

Dyno-Rod PLC

Registered No. 1046906

DIRECTORS

J F Zockoll	(Chairman)
A W Cook	(Non-executive director)
J B Chaplin	(Managing director)
C R Smith	
J A Zockoll	
S M Zockoll	

SECRETARY

G T Oatham

AUDITORS

Ernst & Young
Rolls House
7 Rolls Buildings
Fetter Lane
London EC4A 1NH

BANKERS

Lloyds Bank Plc
83 Clarence Street
Kingston upon Thames
Surrey KT1 1RE

REGISTERED OFFICE

Zockoll House
143 Maple Road
Surbiton
Surrey KT6 4BJ



Dyno-Rod PLC

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended 31 December 1998.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £2,264,094 (1997 - £1,347,606).

The directors recommend a final ordinary dividend of £2,050,000 (1997 - £1,700,000). Accordingly the retained profit of £214,094 (1997 - £352,394 loss) has been transferred to reserves.

REVIEW OF THE BUSINESS

The principal activities of the company continue to be the operation of a franchised national network of service centres for the clearing, tracing, inspecting and repairing of drains, sewers, culverts, ducting and piping, together with ancillary services.

Total sales to end users grew by 15% to £31.2 million.

FUTURE DEVELOPMENTS

The current activities of the company will continue to be performed rigorously.

DIRECTORS AND THEIR INTERESTS

The directors during the year were as follows:

J F Zockoll
J B Chaplin
A W Cook
C R Smith
J A Zockoll
S M Zockoll

There are no directors' interests requiring disclosure under the Companies Act 1985.

CREDITOR PAYMENT POLICY

The company policy on payments to suppliers is to pay according to the terms agreed. The average creditor payment period at 31 December 1998 was 65 days.

YEAR 2000 COMPLIANCE

The company is in the process of reviewing all its computer systems to ensure that they reach an acceptable level of readiness in time for the Year 2000.

The board is satisfied that appropriate steps have been taken to ensure that all the company's computer systems are upgraded, if necessary, in sufficient time before the Year 2000. It is also estimated that the cost of this upgrade will not have a material effect on the company's resources. No significant problems are anticipated.

AUDITORS

A resolution to re-appoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board


G T Oatham
Secretary

30 JUL 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, 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 accounts 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 accounts 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.

**REPORT OF THE AUDITORS
to the members of Dyno-Rod PLC**

We have audited the accounts on pages 5 to 14, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young
Registered Auditor
London

30 JUL 1999

Dyno-Rod PLC

PROFIT AND LOSS ACCOUNT for the year ended 31 December 1998

	Notes	1998 £	Restated 1997 £
TURNOVER	2	6,704,551	6,090,502
Cost of sales		300,956	353,997
GROSS PROFIT		6,403,595	5,736,505
Administrative expenses		3,063,741	4,286,753
		3,339,854	1,449,752
Other operating income		10,382	15,700
OPERATING PROFIT	3	3,350,236	1,465,452
Profit on disposal of fixed assets		3,100	12,777
		3,353,336	1,478,229
Interest receivable	4	47,559	69,663
Interest payable	5	(9,772)	(2,528)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,391,123	1,545,364
Taxation	8	1,127,029	197,758
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	19	2,264,094	1,347,606
Dividend	9,19	2,050,000	1,700,000
PROFIT/(LOSS) RETAINED FOR THE FINANCIAL YEAR		214,094	(352,394)

Dyno-Rod PLC

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 1998

	<i>Note</i>	<i>1998</i> £	<i>Restated</i> <i>1997</i> £
Profit for the financial year		2,264,094	1,347,606
Total recognised gains relating to the year		2,264,094	1,347,606
Prior year adjustment	13	178,706	-
TOTAL RECOGNISED GAINS SINCE LAST ANNUAL REPORT		2,442,800	1,347,606

Dyno-Rod PLC

BALANCE SHEET at 31 December 1998

	Notes	1998 £	Restated 1997 £
FIXED ASSETS			
Tangible assets	10	375,232	328,577
Investments	11	2,658,328	1,500,100
		<u>3,033,560</u>	<u>1,828,677</u>
CURRENT ASSETS			
Licensed areas for resale		11,010	16,010
Debtors	12	1,191,845	1,934,804
Cash at bank and in hand		315,959	486,082
		<u>1,518,814</u>	<u>2,436,896</u>
CREDITORS: amounts falling due within one year	13	3,561,043	3,586,984
		<u>(2,042,229)</u>	<u>(1,150,088)</u>
NET CURRENT LIABILITIES			
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>991,331</u>	<u>678,589</u>
CREDITORS: amounts falling due after more than one year	14	27,641	18,022
		<u>963,690</u>	<u>660,567</u>
Deferred tax asset	16	-	89,029
		<u>963,690</u>	<u>749,596</u>
SHAREHOLDERS' FUNDS	19		
CAPITAL AND RESERVES			
Called up share capital	18	150,000	150,000
Profit and loss account	19	813,690	599,596
		<u>963,690</u>	<u>749,596</u>

J F Zockoll
J B Chaplin

)
) Directors

30 JUL 1999

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of preparation

Dyno-Rod PLC has a UK parent company which prepares group accounts. By virtue of S228 of the Companies Act 1985, Dyno-Rod PLC is therefore exempt from the obligation to prepare and deliver group accounts. These accounts present information about the company as an individual undertaking and not about its group.

Adopting FRS 12, in respect of provisions for marketing expenses, results in a prior year adjustment of £263,463. See notes 13 and 19.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset evenly over its estimated useful life as follows:

Plant and machinery	-	over 3-4 years
Fixtures and fittings	-	over 6-10 years
Motor vehicles	-	over 4 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Licensed areas for resale

Licences acquired from franchises which are currently vacant or are temporarily operated by the company are stated at the lower of cost and the directors' assessment of net realisable value. Area rights attached to original licences may be allocated to a number of independent licensed operators (ILO) in each area. The proportion of the cost of the original area licence applicable to an individual ILO licence is based upon the company's assessment of the number of ILO operatives which can be installed in an area.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recovered in the future is deducted from the deferred taxation balance.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of rental obligations is charged to the 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 term of the lease.

Pensions

The company operates a defined contribution pension scheme, the assets of which are held in a separately administered fund. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. At the year end, all contributions due had been paid.

NOTES TO THE ACCOUNTS
at 31 December 1998

2. **TURNOVER**

Turnover represents the total invoiced amount of franchise royalty fees, licence fees and equipment provided to franchisees excluding value added tax. Turnover and profit before taxation arise from this one class of continuing business and wholly within the British Isles.

A further analysis of turnover by activity within this class of business is as follows:

	1998 £	1997 £
Territorial Franchise Royalty Income	3,092,684	2,789,740
ILO Franchise Royalty Income	3,449,026	3,133,454
Services to franchisees	158,679	149,683
Sale of equipment and stores	4,162	17,625
	<u>6,704,551</u>	<u>6,090,502</u>

3. **OPERATING PROFIT**

This is stated after charging:

	1998 £	1997 £
Auditors' remuneration	15,000	17,750
Depreciation of owned tangible fixed assets	108,942	61,604
Depreciation of tangible fixed assets held under finance leases	12,107	6,846
Operating lease rentals of plant and equipment	10,737	6,138
Operating lease rentals of land and buildings	183,694	73,408
Provision against amounts due from group undertakings	-	1,200,000
	<u>-</u>	<u>-</u>

4. **INTEREST RECEIVABLE**

	1998 £	1997 £
Bank interest	46,491	68,002
Other interest	1,068	1,661
	<u>47,559</u>	<u>69,663</u>

5. **INTEREST PAYABLE**

	1998 £	1997 £
Bank interest	3,877	358
Other	5,895	2,170
	<u>9,772</u>	<u>2,528</u>

NOTES TO THE ACCOUNTS
at 31 December 1998

6. STAFF COSTS

	1998 £	1997 £
Wages and salaries (including directors)	1,459,221	1,365,169
Social security costs	130,667	121,015
Other pension costs	5,133	3,766
	<u>1,595,021</u>	<u>1,489,950</u>

The average number of employees, including directors, during the year was as follows:

	1998 No.	1997 No.
Office and management	33	36
Selling and distribution	66	63
	<u>99</u>	<u>99</u>

7. DIRECTORS' EMOLUMENTS

	1998 £	1997 £
Salaries	140,719	155,000
Fees	13,697	10,993
Benefits in kind	10,355	11,148
Pension contributions - money purchase schemes	2,714	3,000
	<u>167,485</u>	<u>180,141</u>

In addition, one of the directors received benefits of £6,149 (1997 - £nil) from another group company.

8. TAXATION

	1998 £	1997 £
Based on the profit for the year:		
corporation tax	1,038,000	193,343
deferred taxation	89,029	(16,856)
	<u>1,127,029</u>	<u>176,487</u>
(Under)/overprovision in prior year:		
corporation tax	-	21,444
deferred taxation	-	(173)
	<u>1,127,029</u>	<u>197,758</u>

Group companies make current year tax losses available to other group companies for payment equivalent to the associated tax relief.

NOTES TO THE ACCOUNTS
at 31 December 1998

9. DIVIDEND

	1998 £	1997 £
Final dividend paid on ordinary shares	2,050,000	1,700,000

10. TANGIBLE FIXED ASSETS

	Motor vehicles £	Fixtures, fittings, tools and equipment £	Total £
Cost:			
At 1 January 1998	188,758	497,419	686,177
Additions	26,679	128,176	154,855
Disposals	(21,354)	-	(21,354)
Transfers	15,814	-	15,814
At 31 December 1998	209,897	625,595	835,492
Depreciation:			
At 1 January 1998	90,249	267,351	357,600
Charged in the year	38,472	82,577	121,049
Disposals	(21,354)	-	(21,354)
Transfers	2,965	-	2,965
At 31 December 1998	110,332	349,928	460,260
Net book value:			
At 31 December 1998	99,565	275,667	375,232
At 1 January 1998	98,509	230,068	328,577

The net-book value of motor vehicles includes an amount of £58,756 (1997 - £31,334) in respect of assets held under finance leases.

NOTES TO THE ACCOUNTS
at 31 December 1998

11. INVESTMENTS

	1998 £	1997 £
Subsidiary undertaking at cost	100	100
Loan to subsidiary undertaking	2,658,228	1,500,000
	<u>2,658,328</u>	<u>1,500,100</u>

The company owns 100% of the issued ordinary share capital of the following company:

<i>Name of company</i>	<i>Country of registration</i>	<i>Nature of business</i>
Dyno-Rod Developments Limited	England and Wales	Franchise operator

In the opinion of the directors, the aggregate value of the company's investments in the subsidiary undertaking is not less than the amount disclosed on the company's balance sheet.

12. DEBTORS

	1998 £	1997 £
Trade debtors	1,155,798	1,134,648
Amounts owed by group undertakings	-	696,152
Prepayments and accrued income	23,547	24,004
Corporation tax	-	30,000
ACT recoverable	12,500	50,000
	<u>1,191,845</u>	<u>1,934,804</u>

13. CREDITORS: amounts falling due within one year

	1998 £	Restated 1997 £
Trade creditors	391,489	437,355
Amounts owed to fellow subsidiary undertakings	1,588,436	1,205,437
Amounts owed to group undertakings	461,095	-
Other taxes and social security costs	936,063	209,968
Other creditors and accruals	160,847	223,526
Obligations under finance leases and hire purchase contracts	23,113	10,698
Proposed dividend	-	1,500,000
	<u>3,561,043</u>	<u>3,586,984</u>

During the year, the company changed its accounting policy on accruals and provisions to accord with FRS 12 Provisions, Contingent Liabilities and Contingent Assets. The effect of this change was to reduce the value of other creditors and accruals at 31 December 1997 by £263,463. This change increased the profit before tax for the year ended 31 December 1997 by £84,757 with the balance of £178,706 relating to prior periods. There were no adjustments to corporation tax as a result of this change. Because of the nature of this change in policy the directors do not believe it is practical to give the effect on the current year.

Dyno-Rod PLC

NOTES TO THE ACCOUNTS at 31 December 1998

14. CREDITORS: amounts falling due after one year

	1998 £	1997 £
Obligations under finance leases and hire purchase contracts	27,641	18,022

15. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	1998 £	1997 £
Amounts payable:		
within one year	28,053	13,225
within 2-5 years	29,990	19,794
	58,043	33,019
Less: finance charges allocated to future periods	(7,289)	(4,299)
	50,754	28,720

Finance leases and hire purchases obligations and analysed as follows:

Current obligations	23,113	10,698
Non-current obligations	27,641	18,022
	50,754	28,720

16. DEFERRED TAXATION

The movements in deferred taxation during the current and previous year are as follows:

	1998 £	1997 £
At 1 January	(89,029)	(72,000)
Debit/(credit) for the year	89,029	(17,029)
At 31 December	-	(89,029)

17. FINANCIAL COMMITMENTS

At 31 December 1998 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>		<i>Other</i>	
	1998	1997	1998	1997
	£	£	£	£
Operating leases which expire:				
within two to five years	110,170	78,000	-	7,756

NOTES TO THE ACCOUNTS

at 31 December 1998

18. SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	<i>1998</i>	<i>1997</i>	<i>1998</i>	<i>1997</i>
	<i>No.</i>	<i>No.</i>	<i>£</i>	<i>£</i>
Ordinary shares of £1 each	300,000	300,000	150,000	150,000

19. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	<i>£</i>	<i>£</i>	<i>£</i>
At 1 January 1997			
As previously stated	150,000	773,284	923,284
Prior year adjustment (see note 13)		178,706	178,706
As restated	150,000	951,990	1,101,990
Profit for the year		1,347,606	1,347,606
Dividend		(1,700,000)	(1,700,000)
At 1 January 1998	150,000	599,596	749,596
Profit for the year		2,264,094	2,264,094
Dividend		(2,050,000)	(2,050,000)
At 31 December 1998	150,000	813,690	963,690

20. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

Dyno-Rod PLC is a wholly owned subsidiary of The Zockoll Group Limited, which is regarded by the directors as the company's ultimate parent undertaking. The Zockoll Group Limited is the parent undertaking of the only group for which group accounts are drawn up and of which the company is a member. Copies of the group accounts can be obtained from Companies House. The directors regard The Ann Zockoll Settlement as the company's ultimate controlling party.

21. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption in FRS 8 from the requirement to disclose transactions with group companies, conferred on 90% or more owned subsidiary undertakings.