

JCB HYDRAPOWER LIMITED

Company Registration Number 1224998

REPORT AND ACCOUNTS

For the year ended 31 December 1997



HOWSONS

Chartered Accountants

Registered Auditors

JCB HYDRAPOWER LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report together with the audited accounts for the year ended 31 December 1997.

BUSINESS REVIEW

The principal activity of the company is the design and manufacture of mini earthmoving machines. With effect from 1 January 1997, the manufacture and sale of handheld products was transferred to JCB Service to enable the company to concentrate on its core product range.

The company traded profitably during the year and the directors expect that it will continue to do so for the foreseeable future.

The profit on ordinary activities before taxation amounted to £2,436,000 (1996: £3,769,000).

The directors do not recommend the payment of a dividend.

Since the end of the year the company has acquired the property that it previously rented from a group company at its net book value of £4,895,000.

DIRECTORS AND SHAREHOLDINGS

The directors who served during the year and subsequently were:

Sir Anthony Bamford DL
J Patterson - appointed 13 March 1998
A S Thomson - appointed 13 March 1998
M Coyne - resigned 9 February 1998
H McCallum - resigned 13 March 1998

None of the directors had any interest in the share capital of the company during the year.

SUBSCRIPTIONS AND DONATIONS

During the year, the company made charitable donations of £265 (1996: £154).

RESEARCH AND DEVELOPMENT

The company maintains a continued commitment to the development of new mini earthmoving machines on an applied basis in order to provide future product innovations. Research and development expenditure during the year amounted to £1,100,000 (1996: £461,000).

TAX STATUS

The company is a close company within the provisions of the Income and Corporation Taxes Act 1988.

AUDITORS

The auditors, Howsons, shall continue in office under the Elective Resolution pursuant to Section 386 of the Companies Act 1985 passed by the company on 18 October 1990, the directors having receiving no notice from any member requiring their re-appointment.

Signed on behalf of the Board



SIR ANTHONY BAMFORD DL

CHAIRMAN

JCB HYDRAPOWER LIMITED

DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 1997

Company law requires the directors to prepare financial statements for each financial year, which give a true and fair view. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable;
- 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 not appropriate 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 are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS
OF JCB HYDRAPOWER LIMITED

We have audited the financial statements on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 2 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 the 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 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 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 31 December 1997 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Howsons
Chartered Accountants
Registered Auditors

Winton House
Stoke Road
Stoke-on-Trent
Staffs
ST4 2RN

Date: 29th JUNE, 1998

JCB HYDRAPOWER LIMITED**PROFIT AND LOSS ACCOUNT****For the year ended 31 December 1997**

	Note	1997 £'000	1996 £'000
TURNOVER - continuing operations	2	29,738	28,576
Cost of Sales		22,269	20,818
GROSS PROFIT		7,469	7,758
Administrative Expenses		5,738	4,466
OPERATING PROFIT - continuing operations	3	1,731	3,292
Interest receivable	7	705	477
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,436	3,769
Taxation on profit on ordinary activities	8	621	1,297
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION BEING RETAINED PROFIT FOR THE YEAR	16	1,815	2,472

TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the retained profit for the year ends as stated.

NOTE OF HISTORICAL COST PROFITS AND LOSSES

The accounts are prepared under the historical cost convention and thus the reported profit on ordinary activities before taxation is the historical cost profit.

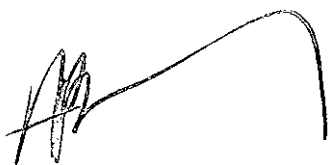
JCB HYDRAPOWER LIMITED

BALANCE SHEET

As at 31 December 1997

	Note	1997 £'000	1996 £'000
FIXED ASSETS			
Tangible assets	9	1,757	938
CURRENT ASSETS			
Stocks	11	1,060	1,509
Debtors	12	4,397	6,451
Cash at bank		11,925	9,278
		17,382	17,238
CREDITORS: Amounts falling due within one year	13	5,424	6,283
NET CURRENT ASSETS		11,958	10,955
TOTAL ASSETS LESS CURRENT LIABILITIES		13,715	11,893
PROVISION FOR LIABILITIES AND CHARGES	14	96	89
NET ASSETS		13,619	11,804
CAPITAL AND RESERVES			
Called up share capital	15	332	332
Profit and loss account	16	13,287	11,472
SHAREHOLDERS' FUNDS	17	13,619	11,804

The accounts were approved by the Board of Directors on 29th June, 1998



SIR ANTHONY BAMFORD DL

JCB HYDRAPOWER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1997

1. ACCOUNTING POLICIES

a) Accounting Convention

The accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards.

b) Tangible Fixed Assets

Depreciation of tangible fixed assets is calculated so as to write-off the original cost by equal annual instalments over the expected useful lives of the assets concerned.

The principal rates used are:	%
Plant and machinery	10/25
Fixtures and equipment	10/20
Motor vehicles	25
Computers	33

Additional depreciation is provided where, in the opinion of the directors, there has been a permanent diminution in the value of a fixed asset.

c) Stock and Work in Progress

Stock and work in progress are valued at the lower of cost and net realisable value, with due allowance being made for any obsolete or slow moving items. Cost includes direct materials, labour and appropriate works overheads.

d) Warranty

Provision is made for the company's estimated liability on all machines still under warranty, including claims already received. The provision is charged against trading profits and is included in creditors.

e) Operating Leases

Rentals paid under operators leases are charged to the profit and loss account on a straight line basis over the period of the lease.

f) Deferred Taxation

Provision is only made for deferred taxation, using the liability method, in respect of timing differences arising from the difference in treatment of certain items for accounting and taxation purposes, where it is considered that the deferral is unlikely to continue for the foreseeable future, and where the consequent liability is expected to be material.

g) Research and Development

Expenditure on research and development is incurred continuously and is charged against revenue as incurred.

h) Foreign Currency

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the year end or, if appropriate, at the forward contract rate. Differences arising from changes in exchange rates, together with gains or losses on trading transactions (arising on differences between conversion at the rates prevailing on the date of a transaction and on the date of settlement), are taken to the profit and loss account.

JCB HYDRAPOWER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1997

1. ACCOUNTING POLICIES (CONTINUED)

i) Pension Costs

The company is a participant in the J C Bamford Pension Scheme, which is a funded, defined benefit scheme. The costs of providing pensions for employees are charged in the profit and loss account over the average working life of the employees, in accordance with the recommendations of qualified actuaries. Any funding surpluses or deficits that may arise from time to time are amortised over the average remaining service life of employees. The most recent triennial actuarial valuation was carried out as at 6 April 1995. Full disclosure of the results of this valuation is given in the accounts of JCB Service.

2. TURNOVER

Turnover represents the invoice value of goods sold (excluding Value Added Tax), and net of sales incentives.

The analysis of turnover by geographical regions is as follows:

	1997 £'000	1996 £'000
Group - Europe	15,154	15,328
Far East	205	107
Non-group - United Kingdom	10,790	10,279
Europe	2,040	2,496
North America	1,203	151
Central and South America	136	14
Africa	133	72
Middle East	77	61
Far East	-	68
	<hr/> 29,738	<hr/> 28,576

3. OPERATING PROFIT

Operating profit is stated after the following:

	1997 £'000	1996 £'000
Directors' remuneration	-	30
Auditors' remuneration	15	14
Depreciation of tangible fixed assets	414	337
Operating lease - property rental (Note 6)	160	158
Research and development	1,100	461
Loss on exchange	1,217	337
Loss/(Profit) on disposal of fixed assets	64	(124)

JCB HYDRAPOWER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1997

4. DIRECTORS' REMUNERATION

	1997 £'000	1996 £'000
Aggregate emoluments	-	30

Retirement benefits are accruing to Nil directors (1996: 1) under defined benefit pension schemes.

5. STAFF NUMBERS AND COSTS

The average number of persons employed by the company (including directors) during the year was as follows:

	1997	1996
Administration, sales and other	51	52
Production	87	90
Temporary	22	30
	160	172

The aggregate payroll costs of these persons were as follows:

	1997 £'000	1996 £'000
Wages and salaries	2,710	2,543
Social security costs	261	254
Other pension costs	193	153
	3,164	2,950

6. OBLIGATIONS UNDER OPERATING LEASES

The company has an informal commitment to pay £160,000 in 1998 (1997: £158,000) in respect of property rental to a group company. Since the end of the year the company has acquired this property at its net book value of £4,895,000.

7. INTEREST RECEIVABLE

	1997 £'000	1996 £'000
Group interest	705	477

JCB HYDRAPOWER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1997

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1997 £'000	1996 £'000
Corporation tax at 31.5% (1996: 33%)		
On the profit for the year	750	1,283
Adjustment in respect of prior years	(136)	(2)
	<hr/>	<hr/>
	614	1,281
Deferred taxation	7	16
	<hr/>	<hr/>
	621	1,297
	<hr/>	<hr/>

9. TANGIBLE FIXED ASSETS

	Plant & Machinery £'000	Motor Vehicles £'000	Fixtures & Equipment £'000	Total £'000
COST				
At 31 December 1996	2,195	47	627	2,869
Additions	1,079	32	267	1,378
Disposals	(315)	(4)	(283)	(602)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1997	2,959	75	611	3,645
	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION				
At 31 December 1996	1,412	31	488	1,931
Charge for the year	332	18	64	414
Disposals	(211)	(5)	(241)	(457)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1997	1,533	44	311	1,888
	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUE				
At 31 December 1997	1,426	31	300	1,757
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1996	783	16	139	938
	<hr/>	<hr/>	<hr/>	<hr/>

10. CAPITAL COMMITMENTS

	1997 £'000	1996 £'000
Authorised and contracted for	23	589
	<hr/>	<hr/>

JCB HYDRAPOWER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1997

11. STOCKS

	1997 £'000	1996 £'000
Production materials	797	1,321
Work in progress	-	188
Finished goods	263	-
	<hr/>	<hr/>
	1,060	1,509
	<hr/>	<hr/>

12. DEBTORS

	1997 £'000	1996 £'000
Trade debtors	753	1,094
Amounts owed by parent company	159	-
Amounts owed by group undertakings	3,468	5,039
Other debtors	-	286
Prepayments	17	32
	<hr/>	<hr/>
	4,397	6,451
	<hr/>	<hr/>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £'000	1996 £'000
Trade creditors	1,943	2,771
Amount owed to parent company	565	1
Amounts owed to group undertakings	941	881
Other creditors	928	986
Corporation tax	720	1,406
Accruals and deferred income	327	238
	<hr/>	<hr/>
	5,424	6,283
	<hr/>	<hr/>
Included in creditors is the following amount:		
Taxation and social security	79	84
	<hr/>	<hr/>

14. PROVISION FOR LIABILITIES AND CHARGES

DEFERRED TAXATION

	1997 Provided For £'000	Full Potential Liability £'000	1996 Provided For £'000	Full Potential Liability £'000
Accelerated capital allowances	96	96	110	110
Other timing differences	-	-	(21)	(21)
	<hr/>	<hr/>	<hr/>	<hr/>
	96	96	89	89
	<hr/>	<hr/>	<hr/>	<hr/>

JCB HYDRAPOWER LIMITED**NOTES TO THE ACCOUNTS**

For the year ended 31 December 1997

15. SHARE CAPITAL

	1997 £'000	1996 £'000
Authorised, issued and fully paid		
332,294 Ordinary shares of £1 each	332	332

16. PROFIT AND LOSS ACCOUNT

	1997 £'000	1996 £'000
At 31 December 1996	11,472	9,000
Retained profit for the year	1,815	2,472
At 31 December 1997	13,287	11,472

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £'000	1996 £'000
Profit for the year after taxation being net increase in shareholders' funds	1,815	2,472
Shareholders' funds at 31 December 1996	11,804	9,332
Shareholders' funds at 31 December 1997	13,619	11,804

Shareholders' funds are wholly attributable to equity interests.

18. RELATED PARTY TRANSACTIONS (including transactions with directors)

The company purchased production parts and consumables from Iracraft Limited, a company in which Sir Anthony Bamford has an interest, amounting to £408,000 (1996: £66,000) in the year on which it owed £7,200 at 31 December 1997 (1996: £16,000).

The company subcontracts some of its research and development projects to JCB Research in which Sir Anthony Bamford is a shareholder of one third of the share capital. JCB Research charges this work at cost so as to make neither profit nor loss after allowing for taxation. The total value of services purchased by the company during the year was £77,000 (1996: £148,000). The net amount owed by the company to JCB Research at 31 December 1997 was £59,000 (1996: £76,000).

The company has taken advantage of the exemption allowed under FRS8, available to wholly owned subsidiary companies whose results are included in the consolidated financial statements that are made publicly available, not to disclose details of transactions with entities that are part of the JCB Service Group or investees of the group qualifying as related parties.

JCB HYDRAPOWER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1997

19. ULTIMATE CONTROLLING PARTY

The company is a wholly-owned subsidiary of JCB Service, an unlimited liability company incorporated in England and Wales. The largest company to consolidate the accounts of JCB Service is Transmissions and Engineering Services Netherlands BV, a company incorporated in the Netherlands. Transmissions and Engineering Services Netherlands BV is ultimately controlled by Bamford family interests.