

JCB Hydrapower Limited

Company Registration Number 1224998

REPORT AND ACCOUNTS

For the year ended 31 December 1996



HOWSONS

Chartered Accountants

Registered Auditors

JCB Hydrápower 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 1996.

### 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 J.C.B. 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 £3,769,000 (1995: £6,512,000).

### DIRECTORS AND SHAREHOLDINGS

The directors who served during the year and subsequently are:-

Sir Anthony Bamford DL  
Mr Martin Coyne  
Mr Howard McCallum - Resigned 28 February 1997

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 £154 (1995: £1,680).

### RESEARCH AND DEVELOPMENT

The company maintains a continued commitment to developing and improving its products, and during the year, expenditure on research and development amounted to £461,435 (1995: £303,596).

### 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 received 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 1996

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.

AUDITOR'S 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 at 31 December 1996 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: 15 May 1997

JCB Hydrapower Limited

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1996

	Note	1996 £'000	1995 £'000	1995 £'000
TURNOVER				
Continuing		28,576	33,479	
Discontinued		-	4,204	
		<hr/>	<hr/>	
	2	28,576		37,683
Cost of sales	3	20,818		27,185
		<hr/>		<hr/>
GROSS PROFIT		7,758		10,498
Administrative Expenses		4,466		4,345
Operating Profit				
Continuing		3,292	4,774	
Discontinued		-	1,379	
		<hr/>	<hr/>	
OPERATING PROFIT	4	3,292		6,153
Interest receivable	8	477		359
		<hr/>		<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,769		6,512
Taxation on profit on ordinary activities	9	1,297		2,213
		<hr/>		<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION BEING RETAINED PROFIT FOR THE YEAR	17	2,472		4,299
		<hr/>		<hr/>

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

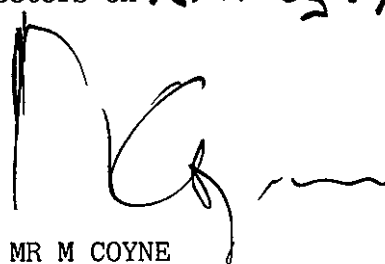
As at 31 December 1996

	Note	1996		1995	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	10		938		1,047
CURRENT ASSETS					
Stocks	12	1,509		3,316	
Debtors	13	6,451		5,597	
Cash at bank		<u>9,278</u>		<u>5,655</u>	
		17,238		14,568	
CREDITORS: Amounts falling due within one year	14	<u>6,283</u>		<u>6,210</u>	
NET CURRENT ASSETS			<u>10,955</u>		<u>8,358</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			11,893		9,405
PROVISION FOR LIABILITIES AND CHARGES	15		<u>89</u>		<u>73</u>
NET ASSETS			<u>11,804</u>		<u>9,332</u>
CAPITAL AND RESERVES					
Called up share capital	16		332		332
Profit and loss account	17		<u>11,472</u>		<u>9,000</u>
SHAREHOLDERS' FUNDS	18		<u>11,804</u>		<u>9,332</u>

The accounts were approved by the Board of Directors on 15 May 1997



SIR ANTHONY BAMFORD DL



MR M COYNE

NOTES TO THE ACCOUNTS

For the year ended 31 December 1996

1. ACCOUNTING POLICIES

(a) Accounting Convention

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

(b) Depreciation

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% and 25%
Fixtures and equipment	10% and 20%
Motor vehicles	25%
Computers	33.3%

(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) Research and Development

Research and development expenditure is written off to revenue when it is incurred.

(e) 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.

(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 from 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) Operating Leases

Expenditure incurred in respect of operating leases is charged to the profit and loss account for the year in which the assets are utilised.

(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.

## NOTES TO THE ACCOUNTS

For the year ended 31 December 1996

## 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:-

	1996 £'000	1995 £'000
United Kingdom	10,279	18,281
Europe	17,824	18,538
North America	151	217
America-Central & South	14	151
Middle East	61	117
Africa	72	6
Far East & Australia	68	280
Other	<u>107</u>	<u>93</u>
	28,576	37,683
	<u>          </u>	<u>          </u>

## 3. REANALYSIS OF TRADING RESULTS

	1996			1995		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Cost of sales	20,818	-	20,818	25,067	2,118	27,185
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net Operating Expenses						
Administrative expenses	4,466	-	4,466	3,638	707	4,345
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



## NOTES TO THE ACCOUNTS

For the year ended 31 December 1996

## 4. OPERATING PROFIT

Operating profit is stated after the following items:-

	1996 £'000	1995 £'000
Directors remuneration	63	55
Auditors remuneration	14	14
Depreciation of tangible fixed assets	337	271
Operating lease - property rental	158	175
Research and development	60	303
Loss/(Profit) on exchange	337	(157)
Profit on disposal of fixed assets	(124)	(26)
Hire of assets	14	29

## 5. OPERATING LEASE

The company has a commitment in respect of an informal operating lease with a group company for property rental that extends beyond twelve months from the balance sheet date. The current rental payable under this lease is £158,000 (1995: £175,000).

## 6. DIRECTORS REMUNERATION

Excluding pension contributions, the emoluments of the chairman were £Nil (1995: £Nil). The emoluments of the highest paid director were £30,000 (1995: £55,000). The emoluments of the other director were within the range £Nil to £5,000 for both years.

## 7. STAFF NUMBERS AND COSTS

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

	1996	1995
Management sales and other	60	73
Production	82	70
Temporary	<u>30</u>	<u>42</u>
	172	185
	—	—

The aggregate payroll costs of these persons were as follows:-

	1996 £'000	1995 £'000
Wages and salaries	2,543	2,487
Social security costs	254	290
Other pension costs	<u>153</u>	<u>116</u>
	2,950	2,893
	—	—

JCB Hydrapower Limited

NOTES TO THE ACCOUNTS

For the year ended 31 December 1996

8. INTEREST RECEIVABLE

	1996 £'000	1995 £'000
Group interest	477	359
	—	—

9. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	1996 £'000	1995 £'000
Corporation Tax at 33% (1995: 33%)		
On profit for the year	1,283	2,300
Adjustment in respect of prior years	(2)	(31)
	1,281	2,269
Deferred Taxation	16	(56)
	1,297	2,213
	—	—

10. TANGIBLE FIXED ASSETS

	Plant and Machinery	Motor Vehicles	Fixtures and Equipment	Total
	£'000	£'000	£'000	£'000
COST				
At 31 December 1995	2,181	89	597	2,867
Additions	262	15	99	376
Disposals	(248)	(57)	(69)	(374)
At 31 December 1996	2,195	47	627	2,869
	—	—	—	—
DEPRECIATION				
At 31 December 1995	1,248	77	495	1,820
Charge for the year	268	12	57	337
Eliminated re disposals	(104)	(58)	(64)	(226)
At 31 December 1996	1,412	31	488	1,931
	—	—	—	—
NET BOOK VALUE				
At 31 December 1996	783	16	139	938
	—	—	—	—
At 31 December 1995	933	12	102	1,047
	—	—	—	—

NOTES TO THE ACCOUNTS

For the year ended 31 December 1996

11. CAPITAL COMMITMENTS

	1996 £'000	1995 £'000
Authorised and contracted for	589	-

12. STOCKS

	1996 £'000	1995 £'000
Production materials and parts	1,321	2,963
Work in progress	188	295
Finished goods	-	58
	<u>1,509</u>	<u>3,316</u>

13. DEBTORS

	1996 £'000	1995 £'000
Trade debtors	1,094	1,174
Amounts owed by group undertakings	5,039	4,214
Other debtors	286	133
Prepayments	<u>32</u>	<u>76</u>
	<u>6,451</u>	<u>5,597</u>

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1996 £'000	1995 £'000
Trade creditors	2,771	2,065
Amount owed to parent company	1	183
Amounts owed to group undertakings	881	534
Other creditors	986	899
Corporation tax	1,406	2,219
Accruals and deferred income	<u>238</u>	<u>310</u>
	<u>6,283</u>	<u>6,210</u>

Other creditors includes social security of £84,000 (1995: £98,000).

## NOTES TO THE ACCOUNTS

For the year ended 31 December 1996

## 15. PROVISION FOR LIABILITIES AND CHARGES

## DEFERRED TAXATION

	Provision		Full Potential Liability	
	1996	1995	1996	1995
	£'000	£'000	£'000	£'000
Accelerated capital allowances	110	121	110	121
Other timing differences	<u>(21)</u>	<u>(48)</u>	<u>(21)</u>	<u>(48)</u>
	89	73	89	73
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## 16. SHARE CAPITAL

	1996	1995
	£'000	£'000
Authorised, issued and fully paid:-		
332,294 Ordinary shares of £1 each	332	332
	<u>          </u>	<u>          </u>

## 17. PROFIT AND LOSS ACCOUNT

	1996	1995
	£'000	£'000
At 31 December 1995	9,000	4,701
Retained profit for the year	<u>2,472</u>	<u>4,299</u>
At 31 December 1996	<u>11,472</u>	<u>9,000</u>

## 18. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1996	1995
	£'000	£'000
Profit for the year after taxation being net increase in shareholders' funds	2,472	4,299
Shareholders' funds at 31 December 1995	<u>9,332</u>	<u>5,033</u>
Shareholders' funds at 31 December 1996	<u>11,804</u>	<u>9,332</u>

Shareholders' funds are wholly attributable to equity interests.

NOTES TO THE ACCOUNTS

For the year ended 31 December 1996

19. TRANSACTIONS WITH RELATED PARTIES (including directors)

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

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 £148,000 (1995: £2,000). The net amount owed by the company to JCB Research at 31 December 1996 was £76,000 (1995: £68,000).

20. 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.