

1998/99

Johnston Engineering Limited

Report and accounts
for the year ended
31st December 1997



JOHNSTON ENGINEERING LIMITED

REPORT OF THE DIRECTORS

For the year ended 31 December 1997

The directors have pleasure in submitting their Report and Accounts for the year ended 31 December 1997.

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 company operates a branch in Denmark trading under the name of Johnston Beam.

The results for the year are set out on page 5. A full review of the company's trading operations is included in the accounts of the ultimate parent company Johnston Group PLC.

2. Dividend

An interim dividend of £852,332.60 has been paid in respect of the year ended 31 December 1997. No further dividend is proposed in respect of 1997.

3. 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 1997		1 January 1997 (or at date of appointment)	
	Ordinary Shares 10p	Options Ord Shares 10p	Ordinary Shares 10p	Options Ord Shares 10p
J.M.S.Johnston	845,548	4,303	840,380	4,971
A.D.Giles	10,500	33,437	10,500	33,437
A.J.Duthie	2,674	711	1,825	1,560
M.R.Ireland	4,258	4,303	3,822	4,739
A.N.Yapp	1,199	1,275	763	1,711
Mr P.G.Rhodes (appointed 1.2.97)	-	-	-	-

The reduction in the number of share options held by all directors during the year is due to options being exercised.

4. Research and Development

The company continues to invest in the development of its products

5. 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. A brochure and twice yearly newsletter covering the Johnston Group and its subsidiary companies are distributed to all employees.

6. 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.

7. 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. At the year end there were 53 days purchases in trade creditors.

8. 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

Johnston House
Hatchlands Road
Redhill
Surrey RH1 1BG



J.H. Falkner
Secretary

9th April 1998

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.

JOHNSTON ENGINEERING LIMITED

REPORT OF THE AUDITORS

To the members of JOHNSTON ENGINEERING LIMITED

We have audited the accounts on pages 5 to 16.

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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

9th April 1998

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

PROFIT AND LOSS ACCOUNT for the year ended 31st December 1997

	Notes	1997 £	1996 £
Turnover	1	35,788,456	36,924,911
Operating costs less other income	2	33,558,340	33,764,329
Operating profit		2,230,116	3,160,582
Net interest payable and similar charges	3	(68,295)	(25,197)
Profit on ordinary activities before taxation		2,161,821	3,135,385
Tax on profit on ordinary activities	4	599,940	1,076,397
Profit on ordinary activities after taxation		1,561,881	2,058,988
Dividends paid		852,333	1,200,000
Retained profit	13	709,548	858,988

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

The turnover and operating profit are derived from continuing operations.

BALANCE SHEET at 31st December 1997

	Notes	1997 £	1996 £
Fixed assets			
Intangible assets	5	192,832	309,735
Tangible assets	6	8,121,875	6,487,687
Investments	7	15,668,695	13,768,274
		23,983,402	20,565,696
Current assets			
Stocks	8	6,400,860	6,356,862
Debtors	9	6,839,576	7,690,975
Cash at bank and in hand		7,143	8,481
		13,247,579	14,056,318
Creditors due within one year	10	8,100,325	6,527,451
Net current assets		5,147,254	7,528,867
Total assets less current liabilities		29,130,656	28,094,563
Creditors due after one year	11	22,245,528	21,901,459
Provisions for liabilities and charges : deferred taxation	4	260,980	210,980
Net assets		6,624,148	5,982,124
Capital and reserves			
Called up share capital	12	8,000	8,000
Profit and loss account	13	6,616,148	5,974,124
Equity shareholders' funds		6,624,148	5,982,124

The accounts were approved by the Board on 9th April 1998 and were signed on its behalf by:
J M S Johnston Director



	1997 £	1996 £
<u>Statement of total recognised gains and losses</u>		
Profit after taxation	1,561,881	2,058,988
Translation adjustments	(67,524)	(251,403)
Goodwill written off	---	(252,075)
Total recognised gains and losses for the year	1,494,357	1,555,510
<u>Reconciliation of movements in shareholders' funds</u>		
Total recognised gains and losses for the year	1,494,357	1,555,510
Dividends paid on equity shares	(852,333)	(1,200,000)
Net increase in shareholders' funds	642,024	355,510
Shareholders' funds at beginning of year	5,982,124	5,626,614
Shareholders' funds at end of year	6,624,148	5,982,124
<u>Note of historical cost profits and losses</u>		
Profit on ordinary activities before taxation	2,161,821	3,135,385
Adjustment of depreciation to historical cost basis	(22,792)	(21,659)
Historical cost profit on ordinary activities before taxation	2,139,029	3,113,726
Historical cost retained profit	686,756	837,329

JOHNSTON ENGINEERING LIMITED

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 (revised) 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 and Wales which prepares consolidated accounts.

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

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

PRINCIPAL ACCOUNTING POLICIES (Continued)

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 .

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences. The company's policy continues to be to make provision for deferred taxation at the anticipated rate of corporation tax, to the extent it is probable that an asset or liability will crystallise. In previous years, deferred tax has as a result been provided in full.

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 .

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

NOTES TO THE ACCOUNTS

1. Geographical analysis of turnover by destination

	1997 £	1996 £
Europe, Africa & Middle East	29,195,017	28,122,086
Asia, Australia & New Zealand	3,467,262	6,461,189
Americas	3,126,177	2,341,636
	35,788,456	36,924,911

2. Operating costs less other income

	1997 £	1996 £
Change in stocks of finished goods and work-in-progress	473,847	(213,991)
Other operating income	(27,509)	(39,462)
Raw materials and consumables	18,008,441	20,831,952
Other external charges	5,073,609	4,180,153
Staff costs (see below)	9,349,921	8,494,495
Depreciation of owned assets	596,581	501,235
Depreciation of assets held under finance leases	31,993	24,332
Amortisation of intangible fixed assets	51,670	17,135
Profit on disposal of fixed assets	(213)	(31,520)
	33,558,340	33,764,329
Staff costs (including directors)		
Wages and salaries	8,346,481	7,484,029
Social security costs	620,966	625,270
Other pension costs	382,474	385,196
	9,349,921	8,494,495
Other external charges include		
Plant and equipment - operating lease rentals	216,395	209,244
Other operating lease rentals	291,143	280,798
Translation adjustment	46,699	109,206
Research and development costs	470,743	884,234
Audit fees	24,076	18,724

3. Interest payable and similar charges

	1997 £	1996 £
Interest element of finance lease rental payments	(6,400)	(3,560)
Sundry interest received	3,285	631
Sundry interest paid	---	(759)
Interest on secured loan	(65,180)	(21,509)
	(68,295)	(25,197)

NOTES TO THE ACCOUNTS (continued)

4. Taxation

	1997 £	1996 £
Corporation tax charge @ 31.5% (1996, 33%)	180,698	229,503
Group relief @ 31.5% (1996, 33%)	369,242	676,400
Adjustment in respect of previous years	---	(3,167)
Transfer to deferred taxation account	50,000	173,661
	599,940	1,076,397
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 1997	210,980	37,319
Transfer from profit and loss account	50,000	173,661
Balance at 31st December 1997	260,980	210,980

Deferred taxation has been calculated using a corporation tax rate of 31%. There is no unprovided deferred taxation.

5. Intangible fixed assets

	Manufacturing know-how £
Cost or valuation 1st January 1997	326,870
Reduction in consideration	(35,770)
Translation adjustment	(33,991)
At 31st December 1997	257,109
Depreciation 1st January 1997	17,135
Charge for year	51,670
Translation adjustment	(4,528)
At 31st December 1997	64,277
Net book value 31st December 1997	192,832
Net book value 31st December 1996	309,735

NOTES TO THE ACCOUNTS (continued)

6. Tangible fixed assets

	Land and buildings	Plant and equipment	Assets under construction	Total
	£	£	£	£
Cost or valuation 1st January 1997	4,239,337	5,590,340	395,809	10,225,486
Additions	1,791,347	747,260	112,721	2,651,328
Translation adjustments	(50,684)	(19,727)	---	(70,411)
Disposals	(330,000)	(10,199)	---	(340,199)
Reclassification	395,809	---	(395,809)	---
At 31st December 1997	6,045,809	6,307,674	112,721	12,466,204
Comprising :				
At professional valuation	2,920,000	---	---	2,920,000
At cost	3,125,809	6,307,674	112,721	9,546,204
Depreciation 1st January 1997	166,424	3,571,375	---	3,737,798
Charge for year	67,675	560,899	---	628,574
Translation adjustments	(623)	(2,164)	---	(2,787)
Disposals	(18,900)	(357)	---	(19,257)
At 31st December 1997	214,576	4,129,753	---	4,344,328
Net book value 31st December 1997	5,831,233	2,177,921	112,721	8,121,875
Net book value 31st December 1996	4,072,913	2,018,965	395,809	6,487,687

The net book value of fixed assets includes £158,407 (1996 - £120,779) in respect of assets held under finance leases
Land and buildings includes £4,949,800 of depreciable assets

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 1997	3,486,975	752,362	---	4,239,337
Additions	2,187,156	---	---	2,187,156
Translation adjustments	(50,684)	---	---	(50,684)
Disposals	(330,000)	---	---	(330,000)
At 31st December 1997	5,293,447	752,362	---	6,045,809
Comprising				
At professional valuation	2,220,000	700,000	---	2,920,000
At cost	3,073,447	52,362	---	3,125,809
Depreciation 1st January 1997	118,576	47,848	---	166,424
Charge for year	52,628	15,047	---	67,675
Translation Adjustment	(623)	---	---	(623)
Disposals	(18,900)	---	---	(18,900)
At 31st December 1997	151,681	62,895	---	214,576
Net book value 31st December 1997	5,141,766	689,467	---	5,831,233
Net book value 31st December 1996	3,368,399	704,514	---	4,072,913

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 1997	Freehold £	Long Leasehold £	Short Leasehold £	Total £
Original cost	5,269,352	1,038,891	123,350	6,431,593
Less aggregate depreciation	550,118	364,596	22,418	937,132
Net book value	4,719,234	674,295	100,932	5,494,461
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

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 1997	2,829,650	11,595,677	10,142	14,435,469
Translation adjustment	---	131,718	---	131,718
Additions	7,810	1,629,776	---	1,637,586
Transfers	10,142	---	(10,142)	---
At 31st December 1997	2,847,602	13,357,171	---	16,204,773
Amounts written off 1st January 1997	81,195	586,000	---	667,195
Reclassification from current account provision	---	(131,117)	---	(131,117)
At 31st December 1997	81,195	454,883	---	536,078
Net book value 31st December 1997	2,766,407	12,902,288	---	15,668,695
Net book value 31st December 1996	2,748,455	11,009,677	10,142	13,768,274

On 30th September 1997 the company increased its holding in Pfau Johnston GmbH from 50% to 74% of the issued share capital, changing it from an associate to a subsidiary undertaking.

The company has an interest in the unlisted subsidiary undertakings below

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)	74	
Johnston Sweepers Limited	100	Dormant
Johnston Kina Limited	100	

8. Stocks

	1997 £	1996 £
Raw materials and consumables	1,460,265	927,622
Manufacturing work-in-progress	1,110,679	1,583,612
Finished goods and goods for resale	3,829,916	3,845,628
	6,400,860	6,356,862

9. Debtors

	1997 £	1996 £
Trade debtors	4,540,546	5,509,972
Amounts owed by group undertakings	1,628,754	739,875
Amounts owed by associated undertakings	---	887,835
Other debtors	522,207	339,945
Prepayments and accrued income	148,069	213,348
	6,839,576	7,690,975

NOTES TO THE ACCOUNTS (continued)

10. Creditors due within one year

	1997 £	1996 £
Secured loans	20,002	20,728
Bank loans and overdrafts	2,457,020	476,554
Obligations under finance leases	43,405	28,921
Trade creditors	3,460,972	3,668,670
Amounts owed to group undertakings	326,892	414,244
Other creditors	695,203	686,873
Taxation and social security	294,301	456,283
Accruals and deferred income	802,530	775,178
	8,100,325	6,527,451

11. Creditors due after one year

	1997 £	1996 £
Secured loans repayable between one and two years	22,324	22,324
Secured loans repayable between two and five years	77,825	77,825
Secured loans repayable in over five years	271,415	336,862
Obligations under finance leases repayable within five years	56,293	50,325
Amounts owed to group undertakings	21,751,101	21,265,531
Other creditors	66,570	148,592
	22,245,528	21,901,459

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

12. Share capital

	1997 £	1996 £
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 1997	5,974,124
Retained profit for the year	709,548
Translation adjustment on overseas assets	(67,524)
At 31st December 1997	6,616,148

14. Commitments

	1997 £	1996 £
Capital commitments contracted for	22,352	1,436,518

	Land and buildings		Plant and equipment	
	1997 £	1996 £	1997 £	1996 £
Annual commitment under non cancellable operating leases				
Leases expiring :				
Within one year	---	7,434	14,784	25,805
Within two to five years	185,509	186,720	175,582	142,955
After five years	95,000	95,000	---	---
	280,509	289,154	190,366	168,760

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. Average number of persons employed

	1997 No.	1996 No.
Direct	217	193
Indirect	238	232
Total	455	425

17. Directors' remuneration

	1997 £	1996 £
Director's emoluments	337,247	315,506

The aggregate emoluments of the highest paid director were £108,709 (1996, £139,903). He is a member of the Johnston Management Holdings Limited pension and life assurance defined benefit scheme under which his accrued annual pension at the year end was £5,483.

	Number of Directors	
	1997	1996
Retirement benefits are accruing to the following number of directors under :		
The Johnston Management Holdings Limited pension and life assurance defined benefit scheme	5	4
The number of directors who exercised share options under the Johnston group sharesave option scheme	3	---

18. Related parties

During the year the company made sales to related companies of £ 6,509,981 on normal trading terms. the balance outstanding at the end of the year amounted to £1,628,754

Purchases of £ 3,885,587 were made from related companies on normal trading terms, the balance outstanding at the end of the year was £ 326,892

Related companies included in the above figures are Johnston Sweeper Company (USA), MacDonald Johnston Engineering Co. Pty Limited (Australia), Pfau Johnston GmbH (Germany), Johnston Management Holdings Limited., Saxon Sanbec Limited., Johnston Surfacing Limited and Johnston Construction Limited.

The company's ultimate controlling party is Johnston group PLC

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 and Wales. Consolidated accounts are available from Johnston House, Hatchlands Road, Redhill, Surrey RH1 1BG.