



Senior Construction Services Limited

Accounts 31 December 1998
together with directors' and auditors' reports

Registered number: 288899



Directors' report

For the year ended 31 December 1998

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 1998.

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 1997	775
Profit for the financial year	1,317
Dividends paid	(775)
Retained profit at 31 December 1998	<u>1,317</u>

The directors do not propose the payment of a final dividend.

Directors

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

Mr. N.V. Turnbull (Chairman) (resigned 31 March 1998)
Mr. C.D. Francis (Chairman) (appointed 31 March 1998)
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		1997	Options		1998
	1998	1997		Granted	Exercised	
Mr. D.J. Leighton	29,677	29,677	45,192	-	-	45,192
Mr. B.G. Ward	-	-	22,596	-	-	22,596

	Sharesave Options	
	1998	1997
Mr. B.G. Ward	10,156	10,156
Mr. R.B. Wharton	3,741	2,031

Long term share incentive awards were granted as follows:

Name	Performance awards			Matched investment awards		
	1997	Granted	1998	1997	Granted	1998
Mr. C.D. Francis	-	34,250	34,250	-	-	-
Mr. B.G. Ward	-	-	-	7,583	-	7,583

The long term share incentive awards have the following crystallisation dates:

Performance awards	January 2001
Investment awards	April 2000

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.

Directors' report (continued)

Policy on payment of creditors

The company 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. There were 117 trade creditor days outstanding at year end.

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.

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 company.

Year 2000

The directors have undertaken a review of the likely impact of Year 2000 on the company's computer systems and business to ensure that the risks, issues and costs associated with the date change are properly assessed and that sufficient resources are committed to ensure that the company is not adversely affected.

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.

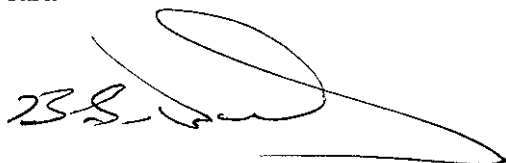
Directors' report (continued)

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

B.G. Ward

A handwritten signature in black ink, appearing to be 'B.G. Ward', written over a horizontal line.

Secretary

Lord Street
Bury
Lancashire
BL9 0RG

26 March 1999

Auditors' report

Manchester

To the Shareholders of Senior Construction Services Limited:

We have audited the accounts on pages 6 to 19 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 9 to 11.

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.

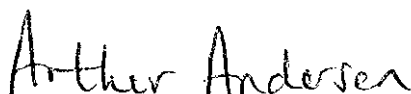
Basis of opinion

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 1998 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

26 March 1999

Profit and loss account

For the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
Turnover	2	37,608	35,152
Cost of sales		(29,657)	(28,263)
Gross profit		7,951	6,889
Other operating expenses	3	(5,443)	(5,395)
Operating profit		2,508	1,494
Interest receivable and similar income		-	20
Interest payable and similar charges	4	(496)	(354)
Profit on ordinary activities before taxation	5	2,012	1,160
Tax on profit on ordinary activities	7	(695)	(393)
Profit for the financial year		1,317	767
Dividends	8	(775)	(938)
Retained profit (loss) for the financial year		542	(171)
Retained profit, beginning of year		775	938
Transfer from revaluation reserve		-	8
Retained profit, end of year	18	1,317	775

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 1998

	1998 £'000	1997 £'000
Reported profit on ordinary activities before taxation	2,012	1,160
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	<u>5</u>	<u>8</u>
Historical cost profit on ordinary activities before taxation	<u>2,017</u>	<u>1,168</u>
Historical cost profit (loss) for the year retained after taxation and dividends	<u>547</u>	<u>(163)</u>

Balance sheet

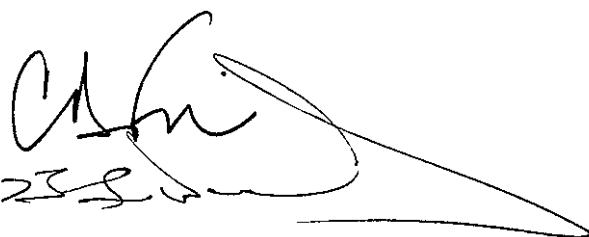
31 December 1998

	Notes	1998 £'000	1997 £'000
Fixed assets			
Tangible assets	9	2,733	2,866
Current assets			
Stocks	10	2,835	2,775
Debtors	11	12,897	12,033
Cash at bank and in hand		9	9
		15,741	14,817
Creditors: amounts falling due within one year	12	(12,954)	(12,583)
Net current assets		2,787	2,234
Total assets less current liabilities		5,520	5,100
Creditors: amounts falling due after more than one year	13	(3,313)	(3,505)
Provision for liabilities and charges	14	(70)	-
Net assets		2,137	1,595
Capital and reserves			
Called-up share capital	16	31	31
Share premium account		3	3
Revaluation reserve		696	696
Other reserves		90	90
Profit and loss account		1,317	775
Total equity shareholders' funds	18	2,137	1,595

Signed on behalf of the Board

C.D. Francis

Director



B.G. Ward

Director

26 March 1999

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

Notes to accounts

31 December 1998

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.

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*

For defined benefit pension schemes 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.

For the defined contribution scheme the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year.

Further information on pension costs is provided in note 6d.

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 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:

	1998 £'000	1997 £'000
UK	36,759	34,383
Overseas	849	769
	<hr/> 37,608	<hr/> 35,152

Notes to accounts (continued)

3 Other operating expenses

Other operating expenses comprise:

	1998 £'000	1997 £'000
Distribution costs	168	215
Selling and marketing costs	2,351	2,359
Administrative expenses	2,733	2,490
Research and development costs	191	331
	<u>5,443</u>	<u>5,395</u>

4 Interest payable and similar charges

	1998 £'000	1997 £'000
Bank overdraft	<u>496</u>	<u>354</u>

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1998 £'000	1997 £'000
Depreciation of tangible fixed assets	435	425
Operating lease rentals		
- plant and machinery	256	236
- other	799	719
Auditors' remuneration		
- audit services	41	41
- non audit services	(3)	18
Redundancy costs	76	2
Research and development costs	<u>191</u>	<u>331</u>

6 Staff costs

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

	1998 £'000	1997 £'000
Wages and salaries	11,208	10,605
Social security costs	968	862
Other pension costs	663	643
	<u>12,839</u>	<u>12,110</u>

Notes to accounts (continued)

6 Staff costs (continued)

b) The average monthly number of persons employed during the year was as follows:

	1998 Number	1997 Number
Production	544	519
Distribution	12	13
Selling and marketing	78	88
Administration	30	34
	<u>664</u>	<u>654</u>

c) Directors' remuneration:

	1998 £'000	1997 £'000
Emoluments	<u>192</u>	<u>201</u>

The above amounts do not include any gains made on the exercise of share options or the value of any shares or share options received under long term incentive schemes. The amounts receivable under long term incentive schemes are £41,833 (1997 - £7,583). No director exercised share options under long term incentive schemes in the year (1997 - One).

The number of directors who were contributing members of pension schemes was as follows:

	1998 Number	1997 Number
Defined benefit schemes	<u>3</u>	<u>3</u>

d) Pension costs

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.

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)

7 Tax on profit on ordinary activities

The tax charge comprises:

	1998 £'000	1997 £'000
Corporation tax at 31% (1997 - 31.5%)	566	331
Deferred taxation	86	57
	<u>652</u>	<u>388</u>
Adjustment of current taxation in respect of prior years	5	29
Adjustment of deferred taxation in respect of prior years	38	(24)
	<u>695</u>	<u>393</u>

8 Dividends

	1998 £'000	1997 £'000
Dividend - interim paid of £24.75 per share (1997 - £29.95)	<u>775</u>	<u>938</u>

9 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	1,472	110	308	6,222	8,112
Additions	6	-	-	296	302
Disposals	-	-	-	-	-
End of year	<u>1,478</u>	<u>110</u>	<u>308</u>	<u>6,518</u>	<u>8,414</u>
Depreciation					
Beginning of year	182	12	96	4,956	5,246
Charge	26	3	-	406	435
Disposals	-	-	-	-	-
End of year	<u>208</u>	<u>15</u>	<u>96</u>	<u>5,362</u>	<u>5,681</u>
Net book value					
Beginning of year	<u>1,290</u>	<u>98</u>	<u>212</u>	<u>1,266</u>	<u>2,866</u>
End of year	<u>1,270</u>	<u>95</u>	<u>212</u>	<u>1,156</u>	<u>2,733</u>

Notes to accounts (continued)

9 Tangible fixed assets (continued)

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:

	1998 £'000	1997 £'000
Original cost	449	443
Depreciation based on cost	(309)	(288)
	<u>140</u>	<u>155</u>

d) The net book value of freehold land which is not depreciated is £250,000 (1997 - £250,000).

10 Stocks

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

	1998 £'000	1997 £'000
Raw materials	2,255	2,183
Work-in-progress	496	537
Finished goods	84	55
	<u>2,835</u>	<u>2,775</u>

11 Debtors

The following are included in debtors:

	1998 £'000	1997 £'000
Amounts falling due within one year:		
Trade debtors	10,045	9,886
Amounts recoverable on contracts	1,715	852
Amounts owed by other group undertakings	8	194
Other debtors	41	19
Prepayments	538	531
UK corporation tax recoverable	113	108
Deferred taxation (see note 15)	-	54
	<u>12,460</u>	<u>11,644</u>
Amounts falling due after more than one year:		
Trade debtors	172	124
Amount owed by ultimate parent company	265	265
	<u>12,897</u>	<u>12,033</u>

Notes to accounts (continued)

12 Creditors: amounts falling due within one year

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

	1998 £'000	1997 £'000
Bank overdrafts	4,585	4,499
Payments received on account	-	60
Trade creditors	6,234	5,732
Amounts owed to other group undertakings	91	72
Other creditors		
- UK corporation tax payable	571	331
- VAT	550	417
- Social security and PAYE	528	592
- Other creditors	-	37
Accruals and deferred income	395	843
	<u>12,954</u>	<u>12,583</u>

13 Creditors: amounts falling due after more than one year

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

	1998 £'000	1997 £'000
Amounts owed to ultimate parent company, not repayable by instalments	<u>3,313</u>	<u>3,505</u>

Senior Engineering Group plc does not intend to seek 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.

14 Provisions for liabilities and charges

Provision for liabilities and charges comprise deferred taxation.

	1998 £'000	1997 £'000
Excess of tax allowances over book depreciation of fixed assets	<u>70</u>	<u>-</u>

There is no unprovided deferred taxation. The prior year deferred tax asset of £54,000 was recognised within debtors.

Notes to accounts (continued)

15 Deferred taxation

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

	1998		1997	
	Full potential liability £'000	Provided (recognised) £'000	Full potential liability £'000	Provided (recognised) £'000
Accelerated capital allowances	88	88	63	63
Short term timing differences	(18)	(18)	(117)	(117)
Potential capital gains on revalued properties	169	-	169	-
Deferred tax liability (asset)	239	70	115	(54)

The movement on deferred taxation comprises:

	1998 £'000	1997 £'000
Beginning of year	(54)	(87)
Charged to the profit and loss account	124	33
End of year	70	(54)

16 Called-up share capital

	Authorised		Allotted and fully-paid	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Ordinary shares of £1 each	50	50	31	31

17 Guarantees and other financial commitments

a) Capital commitments

At the end of the year there were no contracted capital commitments (1997 - £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 £799,000 (1997 - £719,000) and on plant and machinery was £256,000 (1997 - £236,000). 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.

Notes to accounts (continued)

17 Guarantees and other financial commitments (continued)

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

	1998		1997	
	Land and buildings £'000	Plant and machinery £'000	Land and buildings £'000	Plant and machinery £'000
Operating leases expiring:				
within one year	35	154	-	20
within two to five years	67	116	102	182
after five years	720	18	693	-
	<u>822</u>	<u>288</u>	<u>795</u>	<u>202</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 1998 the total sums borrowed under this facility were £1.5 million, DM 40 million, FF 35 million and US \$25 million (1997 - £17 million and DM 8 million) at variable interest rates.

d) *Private placement loans*

- i) The company is a guarantor, jointly and severally, with certain other group companies, of US\$ 30 million (1997 - US\$30 million) unsecured loan notes under amended and restated agreements dated 31 October 1995.
- ii) The company is a guarantor, jointly and severally, with certain other group companies of US \$ 75 million (1997 - nil) unsecured loan notes, issued under agreements dated 22 October 1998.

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)

18 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit for the financial year	1,317	767
Dividends paid	(775)	(938)
Net addition to (reduction in) shareholders' funds	542	(171)
Opening shareholders' funds	1,595	1,766
Closing shareholders' funds	2,137	1,595

19 Ultimate parent company

The company's immediate parent company is Senior Engineering Investments Limited.

The company's ultimate parent company, which prepares consolidated accounts incorporating the company's results, is Senior Engineering Group plc, 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.

20 Cash flow statement

As permitted by Financial Reporting Standard No. 1 (Revised), the company has not produced a cash flow statement, as it is a wholly owned subsidiary undertaking of Senior Engineering Group plc, which has produced a group cash flow statement in its accounts.

21 Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard No. 8 "Related party disclosures" and has not disclosed transactions with group undertakings.