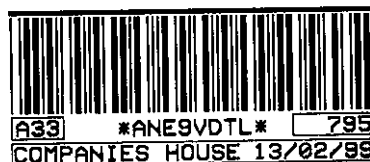


**SAVILLE TRACTORS LIMITED
(REGISTERED NUMBER 376443)**

DIRECTORS' REPORT AND ACCOUNTS

30 September 1998



SAVILLE TRACTORS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 SEPTEMBER 1998

The Directors submit their report together with the audited accounts for the year ended 30 September 1998.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company are the selling and servicing of construction and industrial machinery and the servicing of specialist equipment on ocean going ships. The continuing loss reflects difficult trading conditions in some sectors of the market, particularly exacerbated by the strong pound and "grey" imports devaluing prices of both new and second hand machines. Nevertheless, due to new product lines currently being introduced by the principal manufacturers that the Company represents, there is expectation of a steady improvement in future performance.

CHANGE OF OWNERSHIP

On 17 December 1997, the company's immediate parent undertaking was acquired by Tanel Limited, which subsequently changed its name to Dutton Forshaw Investments Limited. In relation to this transaction, on 17 December 1997 the directors of the company made a statutory declaration in connection with the financial assistance (in the form of a guarantee on third party borrowings) given by the company for the purchase of the entire share capital of the Dutton Forshaw Group Limited pursuant to Section 156(4) of the Companies Act 1985.

RESULTS AND DIVIDENDS

The accounts for the year ended 30 September 1998 show an operating loss of £272,000 (1997 - loss of £203,000). After recognising net interest payable of £150,000 (1997 - £72,000) the accounts show a loss on ordinary activities before taxation of £422,000 (1996 - loss of £275,000). There is no tax charge in either 1998 or 1997.

The directors do not recommend the payment of a dividend for the year (1997 - £Nil) and propose to transfer the loss for the year of £422,000 to reserves (1997 - £275,000). Details of the reserves are shown in note 15 to the accounts.

DIRECTORS

The present board of the Company is set out below. All directors served throughout the year.

VP Davies	(Managing)
RD Guise	
AE Manning	
JR Robinson	(Chairman)
GR Williams	

In accordance with the Company's Articles of Association, Mr RD Guise and Mr JR Robinson retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

SAVILLE TRACTORS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 SEPTEMBER 1998 (CONTINUED)

DIRECTORS' INTERESTS

No Director had at any time during the year a material interest in any contract of significance in relation to the Company's business.

No director had any interest in the share capital of the company. The following are the interests, all of which are beneficial, in the shares of Dutton Forshaw Investments Limited the ultimate parent undertaking, as recorded in the Company's Register of Directors' Share and Debenture Interests.

	<u>Dutton Forshaw Investments Limited</u>	
	Ordinary shares of 10p each	
	1 October 1997	30 September 1998
VP Davies	-	100

	<u>Dutton Forshaw Investments Limited</u>		
	9.75% Loan Notes		
	1 October 1997	Granted in year	30 September 1998
VP Davies	-	7,900	7,900

The interests of A Manning and J Robinson in Dutton Forshaw Investments Limited are disclosed in the accounts of that company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements 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 of the Company for that period. In preparing those financial statements, 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 financial statements;
- prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the company will continue in business.

SAVILLE TRACTORS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 SEPTEMBER 1998 (CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)

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 financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

POLICY ON THE PAYMENT OF CREDITORS

The Company complies with the CBI Code of Practice for the payment of creditors. A copy of this code is available from the Confederation of British Industry, Centre Point, 103 New Oxford Street, London WC1A 1DU.

The number of days creditors outstanding at 30 September 1998 was 59 days.

YEAR 2000

Since 1997 the Company has been working on the date sensitivity of computing systems, a problem which includes the Year 2000. The risks to the Company's business processes have been evaluated and are not considered to be significant. Plans to address the issues have been prepared and are currently being implemented.

The costs of addressing the Year 2000 problem are not expected to be significant and the resources required to achieve compliance are principally expected to be found from normal operating budgets. All related costs are written off as incurred.

ECONOMIC AND MONETARY UNION IN EUROPE (EMU)

The Company is preparing for the introduction of a single currency within Europe in 1999. Information systems will be routinely upgraded to handle the introduction of the Euro.

EMPLOYMENT OF DISABLED PERSONS

The Company gives full and fair consideration to applications for employment received from disabled persons, having regard to their particular aptitudes and abilities, and wherever possible the company continues the employment of, and arranges appropriate training for, employees who become disabled persons while employed by the Company. Disabled employees are treated no differently from other employees as regards training, career development and promotion opportunities. This policy was operated by the Company throughout the year.

SAVILLE TRACTORS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 SEPTEMBER 1998 (CONTINUED)

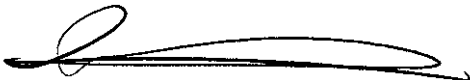
EMPLOYEE INVOLVEMENT

The Company has arrangements to regularly provide employees with information regarding the financial and economic factors affecting the performance of the Company and on matters of concern to them. Additionally, regular consultations take place with employees so that their views can be taken into account in making decisions which are likely to affect their interests.

AUDITORS

Following the merger of Price Waterhouse and Coopers & Lybrand on 1 July 1998, Price Waterhouse resigned in favour of the new firm, PricewaterhouseCoopers, and the directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. A resolution to re-appoint PricewaterhouseCoopers as auditors of the company will be proposed at the Annual General Meeting.

By Order of the Board



S ISON
Secretary

21 December 1998

AUDITORS' REPORT TO THE MEMBERS OF SAVILLE TRACTORS LIMITED

We have audited the financial statements on pages 6 to 17 which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on pages 2 and 3 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

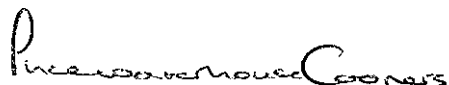
Basis of opinion

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements are free from material mis-statement, 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 30 September 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors**

21 December 1998

SAVILLE TRACTORS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 1998

	Note	<u>1998</u> £'000	<u>1997</u> £'000
TURNOVER	2	25,664	22,786
Cost of sales		<u>(22,415)</u>	<u>(19,654)</u>
GROSS PROFIT		3,249	3,132
Administrative expenses		(3,710)	(3,477)
Other operating income		<u>189</u>	<u>142</u>
OPERATING LOSS		(272)	(203)
Net interest payable	6	<u>(150)</u>	<u>(72)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(422)	(275)
Taxation on loss on ordinary activities	7	<u>-</u>	<u>-</u>
LOSS FOR THE FINANCIAL YEAR	15	<u>(422)</u>	<u>(275)</u>

The Company had no recognised gains or losses other than those reflected in the profit and loss account above.

The turnover and operating loss are derived from continuing operations.

There is no difference between the result as disclosed and that on an unmodified historical cost basis.

The notes on pages 8 to 17 form part of these accounts.

SAVILLE TRACTORS LIMITED

BALANCE SHEET AS AT 30 SEPTEMBER 1998

	<u>Note</u>	<u>1998</u> £'000	<u>1997</u> £'000
FIXED ASSETS			
Tangible assets	8	85	96
CURRENT ASSETS			
Stocks	9	4,845	4,495
Debtors	10	4,648	3,419
Cash at bank and in hand		<u>107</u>	<u>26</u>
		9,600	7,940
CREDITORS (amounts falling due within one year)	11	<u>(8,717)</u>	<u>(6,747)</u>
NET CURRENT ASSETS		883	1,193
TOTAL ASSETS LESS CURRENT LIABILITIES		968	1,289
CREDITORS (amounts falling due after more than one year)	12	<u>(630)</u>	<u>(529)</u>
NET ASSETS		<u>338</u>	<u>760</u>
CAPITAL AND RESERVES			
Called up share capital	14	2,000	2,000
Profit and loss account	15	<u>(1,662)</u>	<u>(1,240)</u>
EQUITY SHAREHOLDERS' FUNDS		<u>338</u>	<u>760</u>

Approved on behalf of the Board on 21 December 1998


VR Davies

DIRECTOR

The notes on pages 8 to 17 form part of these accounts.

SAVILLE TRACTORS LIMITED

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>1998</u> £'000	<u>1997</u> £'000
LOSS FOR THE FINANCIAL YEAR	(422)	(275)
	—	—
Net reduction in shareholders' funds	(422)	(275)
Opening shareholders' funds	<u>760</u>	<u>1,035</u>
CLOSING SHAREHOLDERS' FUNDS	<u>338</u>	<u>760</u>

SAVILLE TRACTORS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998

1 STATEMENT ON ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the Company's accounts.

Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Cash Flow Statement

The company is exempt from the requirement to prepare a cash flow statement being a wholly owned subsidiary of a company which prepares a consolidated cash flow statement.

Exchange rates

Foreign currency assets and liabilities are translated into sterling at the rates ruling at the balance sheet date. Adjustments due to fluctuations arising in the normal course of trade are included in the profit and loss account.

Depreciation

The Company's policy is to write off the book value of fixed assets evenly over their estimated remaining lives. Depreciation rates are determined in accordance with commercial practice for the industry concerned. The major fixed assets are depreciated as follows:

Freehold buildings	2% of cost
Short leasehold properties	Period of lease
Plant and machinery	10% - 20% of cost
Motor vehicles	25% - 33% of cost
Fixtures, fittings, tools and equipment	10% - 33% of cost

No depreciation is provided on freehold land.

Stock and work in progress

Stock and work in progress is stated at the lower of cost and net realisable value. Where relevant, cost includes an appropriate share of overheads.

SAVILLE TRACTORS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

1 STATEMENT ON ACCOUNTING POLICIES (CONTINUED)

Pension costs

The Company is a member of the Dutton Forshaw Group Pension Plan. The Plan is a defined benefit pension scheme for all eligible employees, the assets of which are held in separate trustee-administered funds.

Independent actuaries prepare valuations of the defined benefit pension scheme at least every three years and in accordance with their recommendations the Company makes contributions which are charged to profits on a systematic and rational basis over the expected remaining working life of the employees. Any differences between the actuarial valuation and the value of the assets in the scheme are similarly charged or credited to profit before tax over the expected remaining working life of employees in the scheme.

Deferred tax

Deferred tax, which is calculated under the liability method, is only provided where it is anticipated that a liability will arise within the foreseeable future.

Leases

Amounts due from lessees under finance lease arrangements are included within debtors. Income is recognised over the term of the lease.

The cost of operating leases is charged to profit and loss account as incurred. Rentals receivable under operating leases are credited to the profit and loss account as they fall due.

2 TURNOVER

Turnover which originates wholly in the United Kingdom represents sales of goods and services in the construction machinery sector and is stated net of discounts, allowances and value added tax.

An analysis of turnover by geographical destination is given below:

	<u>1998</u>	<u>1997</u>
	£'000	£'000
United Kingdom	25,006	21,846
Europe and other	<u>658</u>	<u>940</u>
	25,664	22,786
	<u>=====</u>	<u>=====</u>

SAVILLE TRACTORS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

3 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated:

	<u>1998</u> £'000	<u>1997</u> £'000
After crediting:		
Profit on disposal of tangible fixed assets	1	4
	=	=
And after charging:		
Other operating lease charges	446	468
Depreciation of tangible fixed assets		
- owned	24	25
Auditor's remuneration		
- audit fees	20	20
- non-audit fees	6	6
	=	=

4 EMOLUMENTS OF DIRECTORS

	<u>1998</u> £'000	<u>1997</u> £'000
Aggregate emoluments	164	152
	=	=
Highest paid director	57	56
	=	=
Accrued pension benefits relating to the defined benefit scheme	22	20
	=	=

Retirement benefits are accruing to 3 (1997 - 3) directors under a defined benefit scheme.

SAVILLE TRACTORS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

5 STAFF NUMBERS AND COSTS

	<u>1998</u>	<u>1997</u>
The average number of persons employed during the year was as follows:		
Sales	21	20
Production	71	70
Administration/managerial	<u>27</u>	<u>33</u>
	119	123
	==	==

The aggregate payroll cost was as follows:

	£'000	£'000
Wages and salaries	2,174	2,183
Social security costs	176	179
Other pension costs (Note 18)	<u>101</u>	<u>80</u>
	2,451	2,442
	==	==

6 NET INTEREST PAYABLE

	<u>1998</u> £'000	<u>1997</u> £'000
Interest receivable:		
Third party	1	-
	==	==
Interest payable:		
On bank loans and overdrafts	(151)	(72)
	==	==
Net interest payable	(150)	(72)
	==	==

7 TAXATION

There is no tax payable (1997 - £Nil) in respect of results for the year. The company has tax losses for the year of approximately £436,000 (1997 - £290,000), which will be made available for Group relief, but for which no consideration is expected to be received.

SAVILLE TRACTORS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

8 TANGIBLE FIXED ASSETS

	Land and <u>buildings</u> £'000	Plant and <u>machinery</u> £'000	Fixtures, fittings, equipment and motor <u>vehicles</u> £'000	<u>Total</u> £'000
<u>Cost</u>				
At 1 October 1997	16	115	855	986
Additions	-	4	9	13
Disposals	-	(8)	(168)	(176)
	—	—	—	—
At 30 September 1998	16	111	696	823
	—	—	—	—
<u>Depreciation</u>				
At 1 October 1997	16	102	772	890
Charge for the year	-	3	21	24
Disposals	-	(8)	(168)	(176)
	—	—	—	—
At 30 September 1998	16	97	625	738
	—	—	—	—
<u>Net book amount</u>				
At 30 September 1998	-	14	71	85
	==	==	==	==
At 30 September 1997	-	13	83	96
	==	==	==	==

SAVILLE TRACTORS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

9 STOCKS

	<u>1998</u> £'000	<u>1997</u> £'000
Work in progress	77	106
Goods for resale	<u>4,768</u>	<u>4,389</u>
	<u>4,845</u>	<u>4,495</u>

In the opinion of the directors the current replacement cost of stocks is not materially different to the historical cost stated above.

10 DEBTORS

	<u>1998</u> £'000	<u>1997</u> £'000
Amounts falling due within one year:		
Trade debtors	3,553	2,524
Amounts owed by fellow subsidiary undertakings	1	22
Prepayments and accrued income	77	136
Net investment in finance leases	<u>1,017</u>	<u>737</u>
	<u>4,648</u>	<u>3,419</u>

11 CREDITORS (amounts falling due within one year)

	<u>1998</u> £'000	<u>1997</u> £'000
Bank overdraft	2,231	1,813
Trade creditors	5,865	4,590
Tax and social security liabilities	183	130
Accruals and deferred income	<u>438</u>	<u>214</u>
	<u>8,717</u>	<u>6,747</u>

The overdraft is secured by a fixed and floating charge on the assets of the Company.

SAVILLE TRACTORS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

12 CREDITORS (amounts falling due after more than one year)

	<u>1998</u> £'000	<u>1997</u> £'000
Accruals and deferred income (Note 18)	630	529
	<u> </u>	<u> </u>

13 DEFERRED TAXATION

On the basis of the accounting policy, no deferred taxation provision is required at 30 September 1998 (1997 - £Nil). Full provision for deferred taxation at 31% (1997 - 11%) would result in a deferred tax asset:

	<u>1998</u> £'000	<u>1997</u> £'000
Excess depreciation over tax allowances	(59)	(29)
Other timing differences and tax losses	(913)	(336)
	(972)	(365)
	<u> </u>	<u> </u>

Tax losses of approximately £2,193,000 (1997 - £2,193,000) in respect of prior years are carried forward and are available to set off against future corporation tax liabilities.

14 CALLED UP SHARE CAPITAL

	<u>1998</u> £'000	<u>1997</u> £'000
Authorised:		
Ordinary shares of £1 each	2,000	2,000
	<u> </u>	<u> </u>
Issued:		
Ordinary shares of £1 each, fully paid	2,000	2,000
	<u> </u>	<u> </u>

SAVILLE TRACTORS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

15 RESERVES

	Profit and loss account £'000
At 1 October 1997	(1,240)
Loss for the year	(422)
At 30 September 1998	(1,662)

16 OPERATING LEASES

The Company's annual commitments under operating leases are set out below:

	<u>Land and buildings</u>	
	<u>1998</u>	<u>1997</u>
	£'000	£'000
Operating leases which expire:		
Within one year	-	65
Between one and five years	153	7
After five years	<u>103</u>	<u>102</u>
	256	174

17 CONTINGENT LIABILITIES

	<u>1998</u>	<u>1997</u>
	£'000	£'000
Group overdraft guarantees	3,691	259

The company has given an unlimited composite guarantee in favour of National Westminster Bank Plc for the bank indebtedness of £19 million of Dutton Forshaw Investments Limited and its subsidiaries. In relation to the guarantee the company has a fixed and floating charge over all its assets.

The Company has given a guarantee in respect of the Group VAT scheme which is in the ordinary course of business and in respect of which, no material liability is expected to arise.

The Company has a future commitment of £186,100 (1997 - £216,523) in respect of buy-back schemes. No amounts are included in the accounts in respect of these as no loss is expected to arise.

SAVILLE TRACTORS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

18 PENSIONS

The Company is a member of the Dutton Forshaw Group Pension Plan. The Plan is a defined benefit pension scheme for all eligible employees, the assets of which are held in separate trustee-administered funds.

The pension cost is assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The latest actuarial assessment of the scheme was at 1 October 1996. The principal actuarial assumptions adopted in that valuation were that the annual rate of return on investments would be 2½% higher than the annual increase in total pensionable remuneration and 4½% higher than the annual increase in present and future pensions in payment. The market value of the assets, £38,314,000, was sufficient to cover 133% of the benefits that had accrued to members, after allowing for expected future increases in pensionable remuneration. The actuarial surplus is being spread over the average remaining service lives of the current employees.

On the recommendation of the actuaries, company contributions to the scheme continue to be suspended. The position will be reviewed again after the next actuarial valuation in October 1999. The total pension cost for the company was a net charge of £101,000 (1997 - net charge of £80,000). An accrual of £630,000 (1995 - £529,000) is included under creditors being the difference between the pension cost, calculated in accordance with Statement of Standard Accounting Practice No 24, and the amount funded.

19 IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The immediate parent undertaking and the smallest group, to consolidate these accounts, is Dutton-Forshaw Machinery Limited a company incorporated in England and Wales. The ultimate parent undertaking and the largest group, to consolidate these accounts is Dutton Forshaw Investments Limited.

Accounts for these groups may be obtained from:- The Threshing Barn, Bignell Park Barns, Chesterton, Bicester, Oxon, OX6 8TD.

20 RELATED PARTY DISCLOSURES

The Company has taken advantage of the exemption under FRS8 Related Party Transactions, relating to 90% subsidiary undertakings. Accordingly the Company has not disclosed any transactions with other group companies.