DIRECTORS' REPORT AND ACCOUNTS

VECTOR ENGINEERING PRODUCTS LIMITED
(Registered Number 994043)

31 December 1998

VECTOR ENGINEERING PRODUCTS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998

The Directors present their annual report together with the audited accounts for the year ended 31 December 1998.

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.

During the year the Company disposed of its investments in Grada international Holdings NV, Attewell Limited, Pillar Seals and Gaskets Limited, MBS Distribution Limited, Peak Automotive Limited, Vector Engineering and Distribution Limited and acquired and disposed of the investment in Darfen Limited, Lionweld Kennedy Limited, Bramley & Wellesley Limited and H+S Aviation Limited for a combined loss of £5,792,000. The Company also disposed of 21.4% of its interest in John Lee (Sacks) Limited at a nil gain or loss.

Subsequent to the year end a further two of the Company's principal subsidiary undertakings were disposed of at amounts in excess of their carrying value.

RESULTS AND DIVIDENDS

The loss for the year after taxation amounted to £3,016,000 (1997: profit of £6,566,000). During the year a dividend of £6,694,000 was paid and the directors propose a final dividend of £53,000,000 (1997: £6,791,000). Accordingly, the retained loss of £62,710,000 (1997: £225,000) is transferred from reserves.

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

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 1998 (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, the company has passed an elective resolution to dispense with the obligation to appoint auditors annually.

By Order of the Board

S SMITH
DIRECTOR

16 MARCH 1999

Registered Office:

2B Sidings Court
Doncaster
DN4 5NU

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
9 Bond Court
Leeds LS1 2SN
Telephone +44 (0) 113 244 2044
Facsimile +44 (0) 113 244 1401
+44 (0) 113 243 9745

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. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

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 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

16 March 1999

VECTOR ENGINEERING PRODUCTS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	£'000	1997 £'000
Operating income		14	-
Write-down of investment in subsidiary		(6,339)	-
Loss on disposal of subsidiary undertakings	3	(5,792)	-
OPERATING LOSS		(12,117)	-
Income from shares in subsidiary undertakings		9,100	6,791
Interest received on tax refund		5	55
Interest received from money on deposit		4	-
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(3,008)	6,846
Taxation on profit on ordinary activities		(8)	(280)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(3,016)	6,566
Dividends	4	(59,694)	(6,791)
RETAINED LOSS FOR THE FINANCIAL YEAR	10	(62,710)	(225)

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 1998

	Notes	£'000	1997 £'000
FIXED ASSETS			
Investments	5	41,821	105,615
CURRENT ASSETS			
Debtors (amounts falling due within one year)	6	-	1,489
Debtors (amounts falling due after one year)	7	268,402	219,463
		268,402	220,952
CREDITORS (amounts falling due within one year)	8	(53,157)	(6,791)
NET CURRENT ASSETS		215,245	214,161
TOTAL ASSETS LESS CURRENT LIABILITIES		257,066	319,776
CAPITAL AND RESERVES			
Called up share capital	9	28,000	28,000
Profit and loss account	10	229,066	291,776
SHAREHOLDERS' FUNDS	11	257,066	319,776

SA Smith
DIRECTOR

APPROVED BY THE BOARD
ON 16 MARCH 1999

VECTOR ENGINEERING PRODUCTS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

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 (1997: £Nil)

3 LOSS ON DISPOSAL OF SUBSIDIARY UNDERTAKINGS

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 Ellay Enfield Limited at no profit or loss.

In 1998 the Company disposed of its interest in Grada international Holdings NV, Attewell Limited, Pillar Seals and Gaskets Limited, MBS Distribution Limited, Peak Automotive Limited, Vector Engineering and Distribution Limited and acquired and disposed of the investment in Darfen Limited, Lionweld Kennedy Limited, Bramley & Wellesley Limited and H+S Aviation Limited for a combined loss of £5,792,000.

4 DIVIDENDS

	1998 £'000	1997 £'000
Dividends - paid	6,694	-
- proposed	53,000	6,791
	59,694	6,791

5 INVESTMENTS

	Investments	Loans	Total
	£'000	£'000	£'000
At 1 January 1998	164,563	(58,948)	105,615
Additions	40,422	(30,637)	9,785
Disposals	(67,240)	-	(67,240)
Provision	(6,339)	-	(6,339)
At 31 December 1998	131,406	(89,585)	41,821

During 1998 the Company disposed of its investments in Grada international Holdings NV, Attewell Limited, Pillar Seals and Gaskets Limited, MBS Distribution Limited, Peak Automotive Limited, Vector Engineering and Distribution Limited and acquired and disposed of the investment in Darfen Limited, Lionweld Kennedy Limited, Bramley & Wellesley Limited and H+S Aviation Limited for a combined loss of £5,792,000. The Company also disposed of 21.4% of its interest in John Lee (Sacks) Limited at a nil gain or loss.

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 Ellay Enfield Limited and acquired MBS Distribution Limited.

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

Name	Country of incorporation	Proportion of voting rights held
		%
Air Diffusion Limited	England	100
John Lee (Sacks) Limited	England	78.6
Parker Merchanting 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.

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

6 DEBTORS (amounts falling due within one year)

	1998 £'000	1997 £'000
Amounts owed by ultimate parent undertaking	-	1,489

7 DEBTORS (amounts falling due after one year)

	1998 £'000	1997 £'000
Amounts owed by ultimate parent undertaking	62,423	-
Amounts owed by parent undertaking	205,979	219,463
	268,402	219,463

8 CREDITORS (amounts falling due within one year))

	1998 £'000	1997 £'000
Proposed dividend	53,000	6,791
Corporation tax	7	-
Other creditors	150	-
	53,157	6,791

9 CALLED UP SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised:		
28,000,000 ordinary shares of £1 each	28,000	28,000
Allotted, called up and fully paid:		
28,000,000 ordinary shares of £1 each	28,000	28,000

10 PROFIT AND LOSS ACCOUNT

	£'000
Balance at 1 January 1998	291,776
Retained loss for the financial year	(62,710)
Balance at 31 December 1998	229,066

11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £'000	1997 £'000
(Loss)/profit on ordinary activities after taxation	(3,016)	6,566
Dividends	(59,694)	(6,791)
Net reduction in shareholders' funds	(62,710)	(225)
Opening shareholders' funds	319,776	320,001
Closing shareholders' funds	257,066	319,776

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 1998 the net borrowings of the group amounted to approximately £9 million (1997: £77 million).

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

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.