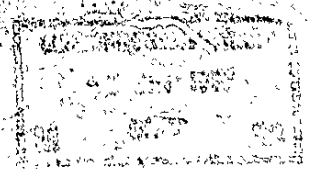
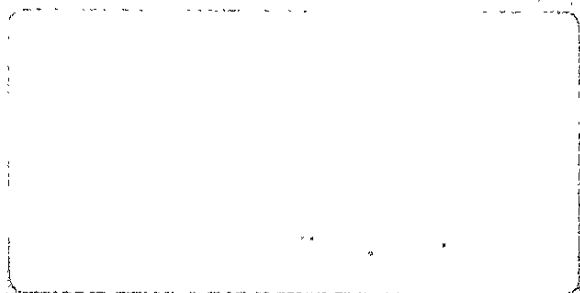


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JOHNSTON ENGINEERING LIMITED

REPORT AND ACCOUNTS

at

31st December, 1986

JOHNSTON ENGINEERING LIMITED

REPORT OF THE DIRECTORS

For the year ended 31st December, 1986

The directors have pleasure in submitting their Report and Statement of Accounts for the year ended 31st December, 1986. 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 the company was engineering.

Management emphasis within the company throughout 1986 has been concentrated upon product design, manufacturing and marketing performance.

Substantial investment has taken place to improve manufacturing processes. The CNC Plasma press installed during early 1986 has had a dramatic effect on piece part production and unit costs. Further such improvements will follow with the acquisition of three Gildemeister CNC turning machines and with the implementation of a new production control system now being installed on an IBM computer.

Cost containment however starts at the design stage and the main development effort in 1986 has been devoted to absorbing new models and in developing a successor to the world-leading 400 Series machine. The new machine, known as the 600 Series, provides improved sweeping performance at much reduced noise levels.

Pre-production models have been thoroughly evaluated by selected customers and response from them and from our distributors and agents has been most enthusiastic.

The SM1800 compact suction sweeper has been extensively re-engineered to improve performance. Customer reaction to this machine has been most encouraging and it is anticipated home and exports orders will continue to grow in 1987.

The company has negotiated a licence with Hofmans B.V. of the Netherlands to manufacture and market their 350 machine worldwide excluding certain European countries. Production of the 350, to be known as the 3000, is scheduled to start at Dorking during 1987, but is being marketed initially in the North American subsidiaries with machines supplied direct from the Netherlands. The machine is well engineered and its introduction completes the range of compact sweepers.

The range of sweepers now produced and sold by the company will reinforce further the Johnston name in this market throughout the world.

Development work on the JP5 refuse truck has also continued and this will now be available with multi-binlift facility. Customer reaction continues to be favourable and repeat orders are being secured. Long term prospects remain good.

Overseas, in Australia, MacDonald Johnston Engineering had a satisfactory year and continues to obtain a major share of the Australian sweeper and refuse market. The company has agreed with our Australian partners to acquire a 50% interest in their other activities in Australia which comprise principally the manufacturing and marketing of hand dryers, incinerators and the servicing of waste disposal units. The amalgamation will provide the opportunity for greatly improving operating efficiency, simplifying the management structure and will lead to a soundly based company ready to take full advantage of the opportunities which exist in the Australian market.

Results from the Canadian subsidiary, Johnston Environmental Equipment, were satisfactory with better market penetration. In the U.S.A. there was an improvement in sales although there was some slippage of order prospects into 1987. The introduction of the new product range will enhance the competitiveness of these two companies in the North American market.

2. Dividends

Two interim dividends totalling £633,000 have been paid in respect of the year ended 31st December, 1986. No further dividend is proposed in respect of 1986.

3. Market value of Land and Buildings

The company's freehold and leasehold properties were revalued as at 31st December, 1984, by a professional firm of chartered surveyors on a going concern basis. As the Board have no present intention of disposing of this property and in view of the expense involved no subsequent revaluation has been carried out. It is, however, the opinion of the directors that the current market value of the freehold and leasehold properties is in excess of the company's book value as at 31st December, 1986.

4. Directors

The names of the directors holding office at 31st December, 1986, are shown below.

Mr. J. Howard Davies was appointed a director on 1st January, 1987, and Mr. M.R. Ireland on 2nd March, 1987.

The directors retiring by rotation are Mr. W.G.S. Johnston and Mr. D.J. Holden who, being eligible, offer themselves for re-election. Mr. J. Howard Davies and Mr. M.R. Ireland, having been appointed to the Board since the previous Annual General Meeting, also offer themselves for re-election.

5. Directors' Interests

The names of the directors who held office during 1986, and their beneficial interests in the shares of the ultimate parent company, Johnston Group PLC, incorporated in England, are as follows:-

	<u>31st December 1986</u>			<u>1st January 1986</u>		
	<u>10% Pref. £1</u>	<u>Ord. Shares 10p</u>	<u>Options Ord.Shares 10p</u>	<u>10% Cum Pref. £1</u>	<u>Ord. Shares 10p</u>	<u>Options Ord.Shares 10p</u>
W.G.S. Johnston	-	706,000	-	-	702,500	-
A.J.D. Ferguson	-	79,332	79,000	-	73,332	79,000
R.W. Edge	-	-	1,316	-	-	1,316
D.J. Holden	-	-	4,000	-	-	4,000
A.J. Duthie	-	-	1,899	-	-	1,574
F.M. Blair	-	-	1,138	-	-	-

6. Employment Policies

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 Group and its constituent 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 is a full time Group Safety Officer who advises on safety in the company's factories. The directors are kept regularly informed on all aspects of safety.

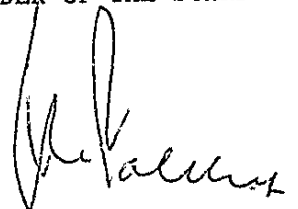
8. Employment of Disabled.

Management believe that the disabled should not be considered as a separate category of person but as individuals offering a range of skills and abilities. It is company policy to ensure that disabled people should receive the same consideration as others for all job vacancies for which they apply.

9. Auditors

Messrs. Arthur Andersen & Co. have indicated their willingness to continue in office and a resolution proposing their re-appointment will be put to the Annual General Meeting.

BY ORDER OF THE BOARD



J.H. Falkner
Secretary

Johnston House,
Hatchlands Road,
Redhill,
Surrey,
RH1 1BG.

3rd April, 1987

JOHNSTON ENGINEERING LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31st December 1986

	Notes	1986	1985
		£	£
Turnover	1	18,594,120	13,652,767
Change in stocks of finished goods and work in progress		303,742	924,437
Other operating income	2	<u>33,999</u>	<u>22,766</u>
		18,931,861	14,599,970
Less:			
Raw materials and consumables ...		10,438,831	7,991,972
Other external charges	2	<u>2,434,506</u>	<u>1,928,329</u>
		12,873,337	9,920,301
Staff costs	2	4,212,339	3,387,373
Depreciation and other amounts written off tangible assets ...		305,964	195,116
Other operating charges		<u>154,960</u>	<u>25,401</u>
		1,385,261	1,071,779
Add:			
Income from shares in related companies		8,920	15,768
Interest receivable and similar income		<u>221,442</u>	<u>230,717</u>
		230,362	246,485
Less:			
Interest payable and similar charges	2	<u>91,211</u>	<u>23,310</u>
		139,151	223,175
Profit on ordinary activities before taxation		1,524,412	1,294,954
Tax on profit on ordinary activities	3	<u>597,669</u>	<u>501,277</u>
Profit on ordinary activities after taxation		926,743	793,677
Dividend		<u>633,000</u>	<u>390,000</u>
Retained Profit		<u>293,743</u>	<u>403,677</u>

STATEMENT OF RETAINED PROFITS

Retained profit for the year		293,743	403,677
Retained profits at 1st January 1986			
As previously reported	6,859,821	7,008,707	
Prior year adjustment	<u>4</u>	<u>353,494</u>	
As restated		6,859,821	6,655,213
Transfer in respect of depreciation on revaluation		11,592	11,592
Exchange adjustment on other overseas assets		<u>(42,319)</u>	<u>(210,661)</u>
Retained profits at 31st December 1986		<u>7,122,837</u>	<u>6,859,821</u>

JOHNSTON ENGINEERING LIMITED

BALANCE SHEET at 31st December 1986

	Notes	1986	1985
		£	£
Fixed assets:			
Tangible assets	5	5,311,095	4,216,564
Investments	6	2,565,462	743,308
Current assets:			
Stocks	7	5,054,391	4,768,965
Debtors	8	3,013,510	2,580,327
Cash at bank and in hand		1,118,504	846,458
		<u>9,186,405</u>	<u>8,195,750</u>
Creditors: Amounts falling due within one year	9	2,418,972	1,520,759
Net current assets		<u>6,767,433</u>	<u>6,674,991</u>
Total assets less current liabilities		14,643,990	11,634,863
Creditors: Amounts falling due after more than one year	10	5,096,216	2,500,551
Provisions for liabilities and charges	11	435,196	273,158
		<u>9,112,578</u>	<u>8,861,154</u>
Capital and Reserves:			
Called up share capital	12	8,000	8,000
Revaluation reserve	13	1,981,741	1,993,333
Profit and loss account		7,122,837	6,859,821
		<u>9,112,578</u>	<u>8,861,154</u>

Approved by the Board on 3rd April 1987

W.G.S. JOHNSTON)

A.J.D. FERGUSON)

) Directors

W.G.S. Johnston
A.J.D. Ferguson

JOHNSTON ENGINEERING LIMITED

NOTES TO THE ACCOUNTS at 31st December 1986

1.	Geographical analysis of turnover:	1986 £	1985 £
	Europe (excluding United Kingdom)	3,526,842	1,884,401
	Middle East	713,169	1,930,738
	Asia	1,090,238	487,274
	Africa	107,635	136,772
	Americas	2,629,578	1,851,627
	Australia	1,320,620	1,529,138
	United Kingdom	9,206,038	5,832,817
		<hr/>	<hr/>
		18,594,120	13,652,767
		<hr/>	<hr/>
2.	Profit on ordinary activities before taxation is stated after charging:	1986 £	1985 £
	Other external charges:		
	Hire of plant and equipment:		
	Under operating leases	37,169	27,845
	Other	6,260	6,337
	Other operating lease rentals	31,583	23,642
	Auditors' remuneration	18,150	17,100
	Provision for diminution in value of intergroup indebtedness	511,539	177,000
	Other charges	1,829,805	1,676,405
		<hr/>	<hr/>
		2,434,506	1,928,329
		<hr/>	<hr/>
	Staff costs (including directors):		
	Wages and salaries	3,817,337	2,943,044
	Social security costs	324,494	270,682
	Other pension costs	70,508	173,647
		<hr/>	<hr/>
		4,212,339	3,387,373
		<hr/>	<hr/>
	and after crediting:		
	Other operating income:		
	Depreciation adjustment on sale of fixed assets	9,150	197
	Other income	24,849	22,569
		<hr/>	<hr/>
		33,999	22,766
		<hr/>	<hr/>

Interest payable and similar charges incurred during 1986 and 1985 related to bank loans, overdrafts and other indebtedness repayable within five years and includes £25,989 (1985 - £nil) as the interest element payable under finance leases.

JOHNSTON ENGINEERING LIMITED

NOTES TO THE ACCOUNTS at 31st December 1986

3. Taxation:	1986 £	1985 £
Charge for the year:		
Corporation tax at 36.25 per cent (1985 - 41.25 per cent) on profits for the year	623,325	393,551
Intergroup transfer in respect of tax relief for the year	---	177,000
Transfer (to)/from deferred taxation account	47,931	(69,274)
	<hr/>	<hr/>
	671,256	501,277
Adjustments in respect of previous years	(73,587)	---
	<hr/>	<hr/>
	597,669	501,277
	<hr/>	<hr/>
Provision for liabilities and charges: deferred taxation		
Balance at 1st January, 1986	246,726	316,000
Movement in provision:		
Transfer (from)/to profit and loss account	47,931	(69,274)
	<hr/>	<hr/>
Balance at 31st December 1986	294,657	246,726
	<hr/>	<hr/>

Realisation of the freehold and long leasehold properties of the company at their net book values would result in an additional taxation liability of £410,000 at the current rate of corporation tax. The balance on deferred taxation account has been calculated using a corporation tax rate of 35 per cent or overseas rates where higher.

4. Prior year adjustment

In accordance with SSAP 1 (revised), the company's share of the results of related companies is no longer included in the company's own financial statements.

JOHNSTON ENGINEERING LIMITED

NOTES TO THE ACCOUNTS at 31st December 1986

5. Tangible fixed assets	Land and buildings			Plant and Equipment	Total
	Free- hold £	Long lease £	Short lease £	£	£
Cost or valuation:					
1st January 1986	2,434,514	1,252,089	---	1,515,062	5,201,665
Additions	243,591	17,679	49,589	1,159,823	1,470,682
Transferred from group companies	---	---	---	1,092	1,092
Disposals	---	---	---	(105,109)	(105,109)
Transferred to group companies	---	---	---	(57,500)	(57,500)
At 31st December 1986 ...	2,678,105	1,269,768	49,589	2,513,368	6,510,830
Comprising:					
At professional valuation	2,425,000	1,250,000	---	---	3,675,000
At cost	253,105	19,768	49,589	2,513,368	2,835,830
Depreciation:					
1st January 1986	17,126	25,012	---	942,963	985,101
Charge for year	19,492	25,170	116	261,186	305,964
Transferred from group companies	---	---	---	1,091	1,091
Disposals	---	---	---	(82,605)	(82,605)
Transferred to group companies	---	---	---	(9,816)	(9,816)
At 31st December 1986 ...	36,618	50,182	116	1,112,819	1,199,735
Net book value:					
31st December 1986	2,641,487	1,219,586	49,473	1,400,549	5,311,095
31st December 1985	2,417,388	1,227,077	---	572,099	4,216,564

The freehold and long leasehold properties of the company were revalued as at 31st December, 1984, by a professional firm of chartered surveyors at their current open market value on the basis of existing use. If the properties had never been revalued they would have been included in the balance sheet at the following amounts:

	Freehold		Long Leasehold	
	1986 £	1985 £	1986 £	1985 £
Original cost	1,377,857	1,149,719	729,781	712,102
Less: aggregate depreciation	112,040	93,340	160,602	146,232
Net book value	1,265,817	1,056,379	569,179	568,870

Assets in the course of construction included above, which are not depreciated comprise:

	1986 £	1985 £
Land and buildings	18,761	3,308
Plant and equipment	46,053	32,757
	64,814	36,065

JOHNSTON ENGINEERING LIMITED

NOTES TO THE ACCOUNTS at 31st December 1986

6. Fixed asset investments

	Investment in Related Companies Shares at cost £	Investment in Subsidiary Companies Shares at cost £	Loans £	Total £
At cost	202,043	81,195	1,011,939	1,295,177
Less: provision for diminution in value	---	(81,195)	(470,674)	(551,869)
At 1st January 1986	202,043	---	541,265	743,308
Additions	---	102	2,104,549	2,104,651
Exchange translation adjustment ..	---	---	(42,319)	(42,319)
Provision for diminution in value	---	---	(240,178)	(240,178)
At 31st December 1986	202,043	102	2,363,317	2,565,462

The company has a 50 per cent interest in MacDonald Johnston Engineering Co. Pty. Limited, an unlisted related company incorporated in Australia, engaged in the manufacture of road suction cleaners and other municipal equipment.

The company has the following subsidiaries:

Name of subsidiary and country of incorporation if not Great Britain	Proportion of nominal value of issued shares held by the Company %	by Subsidiaries %	Activity
Johnston Equipment Inc (USA)	100)	Manufacture of road
Johnston Environmental Equipment Limited (Canada)		100) suction cleaners and) other municipal) equipment
Johnston Sweepers Limited	100)	Dormant - not audited
Johnston Kina Limited	100)	

JOHNSTON ENGINEERING LIMITED

NOTES TO THE ACCOUNTS at 31st Dec 1986

7. Stocks

	1986 £	1985 £
Materials and consumables	729,134	747,450
Manufacturing work-in-progress	823,106	470,032
Finished goods and goods for resale	3,502,151	3,551,483
	<hr/>	<hr/>
	5,054,391	4,768,965
	<hr/>	<hr/>

8. Debtors

	1986 £	1985 £
Trade debtors	2,310,714	1,940,603
Amounts owed by holding company and fellow subsidiaries	109,440	79,896
Amounts owed by related companies	479,008	488,363
Other debtors	91,515	70,192
Prepayments and accrued income	22,833	1,273
	<hr/>	<hr/>
	3,013,510	2,580,327
	<hr/>	<hr/>

9. Creditors: Amounts falling due within one year

	1986 £	1985 £
Trade creditors	1,053,222	644,050
Bills of exchange payable	1,281	1,569
Amounts owed to holding company and fellow subsidiaries	195,863	299,297
Other creditors	165,513	113,706
Taxation and social security	485,307	156,959
Accruals and deferred income	396,942	305,178
Obligations under finance leases	120,844	---
	<hr/>	<hr/>
	2,418,972	1,520,759
	<hr/>	<hr/>

10. Creditors: Amounts falling due after more than one year

	1986 £	1985 £
Amounts owed to holding company and fellow subsidiaries	4,200,102	2,107,000
Taxation payable on 1st January, 1988	623,325	393,551
Obligations under finance leases payable within five years	272,789	---
	<hr/>	<hr/>
	5,096,216	2,500,551
	<hr/>	<hr/>

JOHNSTON ENGINEERING LIMITED

NOTES TO THE ACCOUNTS at 31st December 1986

11.	Provisions for liabilities and charges	1986 £	1985 £
	Comprise:		
	Deferred taxation (see note 3)	294,657	246,726
	Provision for warranty	140,539	26,432
		<hr/>	<hr/>
		435,196	273,158
		<hr/>	<hr/>
	Movement on provision for warranty		
	At 1st January 1986	26,432	28,497
	Utilised during the year	(36,930)	(27,466)
	Charged to the profit and loss account	151,037	25,401
		<hr/>	<hr/>
	At 31st December 1986	140,539	26,432
		<hr/>	<hr/>
12.	Share capital	1986 £	1985 £
	Authorised		
	100,000 ordinary shares of £1 each	100,000	100,000
		<hr/>	<hr/>
	Allotted, called up and fully paid		
	8,000 ordinary shares of £1 each	8,000	8,000
		<hr/>	<hr/>
13.	Revaluation reserves		£
	At 1st January 1986		1,993,333
	Transfer in respect of depreciation on		
	revaluations		(11,592)
			<hr/>
	At 31st December 1986		1,981,741
			<hr/>

JOHNSTON ENGINEERING LIMITED

NOTES TO THE ACCOUNTS at 31st December, 1986

14. Capital commitments

Capital expenditure contracted by the company at 31st December, 1986, totalled £570,539 (1985 - £374,901).

Capital expenditure authorised but not contracted by the company totalled £71,797 (1985 - £29,992).

15. Contingent liabilities

The company has jointly and severally guaranteed the indebtedness of the Parent company and its subsidiaries to their bankers. Performance bonds have been entered into in the normal course of business.

16. Average number of persons employed	1986 No.	1985 No.
Direct	166	154
Indirect	266	239
	—	—
	432	393
	—	—

17. Holding company

The ultimate holding company is Johnston Group PLC, incorporated in Great Britain.

JOHNSTON ENGINEERING LIMITED

NOTES TO THE ACCOUNTS at 31st December 1986

	1986 £	1985 £
18. Directors' emoluments		
Emoluments of the directors of the company were as follows:		
Remuneration as executives	186,443	233,575
Pensions to former directors	---	3,500
	<hr/>	<hr/>
	186,443	237,075
	<hr/>	<hr/>
Chairman	Nil	Nil
Highest paid director	57,912	34,120
The numbers of other directors whose services were wholly or mainly performed in the United Kingdom and whose emoluments fell within the following scale were:		
£nil - £5,000	2	2
£10,001 - £15,000	-	1
£15,001 - £20,000	1	1
£25,001 - £30,000	1	-

JOHNSTON ENGINEERING LIMITED

SOURCE AND APPLICATION OF FUNDS for the year ended 31st December, 1986

	1986	1985
	£	£
Source of funds		
Profit on ordinary activities before taxation	1,524,412	1,294,954
Adjustments for items not involving the movement of funds:		
Depreciation	305,964	195,116
Profit and depreciation adjustment on sale of fixed assets	(9,150)	(197)
Provision for warranty	151,037	25,401
Provision for diminution in value of intergroup indebtedness	511,539	177,000
	<u>959,390</u>	<u>397,320</u>
Total generated from operations	<u>2,483,802</u>	<u>1,692,274</u>
Taxation recovered	116,990	---
Sale of tangible fixed assets	79,338	25,125
Loan repaid by subsidiary	---	334,779
Loans from lessors	304,109	---
	<u>3,184,239</u>	<u>2,052,178</u>
Total funds generated	<u>3,184,239</u>	<u>2,052,178</u>
Application of funds		
Acquisition of tangible fixed assets:		
owned	966,574	379,908
leased	504,109	---
Dividend paid	633,000	390,000
Taxation paid	---	177,000
Utilisation of warranty provision	36,930	27,466
Repayment of loans from lessors	110,476	---
Acquisition of shares in subsidiary companies	102	---
	<u>2,251,191</u>	<u>974,374</u>
Movement in working capital		
Stocks	285,426	1,038,527
Debtors other than intergroup indebtedness	455,914	597,093
Creditors other than bank and intergroup indebtedness, and taxation	(496,124)	(207,075)
	<u>245,216</u>	<u>1,428,545</u>
	<u>2,496,407</u>	<u>2,402,919</u>
Movement in net liquid funds		
Bank and cash balances	272,046	(1,521,011)
Intergroup indebtedness	415,786	1,170,270
	<u>687,832</u>	<u>(350,741)</u>
	<u>3,184,239</u>	<u>2,052,178</u>

JOHNSTON ENGINEERING LIMITED

PRINCIPAL ACCOUNTING POLICIES

Basis of Accounting

The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain freehold and long leasehold premises. The following are the principal accounting policies adopted by the company which are consistently applied.

Related companies

The company's interest in related companies is shown at cost less amounts written off. Dividends received and receivable from related companies are recorded in the profit and loss account.

A related company is defined as a company, not being a subsidiary, in which the company has a substantial interest and in whose commercial and financial policy decisions the company participates.

Turnover

Turnover is defined as the value of goods and services rendered excluding V.A.T.

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	nil
	-	Buildings	2 per cent
Long leasehold			2 per cent
Short leasehold			Over the unexpired term of the lease.
Plant and equipment	-	Fixed	12.5 per cent
	-	Mobile	25 per cent

JOHNSTON ENGINEERING LIMITED

PRINCIPAL ACCOUNTING POLICIES

Currency translation

With the exception of the company's investment in the share capital of subsidiary and related companies 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 where applicable.

Deferred taxation

In the absence of sufficient certainty as to the ongoing deferment of taxation provision is made in full for deferred taxation at the anticipated rate of corporation tax. The provision is based on the liability, relating to all fixed assets, which is deferred because capital allowances for taxation purposes have been greater than the corresponding depreciation provided in the accounts.

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 period of the lease to produce a constant rate of return on the outstanding balance.

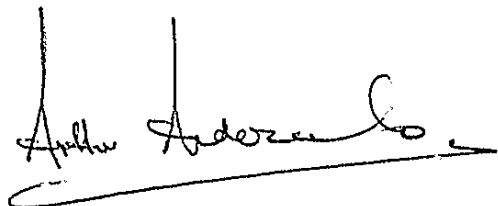
ARTHUR ANDERSEN & CO.

1 SURREY STREET
LONDON WC2R 2PS

To the Members of JOHNSTON ENGINEERING LIMITED

We have audited the financial statements set out on pages 1 to 13 in accordance with approved auditing standards.

In our opinion the financial statements which have been prepared under the historical cost convention, as modified by the revaluation of certain freehold and long leasehold premises, give a true and fair view of the state of affairs of the Company at 31st December, 1986, and of the profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'Arthur Andersen', is written over a horizontal line.

ARTHUR ANDERSEN & CO.
Chartered Accountants

London

3rd April, 1987