

JCB HYDRAPOWER LIMITED

Company Registration Number 1224998

REPORT AND ACCOUNTS

For the year ended 31 December 1999

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 1999.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

As part of a product rationalisation within certain of the JCB group and related companies, the company's former principal activity, being the design and manufacture of mini excavators, was transferred with effect from 1 May 1999 to JCB Compact Products Limited. The results of the former principal activity are included as discontinued operations in the company's profit and loss account for the year. The company's principal activity since 1 May 1999 has been the design and manufacture of cabs for JCB companies.

The company traded profitably during the year and the directors expect that it will continue to do so in the foreseeable future, although a trading deficit is anticipated for the next financial year.

The profit on ordinary activities before taxation amounted to £1,395,000 (1998: £4,469,000).

An interim dividend of £10,000,000 (1998: £Nil) has been paid, and the directors do not recommend any further distribution for the year.

DIRECTORS AND SHAREHOLDINGS

The directors who served during the year and subsequently were:

Sir Anthony Bamford DL
J Patterson
A S Thomson

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

RESEARCH AND DEVELOPMENT

The company maintains a continued commitment to the development of its products in order to provide future product innovations. Research and development expenditure during the year amounted to £435,000 (1998: £1,077,000).

YEAR 2000

In response to the concerns that have been widely published in relation to the impact, if any, that the Year 2000 could have on the accuracy of calculation, processing, reporting and operations being performed by computerised and other date-dependent systems, the company has reviewed those internal systems, financial and non-financial in nature, that are critical to the company's ongoing operations. The company also took into consideration the impact, if any, that the Year 2000 could have on its customers and suppliers, and any possible adverse effects arising therefrom that could jeopardise its continued operations.

At the date of this report, the company has not suffered disruption or loss as a consequence of Year 2000, and does not anticipate any such problems arising in the foreseeable future.

THE EURO

The company trades with a number of customers and suppliers who are resident in those European countries that have entered into the first phase of the introduction of the single currency, the Euro, with effect from 1 January 1999. The company has reviewed its financial accounting systems to ensure that those suppliers who specifically request settlement in Euros can be accommodated. The company will continue to invoice its customers in sterling, but will accept payment in Euros, and has adapted its accounting systems to deal with the appropriate conversions. The costs of adaptation are largely internal and have not been quantified.

JCB HYDRAPOWER LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

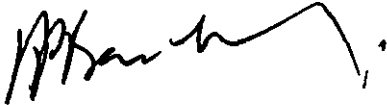
CLOSE COMPANY STATUS

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 received no notice from any member requiring their re-appointment.

Signed on behalf of the Board

A handwritten signature in black ink, appearing to read 'A. Bamford', with a stylized flourish at the end.

SIR ANTHONY BAMFORD DL

CHAIRMAN

JCB HYDRAPOWER LIMITED

DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 1999

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 5 to 13, which have been prepared under the historical cost convention, and the accounting policies set out on pages 7 and 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 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 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 at 31 December 1999 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 2RW

Date: 28 June, 2000

JCB HYDRAPOWER LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1999

	Note	1999 £'000 Continuing Operations	1999 £'000 Discontinued Operations	1999 £'000 Total	1998 £'000 Discontinued Operations
TURNOVER	2	2,497	12,904	15,401	30,724
Cost of sales		3,017	9,643	12,660	24,156
GROSS PROFIT		(520)	3,261	2,741	6,568
Distribution costs		73	414	487	1,090
Administrative expenses		471	697	1,168	1,746
OPERATING (LOSS)/PROFIT	3	(1,064)	2,150	1,086	3,732
Interest receivable	6			310	737
Interest payable	7			(1)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION				1,395	4,469
Taxation on profit on ordinary activities	8			200	1,371
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION				1,195	3,098
Dividend paid				10,000	-
(DEFICIT)/RETAINED PROFIT FOR THE YEAR	18			(8,805)	3,098

TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the (deficit)/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 1999

	Note	1999 £'000	1998 £'000
FIXED ASSETS			
Tangible assets	9	6,845	7,210
CURRENT ASSETS			
Stocks	11	219	858
Debtors	12	4,573	5,123
Cash at bank		-	10,442
		<hr/> 4,792	<hr/> 16,423
CREDITORS: Amounts falling due within one year	13	<hr/> 3,238	<hr/> 6,152
NET CURRENT ASSETS		<hr/> 1,554	<hr/> 10,271
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 8,399	<hr/> 17,481
PROVISIONS FOR LIABILITIES AND CHARGES	14	<hr/> 487	<hr/> 764
NET ASSETS		<hr/> 7,912	<hr/> 16,717
CAPITAL AND RESERVES			
Called up share capital	17	332	332
Profit and loss account	18	7,580	16,385
SHAREHOLDERS' FUNDS	19	<hr/> 7,912	<hr/> 16,717

The accounts were approved by the Board of Directors on 28 June 2000


SIR ANTHONY BAMFORD DL

JCB HYDRAPOWER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1999

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 is calculated so as to write-off the original cost by equal annual instalments over the expected useful lives of the assets concerned, other than freehold land and assets in the course of construction or not in use which are not depreciated.

The principal rates used are:	%
Freehold buildings - industrial	2
Plant and machinery	10/25
Motor vehicles	25
Fixtures, fittings and office equipment	10/20
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 estimated 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 provisions for liabilities and charges, with amounts recoverable from suppliers included in other debtors.

e) 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.

f) Research and Development

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

g) 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.

h) Pension Costs

The company is a participant in The J C Bamford Lifeplan, 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 a qualified actuary. 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 1998. Full disclosure of the results of this latter valuation is given in the accounts of JCB Service.

JCB HYDRAPOWER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1999

1. ACCOUNTING POLICIES (CONTINUED)

i) Repairs and Renewals

All repairs and renewals are charged against revenue as incurred.

2. TURNOVER

Turnover represents the invoice value of goods sold, excluding VAT and net of sales incentives.

The analysis of turnover by geographical regions is as follows:

		1999 £'000	1998 £'000
Group	- United Kingdom	134	128
	Europe	4,017	13,965
	North America	599	2,171
	Far East	9	33
Non-group	- United Kingdom	10,154	12,244
	Europe	430	1,990
	Central and South America	36	101
	Africa	-	33
	Middle East	10	59
	Far East	12	-
		<hr/> 15,401	<hr/> 30,724

3. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after the following:

	1999 £'000	1998 £'000
Directors' remuneration	46	70
Auditors' remuneration	9	14
Depreciation of tangible fixed assets	369	549
Profit on sale of tangible fixed assets	(22)	(40)
Research and development	435	1,077
Loss/(Profit) on exchange	245	(195)

JCB HYDRAPOWER LIMITED**NOTES TO THE ACCOUNTS**

For the year ended 31 December 1999

4. DIRECTORS' REMUNERATION

	1999 £'000	1998 £'000
Aggregate emoluments	46	70

Retirement benefits are accruing to 1 director (1998: 1) under a defined benefit pension scheme.

5. STAFF NUMBERS AND COSTS

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

	1999	1998
Directors	3	3
Administration	28	60
Production	62	92
Temporary employees	33	22
	<u>126</u>	<u>177</u>

The aggregate payroll costs of these persons were as follows:

	1999 £'000	1998 £'000
Wages and salaries	2,343	3,633
Social security costs	206	296
Other pension costs	120	210
	<u>2,669</u>	<u>4,139</u>

6. INTEREST RECEIVABLE

	1999 £'000	1998 £'000
Group interest	310	737

7. INTEREST PAYABLE

	1999 £'000	1998 £'000
On bank overdraft	1	-

JCB HYDRAPOWER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1999

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1999 £'000	1998 £'000
Corporation tax at 30.25% (1998: 31%)		
On profit for the year	326	1,350
Adjustment in respect of prior years	(96)	(3)
Deferred taxation – (Credit)/Charge	(30)	24
	<hr/> 200	<hr/> 1,371

9. TANGIBLE FIXED ASSETS

COST	Land & Buildings £'000	Plant, Machinery & Vehicles £'000	Fixtures, Fittings & Equipment £'000	Assets in the Course of Construction £'000	Total £'000
At 31 December 1998	5,710	3,671	679	-	10,060
Additions	303	403	85	538	1,329
Disposals	(2)	(64)	(10)	-	(76)
Transfer to JCB company	-	(2,568)	(66)	-	(2,634)
	<hr/> 6,011	<hr/> 1,442	<hr/> 688	<hr/> 538	<hr/> 8,679
DEPRECIATION					
At 31 December 1998	585	1,880	385	-	2,850
Charge for the year	97	209	63	-	369
Disposals	-	(27)	(2)	-	(29)
Transfer to JCB company	-	(1,314)	(42)	-	(1,356)
	<hr/> 682	<hr/> 748	<hr/> 404	<hr/> -	<hr/> 1,834
NET BOOK VALUE					
At 31 December 1999	5,329	694	284	538	6,845
At 31 December 1998	5,125	1,791	294	-	7,210

i) All land and buildings are freehold.

ii) Freehold industrial land of £873,000 (1998: £873,000) has not been depreciated.

JCB HYDRAPOWER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1999

10. CAPITAL COMMITMENTS

	1999 £'000	1998 £'000
Authorised and contracted for	2,115	-

11. STOCKS

	1999 £'000	1998 £'000
Production parts and materials	201	806
Work in progress	-	52
Finished goods for resale	18	-
	<u>219</u>	<u>858</u>

12. DEBTORS

	1999 £'000	1998 £'000
Trade debtors	98	483
Amounts owed by group undertakings	551	4,525
Amount owed by JCB company	3,665	-
Other debtors	251	79
Prepayments	8	36
	<u>4,573</u>	<u>5,123</u>

Included in other debtors is the following amount:

Taxation and social security	199	-
------------------------------	-----	---

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £'000	1998 £'000
Bank overdraft	929	-
Trade creditors	1,021	3,588
Amounts owed to group undertakings	464	685
Amount owed to JCB company	570	-
Other creditors	42	142
Corporation tax	127	1,348
Accruals	85	389
	<u>3,238</u>	<u>6,152</u>

Included in other creditors is the following amount:

Taxation and social security	42	91
------------------------------	----	----

JCB HYDRAPOWER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1999

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred Taxation £'000	Warranty £'000	Total £'000
At 31 December 1998	120	644	764
Credit for the year	(30)	(247)	(277)
	<hr/>	<hr/>	<hr/>
At 31 December 1999	90	397	487
	<hr/>	<hr/>	<hr/>

15. DEFERRED TAXATION

	1999		1998	
	Provided For	Full Potential Liability	Provided For	Full Potential Liability
	£'000	£'000	£'000	£'000
Accelerated capital allowances	90	316	120	120
	<hr/>	<hr/>	<hr/>	<hr/>

16. WARRANTY PROVISION

	1999 £'000
At 31 December 1998	644
Amounts paid	543
	<hr/>
Charge for the year	101
	296
	<hr/>
At 31 December 1999	397
	<hr/>

It is expected that most warranty expenditure will be incurred in the next financial year, and nearly all will be incurred within two years of the balance sheet date. Included in Other Debtors (Note 12) is an amount totalling £52,000 representing amounts recoverable from suppliers.

17. SHARE CAPITAL

	1999 £'000	1998 £'000
Authorised, issued and fully paid		
Ordinary shares of £1 each	332	332
	<hr/>	<hr/>

18. PROFIT AND LOSS ACCOUNT

	1999 £'000	1998 £'000
At 31 December 1998	16,385	13,287
(Deficit)/Retained profit for the year	(8,805)	3,098
	<hr/>	<hr/>
At 31 December 1999	7,580	16,385
	<hr/>	<hr/>

JCB HYDRAPOWER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 December 1999

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £'000	1998 £'000
Profit for the year after taxation	1,195	3,098
Dividend paid	(10,000)	-
Net (decrease)/increase in shareholders' funds	(8,805)	3,098
Shareholders' funds at 31 December 1998	16,717	13,619
Shareholders' funds at 31 December 1999	7,912	16,717

Shareholders' funds are wholly attributable to equity interests.

20. TRANSACTIONS WITH RELATED PARTIES (including directors)

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.

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 £179,000 (1998: £144,000).

The company purchased production parts and consumables from Iracraft Limited, a company in which Sir Anthony Bamford has an interest. The total value of these purchases by the company during the year was £133,000 (1998: £403,000). The net amount owed by the company to Iracraft Limited at 31 December 1999 was £Nil (1998: £9,000).

As part of a product rationalisation within certain of the JCB group and related companies, the company's former principal activity, being the design and manufacture of mini excavators, was transferred with effect from 1 May 1999 to JCB Compact Products Limited, a company in which Sir Anthony Bamford and his immediate family are the shareholders. Assets transferred, at net book value on that date, comprised tangible fixed assets and stock. No liabilities were transferred. The total value of the assets transferred was £2,135,000, on which the company is owed £2,508,000 at 31 December 1999. In return for the transfer of activities, JCB Compact Products Limited is required to pay the company a technical assistance fee, which was £366,000 for the year, and is owed to the company at 31 December 1999. The company has also supplied cabs to JCB Compact Products Limited. The total value of these sales during the year was £2,431,000. The net amount owed to the company by JCB Compact Products Limited in respect of these sales at 31 December 1999 was £1,004,000.

21. 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.