

IPL FLUID POWER LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31ST DECEMBER 1997

Company No. 01672034



HARDING AND HUMPHRIES
CHARTERED CERTIFIED ACCOUNTANTS
5 Victoria Buildings
Victoria Road
Freshfield
LIVERPOOL L37 7DB

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER 1997

The directors present their report and the financial statements for the year ended 31st December 1997.

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;
- prepare the financial statements 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 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.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The company's principal activity is that of distributors of engineering components.

The results for the year are set out on page 3.

The directors consider the profit achieved on ordinary activities before taxation to be particularly satisfactory given the difficult trading conditions.

DIVIDENDS

An interim dividend of £82,300(net) was paid during the year.

The directors do not recommend a final dividend and the retained profits of £707,718 will be added to reserves.

FUTURE DEVELOPMENTS

The company will continue to develop its principal activity.

FIXED ASSETS

Details of movements in fixed assets are set out in note 4 to the financial statements.

In the opinion of the directors the value of the company's freehold land and buildings is not materially different from the book value in these financial statements.

DIRECTORS

The directors at 31st December 1997 and their beneficial interests in the company's issued ordinary share capital were as follows:-

	<u>NUMBER OF SHARES</u>	
	<u>1997</u>	<u>1996</u>
B. Readman	17	17
Mrs E. Readman	34	34
I. Readman	18	18

AUDITORS

The Auditors, Messrs Harding and Humphries, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

Mrs E. Readman



SECRETARY

Date 13. 7. 98

IPL FLUID POWER LIMITEDAUDITORS' REPORT TO THE SHAREHOLDERS OF IPL FLUID POWER LIMITED

We have audited the financial statements on pages 3 to 10 which have been prepared under the historical cost convention and the accounting policies set out on page 5.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 1 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 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 31st December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

FORMBY

Date... 13th July 1998

HARDING AND HUMPHRIES


CHARTERED CERTIFIED ACCOUNTANTS
REGISTERED AUDITOR

IPL FLUID POWER LIMITEDPROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 1997

		1997		1996	
	<u>NOTES</u>	£	£	£	£
Turnover	2.	5,533,768		4,761,537	
Cost of Sales		3,157,770		2,887,059	
<u>GROSS PROFIT</u>		2,375,998		1,874,478	
Administration expenses		1,175,341		1,205,648	
Interest payable and similar charges		45,887		75,206	
		1,221,228		1,280,854	
		1,154,770		593,624	
Grant received				1,300	
Interest received		4,792			
<u>NET PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</u>	3.	1,159,562		594,924	
Tax on profit/(loss) on ordinary activities	7.	369,544		181,672	
<u>NET PROFIT/(LOSS) FOR THE YEAR AFTER TAXATION</u>		790,018		413,252	
Dividend - net		82,300		45,732	
Retained profit/(loss) for the year		707,718		367,520	
Retained profit/(loss) brought forward		921,472		553,952	
<u>RETAINED PROFIT/(LOSS) CARRIED FORWARD</u>		£1,629,190		£921,472	
		=====		=====	

There were no recognised gains and losses for 1997 or 1996 other than those included in the Profit & Loss Account.

The notes on pages 5 to 8 form part of these financial statements.

IPL FLUID POWER LIMITEDBALANCE SHEET AS AT 31ST DECEMBER 1997

		<u>1997</u>		<u>1996</u>	
	<u>NOTES</u>	£	£	£	£
<u>FIXED ASSETS</u>					
Tangible Assets			838,181		481,378
<u>CURRENT ASSETS</u>					
Stocks - Finished Goods		632,295		657,298	
Directors current accounts				560	
Debtors due within one year					
- Trade		1,243,061		1,097,565	
- Prepayments		19,990		21,478	
Bank - Deposit Account		135,645		114,124	
		2,030,991		1,891,025	
CREDITORS - amounts falling due within one year	5.	1,122,536		1,069,570	
<u>NET CURRENT ASSETS/(LIABILITIES)</u>			908,455		821,455
<u>TOTAL ASSETS LESS CURRENT LIABILITIES</u>			1,746,636		1,302,833
CREDITORS - amounts falling due after more than one year	5.		107,372		371,287
<u>NET ASSETS</u>			£1,639,264		£931,546
<u>Represented by:</u>					
<u>CAPITAL AND RESERVES</u>					
Issued Share Capital	6.		100		100
Profit and Loss Account			1,629,190		921,472
Share Premium Account			9,974		9,974
<u>SHAREHOLDERS' FUNDS</u>			£1,639,264		£931,546

DIRECTOR.....

DIRECTOR.....

Approved by the Board on 13.7.98

The notes on pages 5 to 8 form part of these financial statements.

IPL FLUID POWER LIMITEDNOTES TO ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 19971. ACCOUNTING POLICIES

The significant accounting policies of the company are consistent with the previous year and are as follows:-

a) Basis of preparation of financial statements

The financial statements are prepared under the historical cost convention and include the results of the company's operations which are described in the Directors' Report and all of which are continuing.

The company has taken advantage of the exemption in Financial Reporting Standard No.1 from the requirement to produce a cash flow statement on the grounds that it is a small company.

b) Tangible Fixed Assets and Depreciation

Tangible Fixed Assets are stated at cost or valuation less depreciation. The company's policy is to provide depreciation at rates which are calculated to write off the cost of the assets over their estimated useful lives as follows:

Equipment	20% on written down value
Motor vehicles	25% on written down value
Freehold buildings	1% on cost

c) Deferred Taxation

In the past accelerated capital allowances have been received which have effectively deferred the payment of corporation tax. A provision has now been created, where material, against such future liability, providing taxation at 31% on the excess of capital allowances received, and depreciation charged in the accounts after deducting any available corporation tax losses.

d) Leasing and Hire Purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets and depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

e) Operating Leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to profit and loss account as incurred.

f) Stocks and Work in Progress

Stocks and work in progress have been valued at the lower of cost or net realisable value, after making due allowance for obsolete and slow moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

g) Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

2. TURNOVER

The company's turnover comprises the invoiced value of goods and services supplied by the company, net of value added tax and trade discounts. The whole of the turnover and profit before tax is attributable to the one principal activity of the company.

IPL FLUID POWER LIMITEDNOTES TO ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 19973. NET PROFIT ON ORDINARY ACTIVITIES

The net profit is stated after charging:-

	1997 £	1996 £
Depreciation of tangible fixed assets:		
- owned by the company	64,895	29,482
- held under finance leases	16,394	32,408
Loss on disposal of tangible fixed assets	12,133	15,469
Auditors' remuneration	2,600	2,500
Operating lease rentals	4,086	4,012
Directors' remuneration for services as directors	220,991	234,411
Wages and salaries	447,977	366,775
Social security expenses	63,798	57,676
Staff pension costs	30,760	60,146
Interest payable on bank loans, overdrafts and other loans:		
- repayable within five years	39,581	32,961
- repayable in more than five years		33,715
- finance leases and hire purchase contracts	6,306	8,530

4. FIXED ASSETS:

i) <u>Tangible Assets</u>	<u>Freehold Land</u>	<u>Freehold Land and Building</u>	<u>Motor Cars</u>	<u>Equipment</u>	<u>Motor Van</u>	<u>Total</u>
<u>COST</u>	£	£	£	£	£	£
As at 31.12.96		219,591	179,551	205,502	9,823	614,467
Additions	254,707	600	64,918	160,500		480,725
Disposals			(74,948)			(74,948)
As at 31.12.97	254,707	220,191	169,521	366,002	9,823	1,020,244
<u>DEPRECIATION</u>						
As at 31.12.96		6,379	37,780	85,096	3,834	133,089
Disposals			(32,315)			(32,315)
Charge for the year		2,196	37,497	40,096	1,500	81,289
As at 31.12.97		8,575	42,962	125,192	5,334	182,063
<u>NET BOOK VALUE</u>						
As at 31.12.96	£ -	£213,212	£141,771	£120,406	£5,989	£481,378
As at 31.12.97	£254,707	£211,616	£126,559	£240,810	£4,489	£838,181
<u>DISPOSAL OF ASSETS</u>						
Cost			74,948			74,948
Depreciation			32,315			32,315
Net book value			42,633			42,633
Proceeds			30,500			30,500
<u>(Profit)/Loss</u>			£12,133			£12,133
			=====			=====

IPL FLUID POWER LIMITEDNOTES TO ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1997

- (ii) There were no capital commitments at 31st December 1997 (1996 £nil)
- (iii) Included above are assets held under finance leases or hire purchase contracts as follows:-

Motor vehicles	£	90,136 (cost)
Equipment	£	nil

5. CREDITORS

	<u>WITHIN ONE YEAR</u>		<u>2 to 5 YEARS</u>		<u>OVER 5 YEARS</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	£	£	£	£	£	£
Loans: UK bank	36,000	24,000	54,930	82,250		
German bank						224,649
Pension fund		25,000	25,000	25,000		
Bank overdraft (secured)	143,062	144,365				
Hire purchase and finance leases	23,195	43,857	8,527	31,328		
Directors current accounts	33,754					
Trade creditors	393,518	491,738				
Other creditors, including taxation & social security	112,887	168,837				
Accruals	29,606	1,784				
Current taxation	337,733	166,150				
Advance corporation tax payable	12,781	3,839				
Deferred taxation			18,915	8,060		
	<u>£1,122,536</u>	<u>1,069,570</u>	<u>107,372</u>	<u>146,638</u>	<u>-</u>	<u>224,649</u>
	=====	=====	=====	=====	=====	=====

6. SHARE CAPITAL

	<u>Authorised</u>	<u>Issued and Fully Paid</u>
Ordinary shares of £1 each	1,000	100

7. TAXATION

	<u>1997</u>	<u>1996</u>
Deferred taxation	10,855	4,089
Corporation tax on ordinary activities	358,689	177,583
	<u>£369,544</u>	<u>£181,672</u>
	=====	=====

8. CURRENT TAXATION

There is a liability to U.K. Corporation Tax on the results for the year. The rate of corporation tax used is 33% for the financial year 1996 and 31% for the financial year 1997, but allowing for marginal relief.

IPL FLUID POWER LIMITEDNOTES TO ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 19979. DIRECTORS EMOLUMENTS

Aggregate emoluments £249,893

The average number of other employees employed by the company during the year was 37. (1996 30)

10. BANK OVERDRAFT, LOANS AND FINANCE CONTRACTS

The bank overdraft is secured by a charge over property and other company assets. The finance leases are secured on the assets concerned.

11. LEASE COMMITMENTS

At 31st December 1997 the company had annual commitments under non-cancellable operating leases as set out below:-

	<u>Land & Buildings</u>		<u>Others</u>	
	1997	1996	1997	1996
Operating leases which expire -				
WITHIN ONE YEAR			£1,825	£600
IN SECOND TO FIFTH YEARS INCLUSIVE			£3,411	£3,411

12. FOREIGN CURRENCY TRANSLATION

Unsettled monetary items at 31st December 1997 have been shown using the rate of exchange at the Balance Sheet date, in accordance with the closing rate method referred to in SSAP 20.

There are no non-monetary foreign currency items in these accounts.

Profits and losses arising from translation have been passed through the Profit and Loss Account.

13. RELATED PARTY TRANSACTIONS

A company car was sold to one of the directors during the year for £7,000. The transaction was conducted at arm's length and the amount had been paid in full by 31st December 1997.

IPL FLUID POWER LIMITEDCASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 1997

	<u>1997</u>		<u>1996</u>	
	£	£	£	£
Net cash inflow/(outflow) from operating activities (note 1)		1,083,040		604,690
Returns on investments and servicing of finance:				
Interest received	4,792			
Interest paid	(45,887)		(75,206)	
		(41,095)		(75,206)
Taxation:				
Corporation tax paid (including ACT)		(178,164)		(131,658)
<u>Capital Expenditure:</u>				
Payments to acquire tangible fixed assets	(480,725)		(172,807)	
Receipts from sale of tangible fixed assets	30,500		36,725	
		(450,225)		(136,082)
Equity dividends paid		413,556 (82,300)		261,744 (45,732)
Management of Liquid Resources		331,256		216,012
<u>Financing:</u>				
Loans	(264,969)		(393,817)	
Hire purchases	(43,463)		12,966	
		(308,432)		(380,851)
<u>Increase/(Decrease) in Cash</u>		<u>£22,824</u> =====		<u>£(164,839)</u> =====

IPL FLUID POWER LIMITEDNOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 19971. Reconciliation of operating profit to net cash inflow for operating activities:

	£
Operating profit (before interest and tax)	1,200,657
Depreciation	81,289
Loss on sale of fixed assets	12,133
Decrease in stocks	25,003
Increase in debtors	(144,008)
Decrease in creditors (directors' current accounts, trade creditors, other creditors & accruals)	(92,034)
<u>Net Cash Inflow from Operating Activities</u>	<u>£1,083,040</u> <u>=====</u>

2. Reconciliation of Net Cash Flow to movement in net debt:

Decrease in cash in period	22,824
Cash used to make loan repayments	264,969
	<hr/>
Change in net debt	287,793
<u>Net debt at 1st January 1997</u>	<u>(411,140)</u>
	<hr/>
<u>Net debt at 31st December 1997</u>	<u>£(123,347)</u> <u>=====</u>

3. Analysis of changes in Net Profit:

	At 31.1.97	Cash Flows	At 31.12.97
Cash in hand and at bank	114,124	21,521	135,645
Overdrafts	(144,365)	1,303	(143,062)
		<hr/>	
		22,824	
Debt due within one year	(49,000)	13,000	(36,000)
Debt due after one year	(331,899)	251,969	(79,930)
		<hr/>	
		264,969	
	<hr/>	<hr/>	<hr/>
TOTAL	£(411,140) =====	£287,793 =====	£(123,347) =====