

Johnston Engineering Limited

Report and Accounts at 31st December 1996

Registered in England No. 199841



JOHNSTON ENGINEERING LIMITED

REPORT OF THE DIRECTORS

For the year ended 31 December 1996

The directors have pleasure in submitting their Report and Accounts for the year ended 31 December 1996. The results for the year are as set out in the profit and loss account.

1. Principal Activities and Review of Operations

The principal activity of Johnston Engineering Limited continues to be the manufacture of road sweepers and other municipal equipment.

The results for the year are set out on page 1. A full review of the company's trading operations is included in the accounts of the ultimate parent company Johnston Group PLC.

2. Acquisition of Beam Scandinavia A/S

In October 1996 the company purchased the assets and business of Beam Scandinavia A/S, a privately owned Danish company, for an initial consideration of £2.1 million (see note 16). The business is now trading as Johnston-Beam.

3. Dividend

An interim dividend of £1,200,000 has been paid in respect of the year ended 31 December 1996. No further dividend is proposed in respect of 1996.

4. Directors and Directors' Interests

The names of the directors holding office at the date of this report and their beneficial interests in the ordinary share capital of the ultimate parent company, Johnston Group PLC, are as follows.

	31 December 1996		1 January 1996	
	Ordinary Shares 10p	Options Ord Shares 10p	Ordinary Shares 10p	Options Ord Shares 10p
J.M.S.Johnston	840,380	4,971	839,880	4,971
A.D.Giles	10,500	33,437	10,500	33,437
A.J.Duthie	1,825	1,560	1,507	1,488
M.R.Ireland	3,822	4,739	3,822	4,739
A.N.Yapp	763	1,711	763	930

Mr P.G.Rhodes was appointed a director on 1st February 1997.

5. Research and Development

Research and development costs incurred by the company in the year amounted to £884,234

6. Employment Policies

The company is committed to policies of non-discrimination to promote equal opportunities in employment regardless of gender, religion, race or ethnic origin. Employees with disabilities have the same opportunities for promotion, training and career development as other employees.

Employees are kept informed of the company's trading policy through the attendance of elected delegates at works committee meetings held at regular intervals. A brochure and twice yearly newsletter covering the Johnston Group and its subsidiary companies are distributed to all employees.

7. Health and Safety at Work

The company has a strong commitment to the safety and health of employees. The company has its own safety officer and there are two full-time group safety managers who advise on accident prevention and safety in the company's factories. The directors are kept regularly informed on all aspects of safety.

8. Creditor Payment Policies

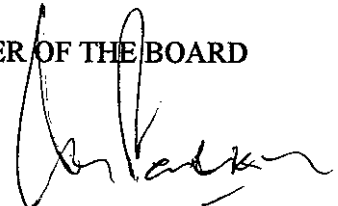
The company does not follow any code or standard on payment practice as it is the company's policy to settle creditors promptly on mutually agreed terms. The terms will vary from supplier to supplier and suppliers will be aware of the terms of payment.

For smaller suppliers where no terms are agreed, payment will normally be made in the month following receipt of goods or services, or shortly thereafter.

9. Auditors

In accordance with section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD



J.H. Falkner
Secretary

Johnston House
Hatchlands Road
Redhill
Surrey RH1 1BG

4 April 1997

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those accounts, the directors are required to:

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;

prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS

To the members of JOHNSTON ENGINEERING LIMITED

We have audited the accounts on pages 1 to 15.

Respective responsibilities of Directors and Auditors

As described above the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and 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 at 31st December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
11th April 1997

1 Forest Gate, Brighton Road
Crawley
West Sussex
RH11 9PT

PROFIT AND LOSS ACCOUNT for the year ended 31st December 1996

	Notes	1996 £	1995 £
Turnover			
Continuing Activities		35,796,246	37,038,670
Acquisitions		1,128,665	---
	1	36,924,911	37,038,670
Operating costs less other income			
Continuing Activities		32,369,654	32,727,194
Acquisitions		1,394,675	---
Operating costs less other income	2	33,764,329	32,727,194
Operating profit			
Continuing Operations		3,426,592	4,311,476
Acquisitions		(266,010)	---
		3,160,582	4,311,476
Interest	3	(25,197)	(5,480)
Profit on ordinary activities before taxation		3,135,385	4,305,996
Tax on profit on ordinary activities	4	1,076,397	1,441,272
Profit on ordinary activities after taxation		2,058,988	2,864,724
Dividends paid		1,200,000	1,400,000
Retained profit	13	858,988	1,464,724

A statement of movements on reserves is given in note 13.

BALANCE SHEET at 31st December 1996

	Notes	1996 £	1995 £
Fixed assets			
Intangible assets	5	309,735	---
Tangible assets	6	6,487,687	4,528,120
Investments	7	13,768,274	14,961,621
		20,565,696	19,489,741
Current assets			
Stocks	8	6,356,862	5,200,567
Debtors	9	7,690,975	6,736,972
Cash at bank and in hand		8,481	1,577,100
		14,056,318	13,514,639
Creditors due within one year	10	6,527,451	5,851,024
Net current assets		7,528,867	7,663,615
Total assets less current liabilities		28,094,563	27,153,356
Creditors due after one year	11	21,901,459	21,489,423
Provisions for liabilities and charges : deferred taxation	4	210,980	37,319
Net assets		5,982,124	5,626,614
Capital and reserves			
Called up share capital	12	8,000	8,000
Profit and loss account	13	5,974,124	5,618,614
Equity shareholders' funds		5,982,124	5,626,614

Approved by the Board:
J M S Johnston Director
4th April 1997



**RECOGNISED GAINS AND LOSSES
MOVEMENTS IN SHAREHOLDERS' FUNDS**
**1996
£**
**1995
£**
Statement of total recognised gains and losses

Profit after taxation	2,058,988	2,864,724
Translation adjustments	(251,403)	19,414
Goodwill written off	(252,075)	

Total recognised gains and losses for the year	1,555,510	2,884,138
--	-----------	-----------

Reconciliation of movements in shareholders' funds

Total recognised gains and losses for the year	1,555,510	2,884,138
Dividends paid on equity shares	(1,200,000)	(1,400,000)

Net increase in shareholders' funds	355,510	1,484,138
-------------------------------------	---------	-----------

Shareholders' funds at beginning of year	5,626,614	4,142,476
--	-----------	-----------

Shareholders' funds at end of year	5,982,124	5,626,614
------------------------------------	-----------	-----------

Note of historical cost profits and losses

Profit on ordinary activities before taxation	3,135,385	4,305,996
Adjustment of depreciation to historical cost basis	(21,659)	(21,659)

Historical cost profit on ordinary activities before taxation	3,113,726	4,284,337
---	-----------	-----------

Historical cost retained profit	837,329	1,443,065
---------------------------------	---------	-----------

NOTES TO THE ACCOUNTS

1. Geographical analysis of turnover by destination

	1996 £ Continuing Operations	1996 £ Acquisitions	1996 £ Total	1995 £
Europe, Africa & Middle East	26,993,421	1,128,665	28,122,086	29,154,465
Asia, Australia & New Zealand	6,461,189		6,461,189	5,149,578
Americas	2,341,636		2,341,636	2,734,627
	35,796,246	1,128,665	36,924,911	37,038,670

2. Operating costs less other income

	1996 £ Continuing Operations	1996 £ Acquisitions	1996 £ Total	1995 £
Raw materials and consumables	19,926,985	904,967	20,831,952	20,960,952
Staff costs	8,180,834	313,661	8,494,495	7,830,496
Other external charges	4,043,552	136,601	4,180,153	3,693,048
Change in stocks of finished goods and work-in-progress	(226,868)	12,877	(213,991)	(208,146)
Profit on disposal of fixed assets	(31,520)	---	(31,520)	(8,675)
Depreciation of owned assets	491,699	9,536	501,235	458,145
Depreciation of assets held under finance lease	24,332	---	24,332	38,230
Amortisation of intangible fixed assets	---	17,135	17,135	---
Other operating income	(39,360)	(102)	(39,462)	(36,856)
	32,369,654	1,394,675	33,764,329	32,727,194
Staff costs (including directors)				
Wages and salaries	7,172,871	311,158	7,484,029	7,008,391
Social security costs	622,767	2,503	625,270	582,027
Other pension costs	385,196	---	385,196	240,078
	8,180,834	313,661	8,494,495	7,830,496
Other external charges include				
Plant and equipment - operating lease rentals	208,576	---	208,576	223,358
Other operating lease rentals	280,798	668	281,466	242,478
Translation adjustment	109,206	---	109,206	---
Research and development costs	883,893	341	884,234	497,685
Audit fees	14,050	4,674	18,724	14,000

NOTES TO THE ACCOUNTS (continued)**3. Interest**

	1996 £	1995 £
Interest element of finance lease rental payments	(3,560)	(5,480)
Sundry interest received	631	---
Sundry interest paid	(759)	---
Interest on secured loan	(21,509)	---
	(25,197)	(5,480)

4. Taxation

	1996 £	1995 £
Corporation tax charge @ 33%	229,503	664,355
Group relief @ 33%	676,400	748,056
Adjustment in respect of previous years	(3,167)	---
Transfer to deferred taxation account	173,661	28,861
	1,076,397	1,441,272
Provisions for liabilities and charges :		
Deferred taxation due to the difference between capital allowances and book depreciation and other timing differences		
Balance at 1st January 1996	37,319	8,458
Transfer from profit & loss account	173,661	28,861
Balance at 31st December 1996	210,980	37,319

Deferred taxation has been calculated using a corporation tax rate of 33%.

5. Intangible fixed assets

	Manufacturing know-how £
Cost or valuation 1st January 1996	---
Additions	326,870
At 31st December 1996	326,870
Depreciation 1st January 1996	---
Charge for year	17,135
At 31st December 1996	17,135
Net book value 31st December 1996	309,735
Net book value 31st December 1995	---

NOTES TO THE ACCOUNTS (continued)

6. Tangible fixed assets	Land and buildings	Plant and equipment	Assets under construction	Total
	£	£	£	£
Cost or valuation 1st January 1996	3,302,362	4,558,876	221,716	8,082,954
Additions	936,975	1,163,007	395,809	2,495,791
Disposals	---	(353,259)	---	(353,259)
Reclassification	---	221,716	(221,716)	---
At 31st December 1996	4,239,337	5,590,340	395,809	10,225,486
Comprising :				
At professional valuation	3,250,000	---	---	3,250,000
At cost	989,337	5,590,340	395,809	6,975,486
Depreciation 1st January 1996	106,032	3,448,802	---	3,554,834
Charge for year	60,392	465,175	---	525,567
Disposals	---	(342,602)	---	(342,602)
At 31st December 1996	166,424	3,571,375	---	3,737,799
Net book value 31st December 1996	4,072,913	2,018,965	395,809	6,487,687
Net book value 31st December 1995	3,196,330	1,110,074	221,716	4,528,120

The net book value of fixed assets includes £120,779 (1995 - £72,879) in respect of assets held under finance leases .

NOTES TO THE ACCOUNTS (continued)**6. Tangible fixed assets (continued)**

Land and buildings comprise :

	Freehold £	Long leasehold £	Short leasehold £	Total £
Cost or valuation 1st January 1996	2,550,000	752,362	---	3,302,362
Additions	936,975	---	---	936,975
At 31st December 1996	3,486,975	752,362	---	4,239,337
Comprising				
At professional valuation	2,550,000	700,000	---	3,250,000
At cost	936,975	52,362	---	989,337
Depreciation 1st January 1996	77,596	28,436	---	106,032
Charge for year	40,980	19,412	---	60,392
At 31st December 1996	118,576	47,848	---	166,424
Net book value 31st December 1996	3,368,399	704,514	---	4,072,913
Net book value 31st December 1995	2,472,404	723,926	---	3,196,330

The company's interests in land and buildings in the United Kingdom were revalued in the balance sheet at 31st December 1993 at their current open market value on the basis of existing use following a professional valuation by Messrs. Gerald Eve , chartered surveyors.

Comparable historical cost amounts for the company's land and buildings included in tangible fixed assets were :

At 31st December 1996	Freehold £	Long Leasehold £	Short Leasehold £	Total £
Original cost	3,785,921	1,038,891	123,350	4,948,162
Less aggregate depreciation	490,655	343,818	19,951	854,424
Net book value	3,295,266	695,073	103,399	4,093,738
At 31st December 1995	Freehold £	Long Leasehold £	Short Leasehold £	Total £
Original cost	2,848,946	1,038,891	123,350	4,011,187
Less aggregate depreciation	436,214	318,675	17,484	772,373
Net book value	2,412,732	720,216	105,866	3,238,814

NOTES TO THE ACCOUNTS (continued)**7. Fixed asset investments**

	Shares in subsidiary undertakings £	Loans to subsidiary undertakings £	Shares in associated undertakings £	Total £
Cost at 1st January 1996	2,829,650	12,780,937	45,617	15,656,204
Translation adjustment	---	(1,185,260)	---	(1,185,260)
Disposal	---	---	(35,475)	(35,475)
At 31st December 1996	2,829,650	11,595,677	10,142	14,435,469
Amounts written off 1st January 1996	81,195	613,388	---	694,583
Reclassification from current account provision	---	(27,388)	---	(27,388)
At 31st December 1996	81,195	586,000	---	667,195
Net book value 31st December 1996	2,748,455	11,009,677	10,142	13,768,274
Net book value 31st December 1995	2,748,455	12,167,549	45,617	14,961,621

During the year the company has made sales to Pfau Johnston GmbH, an associated undertaking. Sales were made on normal trading terms and amounted to £ 1,347,000. The balance outstanding at the year end was £ 887,835.

The company has an interest in the unlisted subsidiary and associated undertakings below. The share capital of the associated undertaking comprises ordinary shares denominated in German Deutschmarks

Name and country of incorporation if not Great Britain	Proportion of nominal value of issued shares held by the company %	Activity
Johnston Sweeper Company (USA)	100	
MacDonald Johnston Engineering Co. Pty Limited (Australia)	100	Manufacture of road cleaners and other municipal equipment
Pfau Johnston GmbH (Germany)	50	
Johnston Sweepers Limited	100	
Johnston Kina Limited	100	Dormant

NOTES TO THE ACCOUNTS (continued)

8. Stocks	1996 £	1995 £
Raw materials and consumables	927,622	345,341
Manufacturing work-in-progress	1,583,612	1,804,997
Finished goods and goods for resale	3,845,628	3,050,229
	6,356,862	5,200,567
9. Debtors	1996 £	1995 £
Trade debtors	5,509,972	5,215,288
Group undertakings	739,875	450,914
Associated undertakings	887,835	915,349
Prepayments and accrued income	213,348	113,315
Other debtors	339,945	42,106
	7,690,975	6,736,972
10. Creditors due within one year	1996 £	1995 £
Trade creditors	3,668,670	2,965,512
Amounts owed to group undertakings	414,244	241,706
Other creditors	686,873	550,256
Obligations under finance leases	28,921	26,526
Secured loans	20,728	---
Bank loans and overdrafts	476,554	---
Taxation and social security	456,283	860,349
Accruals and deferred income	775,178	1,206,675
	6,527,451	5,851,024
11. Creditors due after one year	1996 £	1995 £
Amounts owed to group undertakings	21,265,531	21,471,810
Obligations under finance leases repayable within five years	50,325	17,613
Secured loans repayable between one and two years	22,324	---
Secured loans repayable between two and five years	77,825	---
Secured loans repayable in over five years	336,862	---
Other creditors	148,592	---
	21,901,459	21,489,423

The loans are secured on the company's freehold property in Denmark

NOTES TO THE ACCOUNTS (continued)**12. Share capital**

	1996 £	1995 £
Authorised 100,000 ordinary shares of £1 each	100,000	100,000
Allotted, called up and fully paid 8,000 ordinary shares of £1 each	8,000	8,000

13. Reserves

	Profit and loss account £
At 1st January 1996	5,618,614
Retained profit for the year	858,988
Goodwill on purchase of new business	(252,075)
Translation adjustment on overseas assets	(251,403)
At 31st December 1996	5,974,124

14. Commitments

	1996 £	1995 £
Capital commitments contracted for	1,436,518	513,094
	1,436,518	513,094

Annual commitment under non cancellable operating leases	Land and buildings		Plant and equipment	
	1996 £	1995 £	1996 £	1995 £
Leases expiring :				
Within one year	7,434	---	25,805	5,134
Within two to five years	186,720	159,691	142,955	189,134
After five years	95,000	95,000	---	---
	289,154	254,691	168,760	194,268

NOTES TO THE ACCOUNTS (continued)**15. Contingent liabilities**

The company has jointly and severally guaranteed the indebtedness of the Parent Company and its subsidiaries to their bankers. A claim under this guarantee would be secured by fixed and floating charges on the company's assets.

16. Purchase of the assets of Beam Scandinavia

In October 1996 the company acquired the business and assets of Beam Scandinavia A/S.

	£
Fair value of assets and liabilities acquired	
Fixed assets	665,285
Manufacturing know-how	326,870
Stocks	1,408,499
Creditors	(437,637)
	1,963,017
Goodwill written off to reserves	252,075
	2,215,092
Satisfied by	
Cash in current period	2,066,501
Deferred consideration - payable in cash	148,591
	2,215,092

The deferred consideration payable ranges from £69,000 to £268,000 and is subject to sales during 1997 and 1998

17. Average number of persons employed

	1996 No.	1995 No.
Direct	193	183
Indirect	232	222
Total	425	405

NOTES TO THE ACCOUNTS (continued)**15. Contingent liabilities**

The company has jointly and severally guaranteed the indebtedness of the Parent Company and its subsidiaries to their bankers. A claim under this guarantee would be secured by fixed and floating charges on the company's assets.

16. Purchase of the assets of Beam Scandinavia

In October 1996 the company acquired the business and assets of Beam Scandinavia A/S.

	£
Fair value of assets and liabilities acquired	
Fixed assets	665,285
Manufacturing know-how	326,870
Stocks	1,408,499
Creditors	(437,637)
	1,963,017
Goodwill written off to reserves	252,075
	2,215,092
Satisfied by	
Cash in current period	2,066,501
Deferred consideration - payable in cash	148,591
	2,215,092

The deferred consideration payable ranges from £69,000 to £268,000 and is subject to sales during 1997 and 1998

17. Average number of persons employed

	1996 No.	1995 No.
Direct	193	183
Indirect	232	222
Total	425	405

NOTES TO THE ACCOUNTS (continued)**18. Directors' remuneration**

	1996 £	1995 £
The remuneration of the directors of the company was as follows :		
Remuneration as executives (including benefits and pension contributions)	350,942	362,168
Chairman	Nil	Nil
Highest paid director (excluding pension contributions)	139,903	138,466
Directors received remuneration (excluding pension contributions) in the following ranges :		
£ Nil - £5,000	1	2
£50,001 - £55,000	1	1
£55,001 - £60,000	1	---
£60,001 - £65,000	---	2
£65,001 - £70,000	1	---
£135,001 - £140,000	1	1

19. Ultimate parent company

The only group in which the accounts of the company are consolidated is that headed by its ultimate parent company, Johnston Group PLC, a company registered in England. Consolidated accounts are available to the public from Johnston House, Hatchlands Road, Redhill, Surrey RH1 1BG.

PRINCIPAL ACCOUNTING POLICIES

A summary of principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

Basis of Accounting

The accounts have been prepared under the historical cost convention modified to include the revaluation of freehold and leasehold properties and in accordance with applicable Accounting Standards. The company is exempt from the requirement of Financial Reporting Standard No.1 to include a cash flow statement as part of its accounts because the company is a wholly owned subsidiary of Johnston Group PLC which publishes consolidated financial statements that include the company and which contain a group cash flow statement.

Subsidiary Undertakings

The company's interest in subsidiary undertakings is shown at original sterling cost less amounts written off, with dividends received and receivable being recorded in the profit and loss account. As permitted by S228 of the Companies Act 1985, consolidated accounts have not been prepared since the company is a wholly owned subsidiary undertaking of another company registered in England which prepares consolidated accounts.

Associated Undertakings

The company's interest in associated undertakings is shown at original sterling cost. Dividends received and receivable from associated undertakings are recorded in the profit and loss account.

Related Party Transactions

As the company is a wholly owned subsidiary of Johnston Group PLC, the company has taken advantage of the exemption contained in Financial Reporting Standard No. 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Acquisitions

Acquisitions are accounted for under the acquisition method, with goodwill, representing any excess of the fair value of the consideration over the fair value of the identifiable assets acquired, being written off against reserves.

Turnover

Turnover is defined as the value of goods and services supplied, including machine rentals net of trade discounts, VAT and other sales related taxes

PRINCIPAL ACCOUNTING POLICIES(continued)

Depreciation

Depreciation is provided on a straight line basis at rates calculated to write off the cost or valuation of fixed assets over their estimated useful lives.

The rates generally in use are:

Freehold	- Land	not depreciated
	- Buildings	50 years
Long Leasehold		50 years
Short Leasehold		Over the unexpired term of the lease
Plant and equipment	- Fixed	8 years
	- Mobile	4 years
Manufacturing Know-how		5 years

Currency Translation

With the exception of the company's investment in the share capital of subsidiary undertakings which is included at original sterling cost less amounts written off, all assets and liabilities denominated in foreign currencies are included in the balance sheet using the closing rate method. Foreign currency transactions of the company have been converted to sterling at rates of exchange ruling on the date of transaction.

Translation differences arising from the company's investment in overseas subsidiaries denominated in foreign currencies are dealt with in reserves. All other translation adjustments arising are dealt with in the profit and loss account.

Research and Development

All research and development expenditure is written off as incurred, as is expenditure in respect of patents and trade marks .

Stocks

Stocks are valued at the lower of net realisable value and cost, which includes production overheads .

Deferred Taxation

Provision is made in full for deferred taxation at the anticipated rate of corporation tax.

PRINCIPAL ACCOUNTING POLICIES(continued)

Leases

Rentals under operating leases are charged on a straight line basis over the lease term. Assets held under finance leases are initially reported at the fair value of the asset, with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its estimated useful life. Finance charges are allocated to accounting periods over the term of the lease to produce a constant rate of return on the outstanding balance.

Pensions

The company participates in the Johnston Management Holdings Limited Pension and Life Assurance Scheme. The scheme is funded with the assets being held by the Trustees completely separate from those of Johnston Group PLC. In the accounts of Johnston Group PLC, the Group's contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. It is impractical to apportion this spread of costs between all the companies participating in the scheme, so contributions are charged on a payable basis in the company's accounts. Further details of the scheme are given in the accounts of the ultimate parent company.