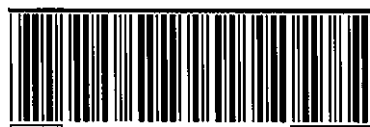


DIRECTORS' REPORT AND ACCOUNTS

VECTOR ENGINEERING PRODUCTS LIMITED

(Registered Number 994043)

31 December 1997



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VECTOR ENGINEERING PRODUCTS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997

The Directors present their annual report together with the audited accounts for the year ended 31 December 1997.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity is that of a holding company.

The Company's principal subsidiary undertakings are shown in note 5 to the accounts.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £6,566,000 (1996: £161,844,000). The directors propose a dividend of £6,791,000 (1996: £164,344,000) and consequently the retained loss of £225,000 (1996: £2,500,000) is deducted from reserves.

SHARE CAPITAL

On 19 November 1997 the High Court of Justice, Chancery Division approved the Reduction of Capital from £320,000,000 to £28,000,000 with effect from 26 November 1997.

DIRECTORS AND DIRECTORS' INTERESTS

The composition of the Board of Directors during the year, and to the date of this report, was as follows:

A Fischer	
I Fisher	
A Fletcher	
SA Smith	(Appointed 11 April 1997)

All Directors are also directors of the ultimate parent undertaking, Vector Industries Limited, and their interest in the share capital of that company are shown in the accounts of Vector Industries Limited.

VECTOR ENGINEERING PRODUCTS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

DIRECTORS' RESPONSIBILITY STATEMENT

The Companies Act 1985 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 as at the end of the financial year and of the profit or loss of the Company for the financial year. 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to do so.

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.

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of Price Waterhouse as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board



S Smith
DIRECTOR

15 April 1998

Registered Office:

2B Sidings Court
Doncaster
DN4 5NU

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF VECTOR ENGINEERING PRODUCTS LIMITED

We have audited the accounts on pages 4 to 10 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 2 the Company's directors are responsible for the preparation of 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 the Company's affairs as 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.

Price Waterhouse

PRICE WATERHOUSE

Chartered Accountants
and Registered Auditors

15 April 1998

VECTOR ENGINEERING PRODUCTS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1997

	<u>Notes</u>	£'000	<u>1996</u> £'000
Operating costs		-	(1)
Write-down of investment in subsidiary		-	(8,076)
Profit on disposal of subsidiary undertakings	3	<u>-</u>	<u>456</u>
OPERATING LOSS		-	(7,621)
Income from shares in subsidiary undertakings		6,791	169,465
Interest received on tax refund		<u>55</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		6,846	161,844
Taxation on profit on ordinary activities		<u>(280)</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,566	161,844
Dividends	4	<u>(6,791)</u>	<u>(164,344)</u>
RETAINED LOSS FOR THE FINANCIAL YEAR		<u>(225)</u>	<u>(2,500)</u>

The Company has no recognised gains or losses other than those passing through the profit and loss account above.

VECTOR ENGINEERING PRODUCTS LIMITED

BALANCE SHEET - 31 DECEMBER 1997

	<u>Notes</u>	£'000	£'000
FIXED ASSETS			
Investments	5	<u>164,563</u>	<u>174,863</u>
CURRENT ASSETS			
Debtors (amounts falling due within one year)	6	4,473	4,363
Debtors (amounts falling due after one year)	7	<u>219,463</u>	<u>229,809</u>
		223,936	234,172
CREDITORS (amounts falling due within one year)	8	<u>(68,723)</u>	<u>(89,034)</u>
NET CURRENT ASSETS		<u>155,213</u>	<u>145,138</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>319,776</u>	<u>320,001</u>
CAPITAL AND RESERVES			
Called up share capital	9	28,000	320,000
Profit and loss account	10	<u>291,776</u>	<u>1</u>
SHAREHOLDERS' FUNDS	11	<u>319,776</u>	<u>320,001</u>


 SA Smith
 DIRECTOR

APPROVED BY THE BOARD
 ON 15 APRIL 1998

VECTOR ENGINEERING PRODUCTS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997

1 PRINCIPAL ACCOUNTING POLICIES

(1) Accounting convention

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

(2) Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less provisions where in the opinion of the Directors there has been a permanent diminution in value.

2 EMOLUMENTS OF DIRECTORS

The aggregate remuneration (including pension contributions) of the Directors paid by the Company was £Nil (1996: £Nil)

3 PROFIT ON DISPOSAL OF SUBSIDIARY UNDERTAKINGS

In 1996 the Company's interests in Pillar International Services Limited and Pillar Overseas Holdings Limited were sold for a total profit of £456,000. In 1997 the Company acquired and disposed of its interest in Elliott Plastic Components Limited, Rolinx Limited and L&P Plastics Limited and also disposed of its interest in Photo-Planar Limited at no profit or loss.

4 DIVIDENDS

	<u>1997</u>	<u>1996</u>
	£'000	£'000
Dividends proposed and paid	<u>6,791</u>	<u>164,344</u>

A dividend of £6,791,000 has been proposed in respect of the year ended 31 December 1997.

VECTOR ENGINEERING PRODUCTS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

5 INVESTMENTS

	£'000
Cost at 1 January 1997	174,863
Additions	7,607
Disposals	<u>(17,907)</u>
Cost at 31 December 1997	<u>164,563</u>

During 1997 the Company acquired and disposed of its interest in Elliott Plastic Components Limited, Rolinx Limited and L&P Plastics Limited. It also disposed of its interest in Photo-Planar Limited and acquired MBS Distribution Limited.

Principal trading subsidiary undertakings, which are held via immediate subsidiary undertakings, are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Proportion of voting rights held</u> %
Air Diffusion Limited	England	100
Attewell Limited*	England	100
Grada International Holdings NV	Belgium	100
H+S Aviation Limited*	England	100
John Lee (Sacks) Limited	England	100
MBS Distribution Limited*	England	100
Parker Merchanting Limited	England	100
Peak Automotive Limited	England	100
Pillar Seals and Gaskets Limited*	England	100
Pneumatic Components Limited	England	100
Pressweld Limited	England	100
Stedall (Vehicle Fittings) Limited	England	100

Subsidiaries denoted * have been sold subsequent to the year end for aggregate consideration in excess of their aggregate carrying value.

In the opinion of the Directors the aggregate value of the Company's investment in its subsidiary undertakings is not less than the aggregate amount at which they are stated in the balance sheet.

The Company is a wholly owned subsidiary of Vector Industries Limited, a company registered in England & Wales, and thus under Section 228 of the Companies Act 1985 is exempt from producing group accounts.

VECTOR ENGINEERING PRODUCTS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

6 DEBTORS (amounts falling due within one year)

	<u>1997</u> £'000	<u>1996</u> £'000
Amounts owed by ultimate parent undertaking	1,489	-
Amounts owed by group undertakings	2,984	267
ACT recoverable	<u>-</u>	<u>4,096</u>
	<u>4,473</u>	<u>4,363</u>

7 DEBTORS (amounts falling due after one year)

	<u>1997</u> £'000	<u>1996</u> £'000
Amounts owed by group undertakings	<u>219,463</u>	<u>229,809</u>

8 CREDITORS (amounts falling due within one year))

	<u>1997</u> £'000	<u>1996</u> £'000
Proposed dividend	6,791	-
Amounts payable to group undertakings	61,932	86,309
ACT payable	<u>-</u>	<u>2,725</u>
	<u>68,723</u>	<u>89,034</u>

9 CALLED UP SHARE CAPITAL

	<u>1997</u> £'000	<u>1996</u> £'000
Authorised:		
28,000,000 ordinary shares of £1 each	<u>28,000</u>	<u>320,000</u>
Allotted, called up and fully paid:		
28,000,000 ordinary shares of £1 each	<u>28,000</u>	<u>320,000</u>

On 19 November 1997 the High Court of Justice, Chancery Division approved the Reduction of Capital from £320,000,000 to £28,000,000 with effect from 26 November 1997 (see note 10).

VECTOR ENGINEERING PRODUCTS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

10 PROFIT AND LOSS ACCOUNT

	£'000
Balance at 1 January 1997	1
Retained loss for the financial year	(225)
Share capital reduction (see note 9)	<u>292,000</u>
Balance at 31 December 1997	<u>291,776</u>

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £'000	1996 £'000
Profit on ordinary activities after taxation	6,566	161,844
Dividends	<u>(6,791)</u>	<u>(164,344)</u>
Net reduction in shareholders' funds	(225)	(2,500)
Opening shareholders' funds	<u>320,001</u>	<u>322,501</u>
Closing shareholders' funds	<u>319,776</u>	<u>320,001</u>

12 CASHFLOW STATEMENT

A consolidated cash flow statement has been included in the accounts of the ultimate parent undertaking which include the accounts of Vector Engineering Products Limited.

Accordingly, as permitted by FRS1, no cash flow statement is presented with these accounts.

13 CONTINGENT LIABILITIES

The Company has entered into an unlimited cross guarantee arrangement in respect of the borrowings of all companies in the Vector Industries Limited group. At 31 December 1997 the net borrowings of the group amounted to approximately £77 million (1996: £99 million).

The bank holds a debenture in respect of the Company incorporating a fixed and floating charge over all assets.

VECTOR ENGINEERING PRODUCTS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

14 ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS

The ultimate parent undertaking and controlling party is Vector Industries Limited, a company registered in England. The Vector Industries group is both the smallest and the largest group into which the Company's accounts are consolidated. Copies of the group accounts for the ultimate parent undertaking may be obtained from the following address:

The Secretary
Vector Industries Limited
2B Sidings Court
Doncaster
South Yorkshire
DN4 5NU

Transactions with other companies within the group are not disclosed as the Company has taken advantage of the exemption available under Financial Reporting Standard Number 8 "Related Party Disclosures", as the consolidated accounts of Vector Industries Limited in which the Company is included are available at the address noted above.