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DYNO-ROD PLC

REPORT AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 1985

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DYNO-ROD PLC

1.

DIRECTORS AND OFFICERS

Chairman and Managing Director

J. F. Zockoll (U.S.A.)

Directors

R. G. Taylor BA Dip M Minst.M

M. A. Cowler FCCA

A. W. Cook

J. A. Zockoll (U.S.A.)

S. M. Zockoll (U.S.A.)

Secretary

R. D. Tarling

Registered Office

143 Maple Road,
Surbiton,
Surrey
KT6 4BJ.

Registered Number

1046906

Bankers

Lloyds Bank PLC

Auditors

Arthur Young

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended December 31, 1985.

Results and dividends

The trading profit for the year, after taxation, amounted to £371,182 (1984 - £329,184).

The directors recommend a final ordinary dividend of £200,000 (1984 - £200,000).

Review of the business

The principal activities of the company continue to be the operation of a national network of service centres for the clearing and tracing of drains, sewers, culverts, ducting and piping, together with hygiene services and ancillary activities. These operations are conducted mainly under franchise but also from company owned service centres and by one-man-van operatives.

During the year the company adopted the policy of decentralising activities to regional centres. Turnover increased by over 19% to £3,954,710 whilst cost of sales increased as expected, but profit on ordinary activities before taxation increased to £716,222 (1984 - £622,752) before taking into account the loss on the joint venture in Hong Kong of £41,702. The balance of the retained profit for the year of £125,024 (1984 - £129,184), which is after an extraordinary item of £46,158 has been added to the profit and loss account, thereby increasing the total assets of the company to £1,135,349.

Fixed assets

The freehold premises (Zockoll House) were transferred to the holding company during the year.

The investment represents the cost of establishing a joint venture company in Hong Kong but significant returns are expected in the long term.

Future developments

The directors aim to maintain the management policies which have strengthened the company in recent years. The success of their efforts last year is encouraging and the directors expect there will be a similar response to the challenges of 1986.

Directors and their interests

The directors who served during the year were as follows:

J. F. Zockoll	(U.S.A.)
R. G. Taylor	
M. A. Cowler	
T. P. Morgan	(Resigned February 28, 1986)
A. W. Cook	
R. W. Stoner	(Resigned August 23, 1985)
J. A. Zockoll	(U.S.A.) (Appointed September 26, 1985)
S. M. Zockoll	(U.S.A.) (Appointed September 26, 1985)

DIRECTORS' REPORT
(continued)

Directors' and their interests
(continued)

J. A. Zockoll and S. M. Zockoll, who were appointed during the year, retire from the board at the Annual General Meeting and, being eligible, offer themselves for re-election.

R. G. Taylor and M. A. Cowler retire by rotation and, being eligible, offer themselves for re-election.

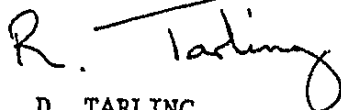
At December 31, 1985 the directors had no beneficial interest in the share capital of the company.

The directors' interests in the share capital of the holding company are disclosed in that company's directors' report.

Auditors

Arthur Young have expressed their willingness to continue in office as auditors and in accordance with Section 384(1) of the Companies Act 1985, a resolution proposing their reappointment will be submitted to the Annual General Meeting.

BY ORDER OF THE BOARD


R. D. TARLING
Secretary

October 8, 1986



A MEMBER OF ARTHUR YOUNG INTERNATIONAL

4.

Arthur Young

Chartered Accountants
Roths House, 7 Roths Building
Fetter Lane, London EC4A 1NH

REPORT OF THE AUDITORS TO THE MEMBER OF DYNO-ROD PLC

We have audited the financial statements set out on pages 5 to 17 in accordance with approved auditing standards.

In our opinion the financial statements, which have been prepared under the historical cost convention, give a true and fair view of the state of the company's affairs at December 31, 1985 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

ARTHUR YOUNG

October 8, 1986

DYNO-ROD PLC

5.

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1985

	<u>Notes</u>	<u>1985</u> £	<u>1984</u> £
Turnover	2	3,954,710	3,313,291
Cost of sales		1,489,560	913,159
Gross profit		2,465,150	2,400,132
Administrative expenses		1,781,397	1,814,266
		683,753	585,866
Other operating income	3	43,594	40,960
Operating profit		727,347	626,826
Exceptional item	4	(41,702)	-
Interest payable	5	(11,125)	(4,074)
Profit on ordinary activities before taxation	6	674,520	622,752
Tax on profit on ordinary activities	7	(303,338)	(293,568)
Profit on ordinary activities after taxation		371,182	329,184
Extraordinary item	8	(46,158)	-
Dividend	9	(200,000)	(200,000)
Profit for the year		125,024	129,184
Retained profit brought forward		860,325	731,141
Retained profit carried forward		£ 985,349	£ 860,325

The notes on pages 9 to 17 form part of these financial statements

DYNO-ROD PLC

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BALANCE SHEET AT DECEMBER 31, 1985

	<u>Notes</u>	£	<u>1985</u> £	<u>1984</u> £
Fixed assets:				
Investments	10		8,298	-
Tangible assets	11		202,204	685,994

Current assets:				
Licenced areas for resale	12	387,128		277,744
Stocks	13	121,933		54,801
Debtors	14	1,430,150		1,124,335
Cash at bank and in hand		119,275		250,349
		-----		-----
		2,058,486		1,707,229
		-----		-----
Creditors: amounts falling due within one year	15	1,042,537		974,483
Bridging loan	16	-		360,000
		-----		-----
		1,042,537		1,334,483
		-----		-----
Net current assets			1,015,949	372,746
			-----	-----
Total assets less current liabilities			1,226,451	1,058,740
			-----	-----
Creditors: amounts falling due after more than one year	17		(53,628)	(22,985)
Provision for liabilities and charges:				
Deferred taxation	18		(37,474)	(25,430)
			-----	-----
			£1,135,349	£1,010,325
			=====	=====
Capital and reserves:				
Called up share capital	19		150,000	150,000
Profit and loss account			985,349	860,325

J. F. ZOCKOLL)

) Directors

M. A. COWLER)

October 8, 1986

£1,135,349
=====-----
£1,010,325
=====

The notes on pages 9 to 17 form part of these financial statements

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1985

	£	1985 £	1984 £
Source of funds:			
Profit on ordinary activities before taxation		674,520	-
Less: Extraordinary item (before taxation)		(78,567)	622,752
		-----	-----
		595,953	622,752
Adjustment for items not involving the movement of funds:			
Depreciation		62,268	58,110
Loss on disposal of tangible fixed assets		1,045	3,126
Write-off of fixed assets		740	3,120
Amortisation of telephone numbers		-	7,103
		-----	-----
Total generated from operations		660,006	694,211
Funds from other sources:			
Proceeds of disposal of fixed assets		567,957	2,901
		-----	-----
		1,227,963	697,112
		-----	-----
Application of funds:			
Purchase of tangible fixed assets	148,220		577,716
Tax paid	319,268		186,677
Purchase of tax certificates	-		50,000
Dividend paid	200,000		200,000
Purchase of telephone numbers	-		1,864
Group relief paid	-		12,844
Purchase of investments	8,298		-
		-----	-----
		675,786	1,029,101
		-----	-----
		£ 552,177	£ (331,989)
		=====	=====

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 1985
 (continued)

	£	1985 £	1984 £
Increase/(decrease) in working capital:			
Licenced areas for resale		109,384	112,856
Stocks		67,132	(20,514)
Debtors and prepayments		119,796	85,921
Creditors and accrued charges		(116,392)	(144,127)
Creditors: amounts falling due after more than one year		(30,643)	5,251
Amount due from holding company and fellow subsidiary		186,019	(204,227)
Creditors: amounts falling due within one year:			
Bridging loan		360,000	(360,000)
Amount due to group companies		(12,045)	-
		683,251	(524,840)
Movement in net liquid funds:			
Cash at bank and in hand	(131,074)		170,779
Bank loan and overdraft	-		22,072
		(131,074)	192,851
		£ 552,177	£ (331,989)
		=====	=====

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1985

1. Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention.

Licensed areas for resale

Licences acquired from franchises which are currently vacant or operated by the company are stated at cost. Area rights attached to original licences may be allocated to one-man-van (OMV) operatives in the form of individual licences for each operator. The proportion of the cost of the original licence applicable to an individual OMV licence is based upon the company's assessment of the number of OMV operatives which can be installed in an area.

Deferred taxation

Deferred taxation is provided on the liability method for all timing differences which are expected to reverse in the future, calculated at the rate at which it is estimated that tax will be payable.

Depreciation

Depreciation is calculated to write off the cost on a straight line basis of fixed assets over their estimated useful working lives as follows:

Improvements to leasehold premises	- 15% per annum on cost
Plant and machinery	- 20% per annum on cost
Furniture, fittings and office equipment	- 15% per annum on cost
Motor vehicles	- 25% per annum on cost
Freehold buildings	- 2% per annum on cost

Loose tools are written off on purchase.

Leasehold premises and improvements are amortised over the duration of the lease.

Stocks

Stocks are valued at the lower of cost and net realisable value.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1985
(continued)

1. Accounting policies
(continued)

Leasing and hire purchase commitments

Assets obtained under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their useful lives.

The interest element of the rental obligations is charged to profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

2. Turnover

Turnover represents the total invoiced amount of franchise fees, goods and services provided, excluding value added tax. It also includes initial licence fees paid for the acquisition of licences to operate a territory and apparatus supplied.

The analyses of turnover by activity and geographical areas are as follows:

	<u>1985</u> £	<u>1984</u> £
Franchise income	1,372,932	1,484,874
Service centre income	1,670,371	1,200,725
One-man-van income	704,106	479,519
Sale of equipment and stores	197,658	131,560
Communications income	9,643	16,613
	-----	-----
	£3,954,710	£3,313,291
	=====	=====
United Kingdom	3,894,207	3,264,115
Rest of world	60,503	49,176
	-----	-----
	£3,954,710	£3,313,291
	=====	=====

3. Other operating income

	<u>1985</u> £	<u>1984</u> £
Interest receivable	19,085	7,715
Other income	24,509	33,245
	-----	-----
	£ 43,594	£ 40,960
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1985
(continued)

4. Exceptional item

	<u>1985</u>	<u>1984</u>
Share of net loss in joint venture in Hong Kong	£ 41,702	£ -
	=====	=====

This amount represents 50% of the net loss after tax for the period February 10, 1984, when the venture commenced, to December 31, 1985, converted at the exchange rate ruling at December 31, 1985.

5. Interest payable

	<u>1985</u>	<u>1984</u>
	£	£
Interest on overdue tax	4,436	-
Bank overdraft	419	515
Hire purchase interest	6,270	3,559
	-----	-----
	£ 11,125	£ 4,074
	=====	=====

6. Profit on ordinary activities before taxation

	<u>1985</u>	<u>1984</u>
	£	£
Profit on ordinary activities is stated after charging:		
Auditors' remuneration	21,900	14,000
Depreciation	62,268	58,110
Directors' emoluments (see below)	101,015	132,249
Distribution costs	19,151	16,962
Loss on sale of fixed assets	1,045	3,126
Hire of plant and equipment	73,907	33,318
	=====	=====

Directors and employees

Staff costs during the year:

Wages and salaries	941,231	926,947
Social security costs	113,581	93,342
Other pension costs	481	452
	-----	-----
	£1,055,293	£1,020,741
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1985
(continued)

6. Profit on ordinary activities before taxation
(continued)

Directors and employees
(continued)

The average number of persons employed by the company during the year was as follows:

	<u>1985</u> No.	<u>1984</u> No.
Office and management	82	86
Engineers	65	32
	<u>147</u>	<u>118</u>
	=====	=====

Staff costs include the following remuneration in respect of the directors:

	<u>1985</u> £	<u>1984</u> £
Fees	7,491	7,086
Emoluments	93,524	125,163
	<u>£101,015</u>	<u>£132,249</u>
	=====	=====
Emoluments of the highest paid director	£ 27,612	£ 33,372
	=====	=====

The chairman received no emoluments during the year (1984 - £Nil).

The emoluments of the other directors fell within the following ranges:

	<u>1985</u> No.	<u>1984</u> No.
£ Nil - £ 5,000	2	-
£ 5,001 - £10,000	1	2
£15,001 - £20,000	1	-
£20,001 - £25,000	1	-
£25,001 - £30,000	1	3
	<u>=====</u>	<u>=====</u>

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1985
(continued)

7. Tax on profit on ordinary activities

The taxation charge is based on the profit for the year as follows:

	<u>1985</u> £	<u>1984</u> £
Based on the profit for the year:		
Corporation tax at 43.75% (1984 - 46.25%):		
Current year	281,498	277,242
Prior year	9,796	3,952
Group relief	-	12,844
	-----	-----
	291,294	294,038
Deferred taxation	12,044	(470)
	-----	-----
	£303,338	£293,568
	=====	=====

The company is a close company within the provisions of the Income and Corporation Taxes Act 1970.

8. Extraordinary item

	<u>1985</u> £	<u>1984</u> £
Legal costs	78,567	-
Related tax credit	32,409	-
	-----	-----
	£ 46,158	£ -
	=====	=====

The extraordinary item represents the cost of litigation in protecting the company's business through the use of the name Dyno-Rod.

9. Dividends

	<u>1985</u>	<u>1984</u>
Ordinary paid	£200,000	£200,000
	=====	=====

10. Investments

	<u>1985</u> £	<u>1984</u> £
Shares in related company, at cost	50,000	-
Less: Share of loss to December 31, 1985	41,702	-
	-----	-----
	£ 8,298	£ -
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1985
(continued)

10. Investments
(continued)

The company owns 50% of the issued ordinary share capital of Pearsall Limited, a company registered in Hong Kong. Pearsall Limited has an issued share capital of HK\$1,000,000 and reserves of HK\$981,000 at December 31, 1985.

11. Tangible fixed assets

	<u>Leasehold premises and improvements</u> £	<u>Plant, machinery and motor vehicles</u> £	<u>Fixtures, fittings, tools and equipment</u> £	<u>Freehold premises</u> £	<u>Total</u> £
Cost:					
At January 1, 1985	16,571	155,429	276,773	567,302	1,016,075
Additions	4,560	107,368	36,292	-	148,220
Disposals	(8,048)	(14,811)	(54,911)	(567,302)	(645,072)
At December 31, 1985	13,083	247,986	258,154	-	519,223
Depreciation:					
At January 1, 1985	9,585	66,880	246,051	7,565	330,081
Charged in the year	531	44,356	17,381	-	62,268
Disposals	(5,277)	(8,317)	(54,171)	(7,565)	(75,330)
At December 31, 1985	4,839	102,919	209,261	-	317,019
Net book value:					
At December 31, 1985	£ 8,244	£145,067	£ 48,893	£ -	£ 202,204
Net book value:					
At January 1, 1985	£ 6,986	£ 88,549	£ 30,722	£559,737	£ 685,994

12. Licenced areas for resale

	<u>1985</u> £	<u>1984</u> £
At January 1, 1985	277,744	164,888
Additions	190,404	176,297
Disposals	(81,020)	(63,441)
At December 31, 1985	£387,128	£ 277,744

13. Stocks

	<u>1985</u>	<u>1984</u>
Goods for resale	£121,933	£ 54,801

DYNO-ROD PLC

15.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1985
(continued)

14. Debtors

	<u>1985</u> £	<u>1984</u> £
Trade debtors	569,464	499,261
Other debtors	187,331	120,343
Prepayments and accrued income	67,706	85,101
Amounts owed by group companies	605,649	419,630
	-----	-----
	£1,430,150	£1,124,335
	=====	=====

15. Creditors: amounts falling due within one year

	<u>1985</u> £	<u>1984</u> £
Trade creditors	209,809	193,460
Obligations under hire purchase contracts	61,406	20,748
Amounts owed to group companies	24,889	12,844
Corporation tax	287,553	347,936
Other taxes and social security costs	115,231	116,766
Other creditors and accruals	343,649	282,729
	-----	-----
	£1,042,537	£ 974,483
	=====	=====

16. Bridging loan

The bridging loan was secured by a mortgage debenture over all the assets of the company and was repaid on January 18, 1985.

17. Creditors: amounts falling due after more than one year

	<u>1985</u>	<u>1984</u>
Obligations under hire purchase contracts	£ 53,628	£ 22,985
	=====	=====

Details of obligations under hire purchase contracts repayable within five years are as follows:

	<u>1985</u> £	<u>1984</u> £
Amounts payable:		
Within one year	67,676	24,307
In the second to fifth years inclusive	65,509	27,805
	-----	-----
	133,185	52,112
	(18,151)	(8,379)
	-----	-----
Less: Finance charges allocated to future periods	£115,034	£ 43,733
	=====	=====

DYNO-ROD PLC

16.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1985
(continued)

17. Creditors: amounts falling due after more than one year
(continued)

	<u>1985</u> £	<u>1984</u> £
Hire purchase contracts and finance leases are shown as		
Current obligations (note 14)	61,406	20,748
Non-current obligations (note 16)	53,628	22,985
	-----	-----
	£ 115,034	£ 43,733
	=====	=====

Commitments under non-cancellable operating leases are as follows:

	<u>Company land and buildings</u> £	<u>Other</u> £
Operating leases which expire within one year	-	33,631
In the second to fifth years	9,816	213,649
Over five years:		
Relating to Zockoll House	874,000	-
Other land and buildings	237,525	-
	=====	=====

18. Provisions for liabilities and charges

Deferred taxation

	<u>1985</u> £	<u>1984</u> £
Balance at January 1, 1985	25,430	25,900
Transfer for the year	12,044	(470)
	-----	-----
Balance at December 31, 1985	£ 37,474	£ 25,430
	=====	=====

The provision represents the full liability for deferred taxation and is all in respect of accelerated capital allowances.

19. Called up share capital

	<u>1985</u>	<u>1984</u>
Authorised:		
300,000 ordinary shares of £1 each	£300,000	£300,000
	=====	=====
Allotted, called up and fully paid:		
Ordinary shares of £1 each	£150,000	£150,000
	=====	=====

20. Investment in subsidiary

The company owns 50,000 ordinary shares in Dyno-Rod Services Limited, which represents 100% of the issued share capital. The cost of these shares, amounting to £62,973, has been fully provided against.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1985
(continued)

21. Ultimate holding company

Dyno-Rod PLC is a wholly owned subsidiary of The Zockoll Group PLC, a company incorporated in the United Kingdom.

The ultimate holding company is Dynamic Holdings Limited, a company incorporated in Jersey.

Dyno-Rod PLC

Report and Financial Statements **December 31, 1985**



Arthur Young

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Chartered Accountants London