318
Change in stocks of finished goods and in work in progress	(618)	659	79	173
Raw materials and Services	23,719	19,492	23,840	25,357
Staff costs (Note 3)	6,051	1,970	5,321	2,599
Auditors' remuneration for audit (Company £18,000 (1995 £14,000))	77	20	66	17
Depreciation on tangible fixed assets	568	104	558	125
Deferred Government grant credit	(8)	-	(8)	-
Operating lease rentals - land and buildings	615	116	569	110
Operating lease rentals - plant and machinery	181	85	160	159
Net operating expenses	30,585	22,446	30,585	28,540
Operating profit/(loss)	765	(535)	1,338	(222)
Discontinued operating loss	(535)		(222)	
	230		1,116	

An amount of £14,000 was paid to the auditors in respect of the provision of non audit services during the year.

3. STAFF COSTS AND EMPLOYEES

	1996 Number	1995 Number
The average number of persons employed by the Group, including executive directors, during the year was:		
Middle East operations	282	241
Catering equipment	135	162
Diesel engineering	187	186
	604	589

	1996 £000s	1995 £000s
Staff costs for the above persons:		
Wages and salaries	7,321	7,204
Social security costs	464	464
Other pension costs	236	252
	8,021	7,920

NOTES TO THE ACCOUNTS

4. DIRECTORS' REMUNERATION

	1996 £000s	1995 £000s
Fees paid to non executive directors:		
P.A. Lovegrove (Chairman)	15	15
S.J. Cockburn	10	10
J.H. Davies	10	10
	35	35
Payments to executive director, M.J. Barry:		
Salary payments	96	93
Benefits	11	12
Annual incentive payments	-	10
	107	115
Pension contributions	35	35
	142	150
	177	185

The remuneration of the executive director is decided by the Remuneration Committee. A performance related incentive plan was introduced in 1980. Payments under the plan are related to the growth in profit before taxation. Last year the Remuneration Committee awarded the chief executive a discretionary bonus of £10,000.

Ranges of the directors' emoluments excluding pension contributions were:

	1996 Number	1995 Number
£5,001 - £10,000	2	2
£10,001 - £15,000	1	1
£105,001 - £110,000	1	-
£110,001 - £115,000	-	1

No director waived emoluments in respect of the year ended 31st March 1996.

As noted on page 12 of the directors' report, Mrs. K.M. Hill was appointed as finance director on 24th June 1996 and Mr. R.R. Harris was appointed a non-executive director on 17th July 1996 which are outside the period under review.

5. EXCEPTIONAL COSTS ON DISCONTINUED CATERING EQUIPMENT BUSINESS

During the year the loss making catering equipment businesses in the South West, North of England and Wales were closed at a cost of £1,385,000. These costs include closure expenses, provisions against lease liabilities for properties, redundancy payments, bad debt provisions, fixed asset write downs and provisions for slow moving stock which cannot be readily used in the continuing businesses.

NOTES TO THE ACCOUNTS

6. EXCEPTIONAL UNAUDITED PROFORMA PROFIT ON SALE OF DAWSON-KEITH - DISCONTINUED OPERATIONS

The directors' report states that the whole of the issued share capital of Dawson-Keith Limited was sold on 24th May 1996 for a cash consideration of £1,300,000. In addition, Dawson-Keith's long leasehold property has been transferred to the Company.

The Group profit for the sale is to be accounted for in the statutory accounts for the year ending 31st March 1997. However, because of the significance of the profit on the sale which amounted to £1,585,000 the Group has produced unaudited proforma information as if the disposal had actually occurred by 31st March 1996.

The unaudited proforma profit has been calculated after making provision for costs and losses associated with the transaction.

Provision for taxation on the sale of Dawson-Keith Limited is not, in the directors' opinion, necessary as it is believed that the sale will not give rise to any corporation tax liability.

7. NET FINANCE COSTS

	1996		1995	
	Continuing £000s	Discontinued £000s	Continuing £000s	Discontinued £000s
On loans repayable within five years:				
Not by instalments	626	201	471	206
By instalments	36	-	20	-
On bank loans repayable wholly or in part after five years	17	-	34	-
	679	201	525	206
Income from fixed asset investments	-	-	(12)	-
Other finance income	(129)	(92)	(110)	(104)
	550	109	403	102

The discontinued finance costs are attributable to Dawson-Keith. No finance costs have been attributed to the discontinued catering equipment business because the debt has remained within the Group.

8. TAXATION

	1996 £000s	1995 £000s
Advance Corporation Tax written off	49	94

There is no current year tax charge due to the availability of losses.

NOTES TO THE ACCOUNTS

9. DIVIDENDS

	1996 £000s	1995 £000s
Dividends on equity shares:		
Ordinary dividend proposed of 0.06p per share (1995 0.06p)	158	158
Dividends on non-equity shares:		
Preference 4.9% paid	27	27
Preference 8% paid	13	13
	40	40
	198	198

10. DEFICIT FOR THE FINANCIAL YEAR

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these accounts. The parent company's loss for the financial year, on an audited and proforma unaudited basis, was £1,154,000 (1995: profit of £534,000)

11. EARNINGS PER ORDINARY SHARE

The calculation of (loss)/earnings per ordinary share is based on:

	Unaudited proforma 1996 £000s	Audited 1996 £000s	Audited 1995 £000s
Profit/(loss) after taxation, minority interests and preference dividends:			
Continuing operations	12	12	647
Discontinued operations	(444)	(2,029)	(324)
	(432)	(2,017)	323
	Number 000s	Number 000s	Number 000s
Weighted average number of ordinary shares in issue during the year	262,686	262,686	262,686

NOTES TO THE ACCOUNTS

12. TANGIBLE FIXED ASSETS

GROUP

	Land & buildings £000s	Plant & machinery £000s	Total £000s
Cost or valuation:			
At 1st April 1995	2,619	5,287	7,906
Foreign exchange adjustment	10	84	94
Additions	36	380	416
Revaluations	(187)	-	(187)
Disposals	(78)	(365)	(443)
At 31st March 1996	2,400	5,386	7,786
Depreciation:			
At 1st April 1995	415	3,561	3,976
Foreign exchange adjustment	7	54	61
Charge for year	73	599	672
Revaluation	(63)	-	(63)
Disposals	(20)	(268)	(288)
At 31st March 1996	412	3,946	4,358
Net book value:			
At 31st March 1996	1,988	1,440	3,428
At 31st March 1995	2,204	1,726	3,930
Cost or valuation at 31st March 1996 comprises:			
Cost	923	4,430	5,353
Valuation (1989)	1,477	-	1,477
	2,400	4,430	6,830

The valuations were on the basis of open market valuations for existing use. The long leasehold property in one subsidiary was revalued during the year. The valuation was carried out by Robert Bushnell, Chartered Surveyors.

Land & buildings at net book value comprise:	1996 £000s	1995 £000s
Freeholds	1,561	1,593
Long leaseholds	280	413
Short leaseholds	147	198
	1,988	2,204

If land and buildings had not been revalued, they would have been included at the following amounts:

	£000s
Cost	2,150
Aggregate depreciation	369

	Land & buildings £000s	Plant & machinery £000s	Total £000s
Unaudited proforma net book value at 31st March 1996	1,988	1,202	3,190

12. TANGIBLE FIXED ASSETS (continued)

COMPANY

	Freehold land & buildings £000s	Plant & machinery £000s	Total £000s
Cost or valuation:			
At 1st April 1995	1,080	91	1,171
Additions	-	2	2
At 31st March 1996	1,080	93	1,173
Depreciation:			
At 1st April 1995	16	79	95
Charge for year	3	8	11
At 31st March 1996	19	87	106
Net book value:			
At 31st March 1996	1,061	6	1,067
At 31st March 1995	1,064	12	1,076
Cost or valuation at 31st March 1996 comprises:			
Cost	60	93	153
Valuation (1989)	1,020	-	1,020
	1,080	93	1,173

The valuations were on the basis of open market valuations for existing use.

	Freehold and long leasehold land & buildings £000s	Plant & machinery £000s	Total £000s
Unaudited proforma net book value at 31st March 1996	1,341	6	1,347

13. CAPITAL COMMITMENTS

	Group 1996 £000s	Group 1995 £000s
Contracted for but not provided in the accounts	24	13

The Company has no capital commitments (1995 £Nil).

NOTES TO THE ACCOUNTS

14. FIXED ASSET INVESTMENTS - COMPANY SUBSIDIARY UNDERTAKINGS

	Unaudited proforma £000s	Audited £000s
Cost:		
At 1st April 1995	7,702	7,702
Additions	982	982
Disposals	(2,381)	-
At 31st March 1996	6,303	8,684
Amount written off:		
At 1st April 1995	2,008	2,008
Written off during the year	2,700	2,700
Disposals	(1,051)	-
At 31st March 1996	3,657	4,708
Net book value:		
At 31st March 1996	2,646	3,976
At 31st March 1995	5,694	5,694

Further details of subsidiary and associated undertakings are set out on page 38.

15. STOCK - GROUP

	Unaudited proforma 1996 £000s	Audited 1996 £000s	Audited 1995 £000s
Raw materials	11	378	325
Work in progress	436	779	1,001
Finished goods	4,981	5,028	4,899
	5,428	6,185	6,225
Long term contracts (included in work in progress):			
Net costs less foreseeable losses		194	185
Less: applicable payments on account		-	(23)
		194	162

The Company does not hold stocks.

16. DEBTORS

	Group			Company		
	Unaudited proforma 1996 £000s	Audited 1996 £000s	Audited 1995 £000s	Unaudited proforma 1996 £000s	Audited 1996 £000s	Audited 1995 £000s
Amounts falling due within one year:						
Trade debtors	9,016	12,715	13,877	-	-	-
Amounts recoverable on contracts	1,504	2,866	2,644	-	-	-
Amounts due from associated undertaking	164	164	218	-	-	-
Other debtors	292	301	433	28	28	35
Prepayments and accrued income	628	697	921	5	5	17
Amounts due from subsidiary undertakings	-	-	-	820	820	1,616
	11,604	16,743	18,093	853	853	1,668
Amounts falling due after one year:						
Trade debtors	180	180	355	-	-	-
Amounts due from subsidiary undertakings	-	-	-	3,005	3,005	3,005
	11,784	16,923	18,448	3,858	3,858	4,673

Certain amounts receivable by the Group previously treated as trade debtors have been classified as recoverable on contracts as the directors consider that this more closely reflects their nature. In the comparative figures an amount of £1,852,000 has been reclassified accordingly.

£2,680,000 due to the Company from subsidiary undertakings has been categorised this year as amounts falling due after one year to reflect the longer term nature of the debt. The equivalent balance at 31st March 1995 has been reclassified accordingly.

NOTES TO THE ACCOUNTS

17. CREDITORS

	Group			Company		
	Unaudited proforma 1996 £000s	Audited 1996 £000s	Audited 1995 £000s	Unaudited proforma 1996 £000s	Audited 1996 £000s	Audited 1995 £000s
Amounts falling due within one year:						
Bank loans	107	107	107	107	107	107
Bank overdrafts	2,624	4,480	2,954	-	-	-
Payments received on account	-	100	185	-	-	-
Trade creditors	5,791	11,314	13,736	-	-	-
Corporation tax	-	-	2	-	-	-
Advance Corporation Tax on dividends	45	45	45	45	45	45
Other taxation and social security	220	395	354	6	6	6
Other creditors	1,640	1,640	1,538	55	55	-
Accruals and deferred income	1,790	1,855	1,186	30	30	46
Proposed ordinary dividend	158	158	158	158	158	158
	12,375	20,094	20,265	401	401	362
Amounts falling due after one year:						
Bank loans	494	494	600	494	494	600
Accruals and deferred income	25	25	33	-	-	-
Other creditors	273	273	176	95	95	-
	792	792	809	589	589	600

Bank loans falling due after one year are repayable:	Group and Company 1996 £000s	1995 £000s
Between 1 and 2 years	107	107
Between 2 and 5 years	200	260
After 5 years	187	233
	494	600

The bank loans and overdrafts are secured by fixed and floating charges over the assets of Group undertakings and by cross guarantees between Group undertakings.

The rate of interest on the bank loan is 1½ per cent over LIBOR.

18. PROVISIONS FOR LIABILITIES AND CHARGES - UNAUDITED PROFORMA AND AUDITED

PENSIONS (Note 27)

	Group and Company £000s
At 1st April 1995	62
Profit and loss account	(5)
At 31st March 1996	57

DEFERRED TAXATION

The liability for deferred taxation for which full provision at 33 per cent has been made is:

	Group		Company	
	1996 £000s	1995 £000s	1996 £000s	1995 £000s
Taxation deferred by capital allowances	185	230	4	4
Relief for losses and other timing differences	(185)	(230)	(4)	(4)
	-	-	-	-

No provision has been made for the additional taxation which would accrue if the land and buildings were disposed of at their revalued amounts.

No provision is made for taxation liabilities which would arise on the distribution of the retained reserves of the overseas subsidiary because there is no intention in the foreseeable future that such reserves will be distributed.

NOTES TO THE ACCOUNTS

19. CALLED UP SHARE CAPITAL - UNAUDITED PROFORMA AND AUDITED

	Group and Company 1996 £000s	Group and Company 1995 £000s
Authorised:		
339,815,700 ordinary shares of 1p each	3,398	3,398
750,000 4.9 per cent cumulative preference shares of £1 each	750	750
1,681,443 8 per cent cumulative redeemable preference shares of £1 each	1,681	1,681
	5,829	5,829
Allotted, called up and fully paid:		
262,685,563 ordinary shares of 1p each	2,627	2,627
555,000 4.9 per cent cumulative preference shares of £1 each	555	555
157,395 8 per cent cumulative redeemable preference shares of £1 each	157	157
	3,339	3,339

The Company has the power to redeem the 8 per cent cumulative redeemable preference shares at par (together with any arrears or accruals of dividends) at any time. All preference shares are non-voting unless the dividend is six months in arrears or the resolution relates to the winding up of the Company or affects the rights attaching to them. The preference shares have a preferential right to return of capital on a winding up.

Under the Company's executive share option scheme, the following options have been granted enabling a number of senior employees to subscribe for ordinary shares after a period of three years and within a period of ten years from date of grant:

Date of grant	Exercise price	Number of options
9th July 1990	4p	3,726,000
13th December 1991	4p	96,000
11th July 1994	$4^1/_4$p	4,890,000
		8,712,000

20. REVALUATION RESERVE - UNAUDITED PROFORMA AND AUDITED

	Group £000s	Company £000s
At 1st April 1995	494	250
Revaluation loss during the year	(124)	-
At 31st March 1996	370	250

NOTES TO THE ACCOUNTS

21. OTHER RESERVES - UNAUDITED PROFORMA AND AUDITED

	Group £000s	Company £000s
At 1st April 1995	11	887
Merger reserve released on closure of catering equipment business	-	(675)
At 31st March 1996	11	212

22. MINORITY INTEREST - GROUP UNAUDITED PROFORMA AND AUDITED

	£000s
At 1st April 1995	250
Foreign exchange adjustment	19
Shares issued to minority interest	147
Profit and loss account	88
Dividends declared on ordinary equity shares	(147)
At 31st March 1996	357

23. PROFIT AND LOSS ACCOUNT

	Group Unaudited proforma £000s	Group Audited £000s	Company Audited & proforma £000s
At 1st April 1995	(1,507)	(1,507)	2,111
Foreign exchange adjustment	191	191	-
Loss for the financial year	(392)	(1,977)	(1,154)
Dividends paid and proposed	(198)	(198)	(198)
At 31st March 1996	(1,906)	(3,491)	759

GOODWILL

The directors' best estimate of the cumulative amount of goodwill resulting from acquisitions which has been written off to reserves is, at 1st April 1995 and 31st March 1996, £1,120,000.

ABE

NOTES TO THE ACCOUNTS

24. NOTES TO THE CASH FLOW STATEMENT

	Audited 1996 £000s	Audited 1995 £000s
Net cash flow from:		
Operating profit	230	1,116
Exceptional costs	(1,385)	-
Depreciation charges	672	683
Loss/(profit) on disposal of tangible fixed assets	123	(3)
Decrease in stocks	40	326
Decrease/(increase) in debtors	1,499	(4,338)
(Decrease)/increase in creditors	(1,608)	1,960
Decrease in pension provision	(5)	(5)
	(434)	(261)

	Audited 1996 £000s	Audited 1995 £000s
Analysis of changes in loan financing during the year:		
At 1st April 1995	707	863
Repayment of loan	(106)	(156)
At 31st March 1996	601	707

	Unaudited proforma 1996 £000s	Audited 1996 £000s	Audited 1995 £000s
Analysis of changes in cash and cash equivalents:			
At 1st April 1995	(2,796)	(2,796)	(1,102)
Cash flow for the year	26	(1,830)	(1,478)
Exchange rate adjustment	177	177	(216)
	203	(1,653)	(1,694)
At 31st March 1996	(2,593)	(4,449)	(2,796)

	1996 £000s	1996 Change in year £000s	1995 £000s	1995 Change in year £000s	1994 £000s
Analysis of audited balances:					
Cash at bank and in hand	31	(127)	158	130	28
Bank overdraft	(4,480)	(1,526)	(2,954)	(1,824)	(1,130)
	(4,449)	(1,653)	(2,796)	(1,694)	(1,102)
Analysis of unaudited proforma balances:					
Cash at bank and in hand	31	(127)	158		
Bank overdraft	(2,624)	330	(2,954)		
	(2,593)	203	(2,796)		

NOTES TO THE ACCOUNTS

25. CONTINGENT LIABILITIES

	Group		Company	
	1996	1995	1996	1995
	£000s	£000s	£000s	£000s
Guarantee of borrowings of subsidiaries	-	-	5,769	5,981
Bankers' indemnities	100	847	-	-

26. COMMITMENTS UNDER OPERATING LEASES

At 31st March the Group had the following annual commitments under non-cancellable operating leases:

	Land and buildings		Other	
	1996	1995	1996	1995
	£000s	£000s	£000s	£000s
Expiring within one year	408	164	48	76
Expiring between two and five years inclusive	116	484	95	184
Expiring in more than five years	202	201	-	2
	726	849	143	262

The Company has a £15,000 annual commitment under a non-cancellable operating lease which expires in more than 5 years (1995 £15,000).

NOTES TO THE ACCOUNTS

27. PENSIONS

The Group operates a defined benefit pension scheme, holding the assets in a separate trustee administered fund. The total pension cost relating to the Group fund was £201,000 (1995 £214,000). This is stated after a reduction of £5,000 (1995 £5,000) representing the amortisation, over the expected average remaining service lives of the employees, of a provision made in previous years as a result of the preceding actuarial valuation. Costs are assessed with the advice of an independent qualified actuary using the projected unit method and charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group.

The principal actuarial assumptions used in the most recent actuarial valuation at 1st April 1993 are based upon an investment return of 9.5 per cent per annum, pay growth of 7.0 per cent per annum, dividend growth of 5.0 per cent per annum and increases in present and future pensions at rates guaranteed by the fund.

The pension fund investments are managed by Ionian Investment Management, a division of Ionian Corporate Finance, of which Mr. S.J. Cockburn is a director and shareholder and Mr. P.A. Lovegrove is a director.

At the date of the latest actuarial valuation, the market value of the assets of the fund was £3,975,000 and the actuarial value of the assets was sufficient to cover 100 per cent of the benefits which had accrued to members after allowing for expected future increases in earnings.

An amount of £57,000 (1995 £62,000) is included in provisions, which represents the excess of the accumulated pension cost over the payment of contributions to the pension fund.

28. POST BALANCE SHEET EVENTS

On 24th May 1996 the Company sold the whole of the issued share capital of Dawson-Keith Limited. Further details of this transaction are set out in the Directors' Report on page 11 and in Note 6.

GROUP UNDERTAKINGS

AS AT 31ST MARCH 1996

	Country of incorporation
MIDDLE EAST OPERATIONS	
Danway Limited (87%) (Issued share capital 1,164,732 ordinary shares of one US Dollar)	Cayman Islands
*Danway (Abu Dhabi) LLC (44%) (Issued share capital 500 ordinary shares of Dirhams 1,000 each)	United Arab Emirates
*Danway Limited Liability Company (43%) (Issued share capital 300 ordinary shares of Dirhams 1,000 each)	United Arab Emirates
CATERING EQUIPMENT	
ABE Catering Equipment Limited (Issued share capital 800,000 ordinary shares of £1 each) trading as: ABE Projects Coaney Catering Equipment H. Faith Paul Mitton & Co. Mollett Catering Equipment Staines Catering Equipment Staines Catering Equipment International	Great Britain
*Peter Nisbet & Company Limited (Issued share capital 246,000 ordinary shares of £1 each)	Great Britain
DIESEL ENGINEERING	
Dawson-Keith Limited (Issued share capital 18,442,500 ordinary shares of 10p each and 250,000 deferred shares of £1 each)	Great Britain
British Polar Engines Limited (Issued share capital 900,000 ordinary shares of £1 each) trading as: British Polar Engines ABE Diesels	Great Britain

* Shares held by subsidiary undertakings.

The above companies are those carrying on the business of the Group and the results of which principally affect the results of the Group. The companies, which are wholly owned unless otherwise indicated, operate in their country of incorporation except Danway Limited, which operates in the United Arab Emirates.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by UK Company Law to prepare accounts for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31st March 1996. The directors also confirm that applicable accounting standards have been followed and that the accounts have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board
Mrs. K.M. Hill
Finance Director and Secretary
14th August 1996

REPORT BY THE AUDITORS

TO ASSOCIATED BRITISH ENGINEERING PLC ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 7 and 8 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

BASIS OF OPINION

We carried out our review having regard to the Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Company or Group to continue in operational existence.

OPINION

With respect to the directors' statements on internal financial control on pages 7 and 8 and going concern on page 8, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 7 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Coopers & Lybrand
Chartered Accountants
Reading
14th August 1996

ABE

AUDITORS' REPORT

TO THE MEMBERS OF ASSOCIATED BRITISH ENGINEERING PLC

We have audited the accounts on pages 15 to 38.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 39 the Company's directors are responsible for the preparation of 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 judgements made by the directors in the preparation of the accounts, 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 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.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31st March 1996 and of the loss, total recognised gains and losses and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

The accounts include proforma information as at 31st March 1996 which we have reviewed without audit. This information has been prepared in order to facilitate a better understanding of the Group following the disposal of Dawson-Keith, a subsidiary, on 24th May 1996. In our opinion the unaudited proforma information has, as far as the calculations are concerned, been properly compiled on the basis set out in the accounting policies on page 15.

Coopers & Lybrand
Chartered Accountants
and Registered Auditors
Reading
14th August 1996

NON-EXECUTIVE DIRECTORS

PHILIP LOVEGROVE (59) has been Chairman since September 1985. He is also chairman of VTR p.l.c.and WT Foods PLC and a director of Ashtead Group PLC, Kingsbury Group plc and Gartmore Enterprise p.l.c.

STEPHEN COCKBURN (56) has been a Non-executive Director since 1979. He is chairman of Archimedes Investment Trust plc and a director of seven other listed Investment Trusts. He is also managing director of The Investment Company plc.

JONATHAN DAVIES (52) has also been a Non-executive Director since 1979. He is chairman of Galaxy Media Corporation plc and a non-executive director of Widney plc and other companies.

ROBERT HARRIS (50) was appointed a Non-executive Director on 17th July 1996. He is senior partner of Seligmann Harris & Co. and a member of the London Stock Exchange.

SENIOR OPERATING MANAGEMENT

MIDDLE EAST OPERATIONS

P.I. Janardanan	Managing Director
A.K.M. Aslam	Sales and Marketing Manager
J.A. Clarke	Business Development Manager
K.M. David	Industrial Products Division Manager
M. Jayarajan	Electrical Products Division Manager
S.G. Nair	Contracts Division General Manager
P.G. Sigera	Financial Controller
A.T. Sutton	Electrical Systems Division Manager

CATERING EQUIPMENT

D.W. Budd	Operations Director
P.J. Thompson	Exports Director
S.A.J. Watney	Imports Director

DIESEL ENGINEERING - CONTINUING OPERATIONS

I.E. McLullich	Managing Director
S. Davis	Sales Director
P.V. Frankish	Managing Director - Automotive Division

REGISTERED OFFICE AND ADVISERS

SECRETARY & REGISTERED OFFICE
Mrs. K.M. Hill
Associated British Engineering plc
78 Chapel Street
Thatcham
Berkshire RG18 4QN
Registered No. 110663

AUDITORS
Coopers & Lybrand
Reading

SOLICITORS
Ashurst Morris Crisp
London

REGISTRARS
The Royal Bank of Scotland plc
P.O. Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

BANKERS
The Royal Bank of Scotland plc
Glasgow

STOCKBROKERS
Bell Lawrie White & Co.
Edinburgh

ABE

NOTICE OF MEETING

Notice is hereby given that the eighty-fifth Annual General Meeting of Associated British Engineering plc will be held at 78 Chapel Street, Thatcham, Berkshire on Wednesday, 11th September 1996 at 11.30 a.m. for the purpose of transacting the following business:

1. To receive and adopt the directors' report and accounts for the year ended 31st March 1996 (Resolution 1).

2. To declare a dividend of 0.06p net per ordinary share (Resolution 2).

3. To re-elect Mr. S.J. Cockburn (Resolution 3).

4 To elect Mr. R.R. Harris (Resolution 4).

5. To elect Mrs. K.M. Hill (Resolution 5).

6. To re-appoint the auditors and to authorise the directors to fix the remuneration of the auditors (Resolution 6).

As special business, to consider and, if thought fit, pass the following resolution which will be proposed as a special resolution of the Company:

7. That the directors of the Company be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (within the meaning of Section 94(2) of the Companies Act 1985) for cash pursuant to Resolution 5 which was set out in the Notice of the Annual General Meeting of the Company convened for 27th September 1994 and passed at such meeting as if Section 89(1) of the Companies Act 1985 did not apply to such allotment, provided that this authority shall:-

   (a) expire on the earlier of 10th December 1997 and the conclusion of the Annual General Meeting of the Company next following this meeting save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot equity securities in pursuance of any such offer or agreement as if this authority had not expired; and

   (b) be limited to the allotment of equity securities:-

      (i) in connection with an offer of equity securities by way of rights to the holders of ordinary shares in the capital of the Company on the relevant register on a fixed record date in proportion (as nearly as may be) to their respective holdings and/or rights subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws, or the requirements of any recognised regulatory body or stock exchange, of any territory; and

NOTICE OF MEETING

(ii) (otherwise than pursuant to (i) above) up to an aggregate nominal amount not exceeding £131,342 (Resolution 7).

By order of the board
Mrs. K.M. Hill
Finance Director and Secretary
14th August 1996

Holders of ordinary shares only are entitled to attend and vote at the meeting.

A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him; a proxy need not also be a member. Proxy forms to be effective at the meeting must be deposited at the offices of the Company's registrars, The Royal Bank of Scotland plc, Securities Services - Registrars, P.O. Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 0XG not later than 48 hours before the time fixed for the meeting. Appointment of a proxy will not preclude a member from attending and voting in person at the Annual General Meeting.

Each member entitled to vote on a resolution, on a show of hands has one vote if present in person, and on a poll, if present in person or by proxy, has one vote for every ordinary share held by him.

The register of directors' shareholdings and transactions will be available for inspection at the registered office of the Company from the date hereof until the date of the Annual General Meeting during usual business hours and at the place of the Annual General Meeting for fifteen minutes prior to and during the Annual General Meeting. The directors' service contracts are also available for inspection at the registered office of the Company at all times.

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