

Senior Construction Services Limited

Accounts 31 December 1996
together with directors' and auditors' reports

Registered number: 288899



Directors' report

For the year ended 31 December 1996

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1996.

Principal activity and business review

The principal activity of the company is the manufacture and installation of air conditioning equipment and air handling units.

The directors expect the general level of activity to continue at recent levels.

The Board considers that research and development continues to play a vital role in the company's operations and expenditure in the year is shown in note 3 to the accounts.

Results

Results and recommended transfers to reserves are as follows:

	£'000
Retained profit at 31 December 1995	321
Profit for the financial year	930
Dividends paid	(321)
Transfer from revaluation reserve	8
Retained profit at 31 December 1996	<u>938</u>

The directors do not propose the payment of a dividend.

The directors who served during the year are as shown below.

Mr. N.V. Turnbull (Chairman)

Mr. B. Hunt-Taylor

Mr. D.J. Leighton

Mr. B.G. Ward

Mr. R.B. Wharton

Directors' report (continued)

Directors and their interests (continued)

The directors who held office at the year end, other than those who are also directors of the ultimate parent company, and who held beneficial interests in 10p ordinary shares of Senior Engineering Group plc were as follows -

Name	Shares		Options					
	1996	1995	1996	Granted	Exercised	1995		
Mr. D.J. Leighton	29,677	59,335	45,192	-	-	45,192		
Mr. B.G. Ward	-	-	61,485	-	-	61,485		
						Sharesave Options		
						1996	1995	
Mr. B. Hunt Taylor							17,968	-
Mr. D.J. Leighton							-	-
Mr. B.G. Ward							10,156	-
Mr. R.B. Wharton							2,031	-

Options to subscribe for shares were granted as follows:

Date of grant	Subscription price (pence)
30 September 1987	62.05
7 May 1992	78.37

The subscription prices and numbers of shares have been adjusted to reflect the dilution effects of the Rights Issues in 1989, 1992 and 1994.

The directors have no other interests required to be disclosed under Schedule 7 of the Companies Act 1985.

Policy on payment of creditors

The group policy is to settle the terms of payments with its suppliers when agreeing the terms of each transaction and to seek to adhere to those terms.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Directors' report (continued)

Employee consultation

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees, and on the various factors affecting the performance of the group.

Directors' responsibilities

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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

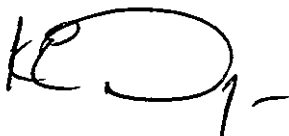
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board

K E Dyer



Secretary

Lord Street
Bury
Lancashire
BL9 0RG

1 April 1997

Auditors' report

Manchester

To the Shareholders of Senior Construction Services Limited:

We have audited the accounts on pages 5 to 20 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 8 to 10.

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 company's state of affairs at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

Bank House
9 Charlotte Street
Manchester
M1 4EU

1 April 1997

Profit and loss account

For the year ended 31 December 1996

	Notes	1996 £'000	1995 £'000
Turnover	2	32,614	35,132
Cost of sales		(25,185)	(29,634)
Gross profit		7,429	5,498
Other operating expenses	3	(5,740)	(5,641)
Operating profit (loss)		1,689	(143)
Interest receivable and similar income		7	19
Interest payable and similar charges		(276)	(415)
Profit (loss) on ordinary activities before taxation	4	1,420	(539)
Tax on profit (loss) on ordinary activities	6	(490)	250
Profit (loss) for the financial year		930	(289)
Dividends	7	(321)	-
Retained profit (loss) for the financial year		609	(289)
Retained profit, beginning of year		321	602
Transfer from revaluation reserve		8	8
Retained profit, end of year		938	321

All activity has arisen from continuing operations. The company has no recognised gains or losses other than the profit for the financial year.

The accompanying notes are an integral part of this profit and loss account.

Note of historical cost profits and losses

For the year ended 31 December 1996

	1996 £'000	1995 £'000
Reported profit (loss) on ordinary activities before taxation	1,420	(539)
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	<u>8</u>	<u>8</u>
Historical cost profit (loss) on ordinary activities before taxation	<u>1,428</u>	<u>(531)</u>
Historical cost profit (loss) for the year retained after taxation and dividends	<u>617</u>	<u>(281)</u>

Balance sheet

31 December 1996

	Notes	1996 £'000	1995 £'000
Fixed assets			
Tangible assets	8	2,845	3,332
Current assets			
Stocks	9	3,232	2,607
Debtors	10	10,044	11,352
Cash at bank and in hand		10	9
		13,286	13,968
Creditors: amounts falling due within one year	11	(10,860)	(12,455)
Net current assets		2,426	1,513
Total assets less current liabilities		5,271	4,845
Creditors: amounts falling due after more than one year	12	(3,505)	(3,688)
Net assets		1,766	1,157
Capital and reserves			
Called-up share capital	14	31	31
Share premium account		3	3
Revaluation reserve		704	712
Other reserves		90	90
Profit and loss account		938	321
Total equity shareholders' funds		1,766	1,157

Signed on behalf of the Board

N.V. Turnbull Director

B.G. Ward Director

1 April 1997

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

31 December 1996

1 Statement of accounting policies

A summary of the company's principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The accounts are prepared under the historical cost convention modified to include the revaluation of land and buildings, and in accordance with applicable accounting standards.

No cash flow statement has been prepared as the ultimate parent company prepares a consolidated cash flow statement in accordance with Financial Reporting Standard No. 1.

b) Tangible fixed assets

Freehold land and buildings are shown at original historical cost or subsequent valuation, less accumulated depreciation. Other tangible fixed assets are shown at cost less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Freehold buildings	-	2% per annum
Leasehold buildings	-	Over the period of the lease
Plant, machinery and motor vehicles	-	10% - 33.33% per annum

Assets in the course of construction are not depreciated.

c) Stocks, other than long term contracts

Stocks, other than long term contracts, are stated at the lower of cost and net realisable value.

Cost incurred in bringing each product to its present location and condition is based on:

Raw materials	-	Purchase cost on a weighted average basis, including carriage.
Work-in-progress and finished goods	-	Cost of direct materials and labour plus an appropriate proportion of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price less further costs expected to be incurred to completion and disposal.

Provision is made for obsolete, slow-moving or defective items where appropriate.

Notes to accounts (continued)

1 Statement of accounting policies (continued)

d) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Advance corporation tax payable on dividends paid or provided for in the year is written off, except when recoverability against corporation tax payable is considered to be reasonably assured. Credit is taken for advance corporation tax written off in previous years when it is recovered against corporation tax liabilities.

Provision is made for deferred taxation using the liability method. Deferred tax is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse. No provision is made for the potential tax on capital gains on revalued properties due to anticipated roll-over relief.

e) Pension costs

The company's employees are members of defined benefit pension schemes while the company makes contributions at rates set by Senior Engineering Group plc on the advice of actuaries to discharge in full the company's pension obligations arising in the year. It is intended that the rates set will reflect regular cost. Accordingly, the amount charged to the profit and loss account is the contribution payable in the year, and any variations from this cost are reflected in the accounts of Senior Engineering Group plc.

Further information on pension costs is provided in note 5d.

f) Research and development

Costs are charged against revenue in the year in which they are incurred.

g) Turnover and long term contracts

Turnover, except that derived from long term contracts, comprises the external sales value of work invoiced during the year, excluding discounts and sales taxes.

Turnover on long term contracts and related long term contract balances is accounted for in compliance with SSAP 9.

Turnover on long term contracts represents the sales value of work completed during the year. The related costs are matched with this turnover resulting in the reporting of attributable profit proportionate to the contract activity. All known or anticipated losses are provided for in full as soon as they are foreseen.

Notes to accounts (continued)

1 Statement of accounting policies (continued)

g) *Turnover and long term contracts (continued)*

Net costs incurred in excess of amounts transferred to cost of sales are classified as long term contract balances. Revenues recognised in excess of amounts billed are classified as amounts recoverable on contracts and included in debtors. Amounts billed in excess of revenues recognised to date are deducted from related long term contract balances with any residual balance being classified as payments on account and included in creditors. Long term contract balances are stated at contract cost incurred less amounts transferred to cost of sales, foreseeable losses, and payments on account.

h) *Foreign currency*

Transactions denominated in foreign currencies are recorded in sterling at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

i) *Leases*

Rentals under operating leases are charged on a straight-line basis over the lease term. Assets held under operating leases are not reported in the balance sheet.

j) *Revaluation reserve*

Surpluses arising on the revaluation of individual fixed assets are credited to a non-distributable reserve known as the revaluation reserve. Where depreciation charges are increased following a revaluation, an amount equal to such increase is transferred annually from this reserve to the profit and loss account below the profit for the financial year. On the disposal of a revalued fixed asset, any remaining revaluation surplus corresponding to the item is also transferred to the profit and loss account.

2 Turnover

Contributions to turnover by geographical area are as shown below -

	1996 £'000	1995 £'000
UK	31,607	34,098
Overseas	1,007	1,034
	<hr/> 32,614	<hr/> 35,132

Notes to accounts (continued)

3 Other operating expenses

Other operating expenses comprise -

	1996 £'000	1995 £'000
Distribution costs	340	467
Selling and marketing costs	2,548	2,283
Administrative expenses	2,569	2,682
Research and development costs	283	209
	<u>5,740</u>	<u>5,641</u>

Administrative expenses include redundancy costs of £217,000 (1995 - £29,000).

4 Profit (loss) on ordinary activities before taxation

Profit (loss) on ordinary activities before taxation is stated after charging (crediting) -

	1996 £'000	1995 £'000
Depreciation of tangible fixed assets	531	598
Profit on disposal of tangible fixed assets	84	(11)
Auditors' remuneration	44	41
Redundancy costs	217	29
Staff costs (see note 5a)	<u>11,868</u>	<u>12,629</u>

In addition, £5,000 (1995 - £9,000) was paid to the auditors in respect of non-audit services.

Notes to accounts (continued)

5 Staff costs

a) Particulars of employee costs, including executive directors, are as shown below -

	1996 £'000	1995 £'000
Wages and salaries	10,452	11,137
Social security costs	881	946
Other pension costs	535	546
	<u>11,868</u>	<u>12,629</u>

b) The average weekly number of persons employed during the year was as follows -

	1996 Number	1995 Number
Production	537	568
Distribution	15	14
Selling and marketing	69	89
Administration	56	34
	<u>677</u>	<u>705</u>

c) Directors' remuneration

The costs shown above include the following in respect of directors of the company, including pension contributions -

	1996 £'000	1995 £'000
Remuneration for management services	291	383
Compensation for loss of office	-	-
	<u>291</u>	<u>383</u>

In addition, the emoluments of one director who was also a director of other group companies were paid wholly by those other companies. It is not practicable in these cases to determine the proportions of such emoluments which are attributable for services to the company. However, the total emoluments for this director are taken account of in the disclosure of directors' emoluments in the accounts of the relevant group companies.

Notes to accounts (continued)

5 Staff costs (continued)

The directors' remuneration paid by the company, excluding pension contributions, included -

	1996 £'000	1995 £'000
Chairman	-	-
Highest paid director	76	86

Directors received emoluments, excluding pensions and pension contributions, in the following ranges -

	1996 Number	1995 Number
Upto £ 5,000	1	3
£ 25,001 - £ 30,000	-	1
£ 40,001 - £ 45,000	-	1
£ 45,001 - £ 50,000	-	1
£ 50,001 - £ 55,000	2	-
£ 55,001 - £ 60,000	-	1
£ 65,001 - £ 70,000	1	1
£ 75,001 - £ 80,000	1	-
£ 85,001 - £ 90,000	-	1

d) Pension costs

As explained in note 1, the company contributes the regular cost of providing pension benefits for its employees to the Group pension schemes. Any variation from this regular contribution is reflected in the accounts of the ultimate parent company, Senior Engineering Group plc.

The pension cost charge for the year was £535,000 (1995 - £546,000). Outstanding contributions of £17,990 (1995 - £45,474) at the end of the year are shown in the balance sheet within creditors (accruals) falling due within one year.

Further details of the group schemes and the actuarial valuations are given in the accounts of the company's ultimate parent company, Senior Engineering Group plc.

Notes to accounts (continued)

6 Tax on profit (loss) on ordinary activities

The tax charge (credit) is based on the profit (loss) for the year and comprises -

	1996 £'000	1995 £'000
Corporation tax at 33%	548	(167)
Deferred taxation	(49)	25
	<hr/> 499	<hr/> (142)
Adjustment of current taxation in respect of prior years	26	(59)
Adjustment of deferred taxation in respect of timing differences from prior years	(35)	(49)
	<hr/> 490	<hr/> (250)

7 Dividends

	1996 £'000	1995 £'000
Dividend - interim paid of £10.25 per share (1995 - £Nil)	<hr/> 321	<hr/> -

Notes to accounts (continued)

8 Tangible fixed assets

a) The movement of tangible fixed assets during the year was as follows -

	Land and buildings		Short leasehold improvements	Plant, machinery and motor vehicles	Total
	Freehold £'000	Leasehold £'000	£'000	£'000	£'000
Cost or valuation					
Beginning of year	1,345	110	303	6,731	8,489
Additions	-	-	5	247	252
Disposals	-	-	-	(1,001)	(1,001)
End of year	<u>1,345</u>	<u>110</u>	<u>308</u>	<u>5,977</u>	<u>7,740</u>
Depreciation					
Beginning of year	138	8	68	4,943	5,157
Charge	22	2	14	493	531
Disposals	-	-	-	(793)	(793)
End of year	<u>160</u>	<u>10</u>	<u>82</u>	<u>4,643</u>	<u>4,895</u>
Net book value					
Beginning of year	<u>1,207</u>	<u>102</u>	<u>235</u>	<u>1,788</u>	<u>3,332</u>
End of year	<u>1,185</u>	<u>100</u>	<u>226</u>	<u>1,334</u>	<u>2,845</u>

b) The freehold land and buildings were revalued on 31 December 1988 on an existing use, open market basis by Chesterton, Chartered Surveyors and Property Consultants.

c) Original cost, and aggregate depreciation based on cost, of land and buildings included at valuation comprises -

	1996 £'000	1995 £'000
Original cost	443	443
Depreciation based on cost	<u>(274)</u>	<u>(265)</u>
	<u>169</u>	<u>178</u>

d) The depreciable amount included in freehold land and buildings at 31 December 1996 amounted to £1,096,000 (1995 - £1,096,000).

Notes to accounts (continued)

9 Stocks

The following amounts are included in the net book value of stocks -

	1996 £'000	1995 £'000
Raw materials	2,378	2,117
Work-in-progress	275	437
Finished goods	579	53
	<u>3,232</u>	<u>2,607</u>

10 Debtors

The following are included in the net book value of debtors -

	1996 £'000	1995 £'000
Amounts falling due within one year -		
Trade debtors	7,602	7,043
Amounts recoverable on contracts	1,097	2,515
Amounts owed by other group undertakings	198	407
Other debtors	32	55
Prepayments	464	410
UK corporation tax recoverable	108	167
Deferred taxation (see note 13)	87	3
	<u>9,588</u>	<u>10,600</u>
Amounts falling due after more than one year -		
Trade debtors	191	304
Amount owed by ultimate parent company	265	448
	<u>10,044</u>	<u>11,352</u>

Notes to accounts (continued)

11 Creditors: amounts falling due within one year

The following amounts are included in creditors falling due within one year -

	1996 £'000	1995 £'000
Bank overdrafts	4,726	1,644
Payments received on account	44	1,760
Trade creditors	3,858	6,284
Amounts owed to other group undertakings	77	112
Other creditors		
- UK corporation tax payable	548	-
- VAT	258	1,192
- Social security and PAYE	318	424
- Other creditors	27	19
Accruals and deferred income	1,004	1,020
	<u>10,860</u>	<u>12,455</u>

12 Creditors: amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year -

	1996 £'000	1995 £'000
Amounts owed to ultimate parent company, not repayable by instalments	<u>3,505</u>	<u>3,688</u>

Senior Engineering Group plc has no intention of seeking repayment of the interest free loan within the next twelve months and accordingly the balance owed to the ultimate parent company has been treated as a non-current liability.

Notes to accounts (continued)

13 Provisions for liabilities and charges

Deferred taxation provided (recognised) in the balance sheet, together with the full potential liability, is as follows -

	1996		1995	
	Full potential liability £'000	Provided (Recognised) £'000	Full potential liability £'000	Provided (Recognised) £'000
Accelerated capital allowances	62	62	74	74
Short term timing differences	(149)	(149)	(77)	(77)
Potential capital gains on revalued properties	180	-	180	-
Deferred tax liability (asset)	93	(87)	177	(3)

The net deferred tax asset recognised in the current year is included in debtors.

The movement on deferred taxation comprises -

	1996 £'000	1995 £'000
Beginning of year	(3)	21
(Credited) charged to the profit and loss account	(84)	(24)
End of year	(87)	(3)

14 Called-up share capital

	Authorised		Allotted and fully-paid	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Ordinary shares of £1 each	50	50	31	31

Notes to accounts (continued)

15 Guarantees and other financial commitments

a) Capital commitments

At the end of the year there were no contracted capital commitments (1995 - £nil).

b) Lease commitments

The company leases certain land and buildings and plant and machinery on short term leases. The annual rental on the land and buildings leases was £701,000 (1995 - £700,000) and on plant and machinery was £69,000 (1995 - £28,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The company pays all insurance, maintenance and repairs on these properties.

The minimum annual rentals under the foregoing leases are as follows -

	1996		1995	
	Land and buildings £'000	Plant and machinery £'000	Land and buildings £'000	Plant and machinery £'000
Operating leases expiring:				
within one year	-	21	-	-
within two to five years	86	113	8	17
after five years	587	-	665	-
	<u>673</u>	<u>134</u>	<u>673</u>	<u>17</u>

c) Revolving credit facility

The company is a guarantor, jointly and severally, with certain other group companies of a committed five year £52.5 million multi currency revolving credit facility for the Group dated 10 July 1995. At 31 December 1996 the total sums borrowed under this facility were £8 million and DM 8 million (1995 - US\$ 60 million) at variable interest rates.

d) Private placement loans

The company is a guarantor, jointly and severally, with certain other group companies, of US\$30 million (1995 - US\$30 million) unsecured loan notes under amended and restated agreements dated 31 October 1995.

e) Bank guarantees

The company is a guarantor, jointly and severally, with certain other group companies, of all indebtedness of these other group companies to one of the Group's bankers.

The company is a guarantor, jointly and severally with certain other group companies, of all indebtedness of Senior Engineering Investments Inc (the Group's US holding company) to one of its bankers.

Notes to accounts (continued)

16 Reconciliation of movements in shareholders' funds

	1996 £'000	1995 £'000
Profit (loss) for the financial year	930	(289)
Dividends paid	(321)	-
Net addition to (reduction in) shareholders' funds	609	(289)
Opening shareholders' funds	1,157	1,446
Closing shareholders' funds	1,766	1,157

17 Ultimate parent company

The company's immediate parent company is Senior Engineering Investments Limited, a company registered in England.

The company's ultimate parent company, which prepares consolidated accounts incorporating the company's results, is Senior Engineering Group plc, a company registered in England, whose registered office is at Senior House, 59/61 High Street, Rickmansworth, Hertfordshire, WD3 1RH. The consolidated accounts of the group are available to the public and may be obtained from the aforementioned address.

18 Related party transactions

The company has taken advantage of the exemption in FRS 8 "Related party disclosures" and has not disclosed transactions with group undertakings.