

**Directors' report
for the year ended 31 December 1997**

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

Principal Activities

The profit and loss account for the year is set out on page 4.

The principal activity of the company is the manufacture of refuse collection equipment.

Review of the business and future developments

The directors are pleased to announce a result that represents a significant improvement over last year. The attached profit and loss account gives details of the profit after tax of £492,671 (1996: profit £367,472). It is anticipated that profitability will continue to improve as the company develops its manufacturing and control systems.

The directors do not recommend the payment of a dividend for the year (1996: Nil).

Directors

The directors who held office during the year were as follows:

John Allen	(resigned 24 April 1998)
Glenn Chambers	
Laurence F Gray	
W W McCracken	(resigned 2 June 1997)
David Owen	(appointed 2 June 1997)

The directors have no interest in the shares of the company.

Donations

During the year the company made charitable donations totalling £2,930 (1996:£390).



**Directors' report
for the year ended 31 December 1997 (continued)****Directors' responsibilities statement**

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 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. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. 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.

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the Board



Henderson Boyd Jackson
Company Secretary
Edinburgh

27 July 1998

Report of the auditors to the members of HEIL Europe Limited

We have audited the financial statements on pages 4 to 15.

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 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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand,

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Edinburgh

7 August 1998

Profit and loss account for the year ended 31 December 1997

	Notes	1997 £	1996 £
Turnover	2	10,297,906	11,599,003
Cost of sales		(7,727,560)	(9,522,806)
Gross profit		2,570,346	2,076,197
Administrative expenses		(1,840,223)	(1,514,448)
Operating profit		730,123	561,749
Interest receivable and similar income		31,169	27,436
Interest payable and similar charges	6	(21,134)	(58,908)
Profit on ordinary activities before taxation	3	740,158	530,277
Tax on profit on ordinary activities	7	(247,487)	(162,805)
Retained profit for the financial year	16	492,671	367,472

All the above figures relate to continuing activities.

There were no recognised gains or losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

Balance sheet at 31 December 1997

		1997 £	1996 £
Fixed assets			
Tangible assets	8	1,137,295	1,068,079
Current assets			
Stocks	9	1,197,816	1,425,370
Debtors	10	2,009,796	2,392,696
Bank and cash balances		109,044	2,020,891
		<u>3,316,656</u>	<u>5,838,957</u>
Creditors: amounts falling due within one year	11	(1,646,550)	(4,602,765)
Net current assets		<u>1,670,106</u>	<u>1,236,192</u>
Total assets less current liabilities		<u>2,807,401</u>	<u>2,304,271</u>
Provisions for liabilities and charges	12	(120,846)	(68,387)
Accruals and deferred income	14	(3,500)	(45,500)
Net assets		<u>2,683,055</u>	<u>2,190,384</u>
Capital and reserves			
Share capital	15	15,000	15,000
Profit and loss account	16	2,668,055	2,175,384
Equity shareholders' funds	17	<u>2,683,055</u>	<u>2,190,384</u>

The financial statements on pages 4 to 15 were approved by the board of directors on 8 July 1998 and were signed on its behalf by:



David Owen
Director

**Notes to the financial statements
for the year ended 31 December 1997****1 Accounting policies**

The financial statements have been prepared in accordance with applicable accounting standards in the UK.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements are prepared under the historical cost convention.

Cash flow statement

The company has taken advantage of the exemptions conferred by FRS 1 (Revised) where a subsidiary undertaking, 90 percent or more of whose voting rights are controlled within a group, is exempt from producing a cash flow statement.

Turnover

Turnover represents the net invoiced value of goods sold.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Freehold land is not depreciated. Freehold and leasehold buildings are depreciated on a straight line basis over 20 years. Plant and office furniture and equipment are written off in equal instalments at the rate of 15% per annum on a monthly basis. Motor vehicles are written off at 25% per annum of the reducing balance on a monthly basis. Computer equipment is written off in equal instalments, on a monthly basis, over five years.

Research and development expenditure

Expenditure of this nature is charged against profits in the year in which it is incurred.

Inventories

Finished goods are valued at cost of labour and materials plus an addition for factory overheads, or at estimated net realisable value, if lower.

Raw materials are valued at the lower of cost and estimated net realisable value.

1 Accounting policies (continued)

Regional development grants

Regional development grants are being written back into the profit and loss account in equal monthly instalments over four years, commencing in the month grants were received.

Deferred taxation

Provision is made for tax or tax relief deferred by timing differences to the extent that it is likely to become payable/recoverable in the foreseeable future. The full amount of taxation deferred by all timing differences, and the extent to which provision has been made, is disclosed in the notes to the financial statements.

Amounts payable and receivable in foreign currencies

These are translated into pounds sterling at the rate of exchange ruling at the balance sheet date. Exchange differences are taken to the profit and loss account.

Operating leases

Operating lease payments are charged against profits in the year in which they are incurred.

Pensions

The company operates a defined benefit pension scheme. The fund is valued every three years by a professionally qualified independent actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates used. Pension costs are charged to the profit and loss account to either cost of sales or administration as appropriate.

2 Analysis of turnover

	1997 £	1996 £
UK	8,354,717	8,362,763
Other	1,943,189	3,236,240
	<u>10,297,906</u>	<u>11,599,003</u>

Turnover was entirely attributable to the manufacture and sale of refuse collection equipment.

3 Profit on ordinary activities before taxation

	1997 £	1996 £
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Auditors' remuneration for:		
Audit Services	12,200	12,000
Depreciation	191,386	166,015
Hire of plant and machinery	16,470	6,644
Operating lease rentals:		
Equipment	7,723	1,647
Buildings	61,086	59,000
Foreign exchange gains	(74,963)	(49,956)
Regional development grants	(42,000)	(42,000)
Loss on sale of fixed assets	-	2,815
	<u> </u>	<u> </u>

4 Directors' emoluments

	1997 £	1996 £
Aggregate emoluments	<u>78,470</u>	<u>-</u>

Retirement benefits are accruing to one director under the company's defined benefit scheme.

5 Employee information

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

	1997 £	1996 £
Production	87	84
Selling & distribution	2	2
Administration	18	18
	<u> </u>	<u> </u>

5 Employee information (continued)

The aggregate payroll costs of these persons were as follows:

	1997	1996
Wages and salaries	1,608,049	1,553,327
Social security costs	131,600	127,992
Pension contributions (note 21)	192,966	162,417
	<u>1,932,615</u>	<u>1,843,736</u>

6 Interest payable and similar charges

	1997 £	1996 £
On bank overdraft	8,981	8,491
On parent company loan	12,153	50,417
	<u>21,134</u>	<u>58,908</u>

7 Tax on profit on ordinary activities

	1997 £	1996 £
UK corporation tax at 31% (1996: 33%) on the profit for the year on ordinary activities	224,039	112,823
Deferred taxation	244	35,793
	<u>224,283</u>	<u>148,616</u>
Adjustments relating to an earlier year:		
Corporation tax	27,229	(20)
Deferred tax	(4,025)	14,209
	<u>23,204</u>	<u>14,189</u>
	<u>247,487</u>	<u>162,805</u>

8 Tangible fixed assets

	Freehold land and buildings £	Plant & machinery £	Office furniture £	Motor vehicles £	Computer equipment £	Total £
Cost						
At 1 January 1997	863,480	1,164,158	82,856	74,321	139,256	2,324,071
Additions	-	231,666	-	-	28,936	260,602
At 31 December 1997	863,480	1,395,824	82,856	74,321	168,192	2,584,673
Depreciation						
At 1 January 1997	348,213	740,963	44,163	31,286	91,367	1,255,992
Charge for year	42,626	110,996	7,867	11,170	18,727	191,386
At 31 December 1997	390,839	851,959	52,030	42,456	110,094	1,447,378
Net book value						
At 31 December 1997	472,641	543,865	30,826	31,865	58,098	1,137,295
At 31 December 1996	515,267	423,195	38,693	43,035	47,889	1,068,079

The cost of freehold land, which is not depreciated, is £10,890 (1996:£10,890).

9 Stock

	1997 £	1996 £
Raw materials and consumables	1,142,711	1,425,370
Finished goods	55,105	-
	1,197,816	1,425,370

The replacement cost of stock was not materially different from book value.

10 Debtors

	1997 £	1996 £
Amounts falling due within one year		
Trade debtors	1,709,730	2,273,159
Prepayments & accrued income	124,552	119,537
Amounts owed by immediate parent company	133,709	-
Other debtors	41,805	-
	<u>2,009,796</u>	<u>2,392,696</u>

11 Creditors: amounts falling due within one year

	1997 £	1996 £
Trade creditors	942,583	882,905
Amounts owed to immediate parent company	-	64,972
Amounts owed to fellow subsidiary	-	3,259,291
Corporation tax	214,270	88,668
Other tax and social security	188,860	55,987
Accrued charges	300,837	250,942
	<u>1,646,550</u>	<u>4,602,765</u>

12 Provisions for liabilities and charges

	Warranty Provision £	Deferred taxation (see below) £	Total £
At 1 January 1997	-	68,387	68,387
Profit and loss account	56,240	(3,781)	52,459
At 31 December 1997	<u>56,240</u>	<u>64,606</u>	<u>120,846</u>

13 Deferred tax

	Accelerated capital allowances £	Other timing differences £	Total £
Deferred tax/(tax relief) at beginning of year	54,385	14,002	68,387
Prior year adjustments	(3,177)	(848)	(4,025)
Deferred tax for year (note 7)	8,356	(8,112)	244
Deferred tax at end of year	59,564	5,042	64,606

The deferred tax provided in the financial statements above relates to the total potential liability.

14 Creditors: amounts falling due after more than one year

	1997 £	1996 £
Regional Development Grants		
At 1 January 1997	45,500	87,500
Transferred to profit & loss account	(42,000)	(42,000)
At 31 December 1997	3,500	45,500

15 Share capital

	1997 £	1996 £
Authorised		
15,000 Ordinary shares of £1 each	<u>15,000</u>	<u>15,000</u>
Allotted, Called up and fully paid		
15,000 Ordinary shares of £1 each	<u>15,000</u>	<u>15,000</u>

16 Profit and loss account

	£
At 1 January 1997	2,175,384
Profit for the year	<u>492,671</u>
At 31 December 1997	<u>2,668,055</u>

17 Reconciliation of movements in shareholders' fund

	1997 £	1996 £
Opening shareholders' funds	2,190,384	1,822,912
Profit for the financial year	<u>492,671</u>	<u>367,472</u>
Closing shareholders' funds	<u>2,683,055</u>	<u>2,190,384</u>

18 Contingent liabilities

The company has granted a guarantee to the Commissioners of Customs & Excise for £50,000.

19 Capital commitments

Capital expenditure that has been contracted for but has not been provided for in the financial statements at 31 December 1997 amounted to £Nil (1996:£Nil).

20 Leases**(i) Land and buildings**

In 1983, the company entered into a 20 year lease of an additional factory unit. In 1986 a further unit was leased on a 20 year term and in February 1993 a third unit was leased on a 20 year lease. The total annual rental cost is £61,086 (1996:£59,000) and the leases are renegotiable every five years.

(ii) Other

At 31 December 1997 the company had minimum annual commitments under operating leases expiring within the following periods:

	1997 £	1996 £
Within one year	-	982
From two to five years	13,885	682
	<u>13,885</u>	<u>1,664</u>

21 Pension arrangements

The company contributes to a defined benefit pension scheme operated by the Scottish Life Assurance Company. All employees are entitled to join subject to age requirements. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the aggregate method. The most recent valuation is dated 6 April 1995 and relates to service by members up to that date. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment returns would exceed the rate of increase in salaries by 1.5% per annum.

The market value of the scheme's assets as at 6 April 1995 was £1,224,121 which represented 168% of the benefits accrued to members, after allowing for expected increases in earnings. On the advice of the actuary the contributions of the company and employees since 6 April 1995 have been 5.9% and 3% respectively of pensionable earnings, which reflects amortisation of the surplus in the scheme over the average remaining service lives of the members.

The pension cost for the year charged to the profit and loss account is £192,966 (1996:£162,417).

22 Director's interest in contracts

The company's UK distributor is Jack Allen (Sales and Service) Limited. John Allen is a director and shareholder in that company. All dealings with Jack Allen (Sales and Service) Limited are on an arm's length basis. Sales to Jack Allen (Sales and Service) Limited in the year amounted to £8,339,362 (1996:£8,362,763). Debts outstanding at the year end were £1,112,815 (1996:£868,409).

23 Parent undertaking

The company's immediate parent and immediate controlling party is Dover UK (Holdings) Limited and its ultimate parent undertaking and ultimate controlling party is the Dover Corporation incorporated in the United States of America. Copies of its financial statements can be obtained from Dover Corporation, 280 Park Avenue, Floor 38-W, New York, N710017, USA. Under the terms of Financial Reporting Standard No 8, the company is exempt from disclosing transactions and balances with related parties in the Dover Corporation.