

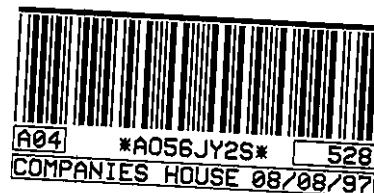


**CLIMATE SERVICES LIMITED**

**Report and Financial Statements**

**31 December 1996**

**Deloitte & Touche  
Colmore Gate  
2 Colmore Row  
Birmingham  
B3 2BN**



**REPORT AND FINANCIAL STATEMENTS 1996**

| <b>CONTENTS</b>                                 | <b>Page</b> |
|---|-------------|
| <b>Officers and professional advisers</b>       | <b>1</b>    |
| <b>Directors' report</b>                        | <b>2</b>    |
| <b>Statement of directors' responsibilities</b> | <b>4</b>    |
| <b>Auditors' report</b>                         | <b>5</b>    |
| <b>Profit and loss account</b>                  | <b>6</b>    |
| <b>Balance sheet</b>                            | <b>7</b>    |
| <b>Notes to the accounts</b>                    | <b>8</b>    |
| <b>Additional information</b>                   | <b>14</b>   |



**REPORT AND FINANCIAL STATEMENTS 1996**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

D Summerfield (Chairman)  
D A Fox  
D Collin

**SECRETARY**

C S Dixon

**REGISTERED OFFICE**

Highlands Road  
Shirley  
Solihull  
West Midlands  
B90 4NL

**BANKERS**

Midland Bank plc  
130 New Street  
Birmingham  
B2 4JU

**AUDITORS**

Deloitte & Touche  
Chartered Accountants  
Colmore Gate  
2 Colmore Row  
Birmingham  
B3 2BN



## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 1996.

### **ACTIVITIES**

The principal activity of the Company continues to be the maintenance of refrigeration equipment, specialising in chillers and other air conditioning equipment.

### **REVIEW OF DEVELOPMENTS**

Although turnover increased by more than 13%, profits were slightly lower than last year due in the main to changes in the sales mix.

The service industry is becoming much more sensitive to environmental issues, but with its investment in training and in the latest refrigerant recovery equipment the Company is well placed to meet and benefit from these new changes.

### **RESULTS AND DIVIDENDS**

Details of the profit after taxation for the year are set out in the profit and loss account on page 6.

The Company has paid an interim dividend of £115,000 (1995 - £289,419) to its parent company in respect of the year. No final dividend is proposed.

### **FIXED ASSETS**

Movements in tangible fixed assets during the year are detailed in Note 5 to the financial statements.

### **DIRECTORS AND THEIR INTERESTS**

The directors who served during the year were:

D Summerfield (Chairman)  
D A Fox  
D Collin

In accordance with the Articles of Association directors are not required to retire by rotation.

The directors hold no shares of the Company.

The directors who are not directors of the ultimate holding company, How Group plc, held the following interests in the 10p ordinary shares of that company:-

|          | At 31 December 1996 |               | At 31 December 1995 |               |
|----------|---------------------|---------------|---------------------|---------------|
|          | Fully paid          | Share options | Fully paid          | Share options |
| D A Fox  | 156,904             | 135,000       | 156,904             | 156,000       |
| D Collin | -                   | 50,000        | -                   | 50,000        |

D Summerfield is also a director of How Group plc and his interests are disclosed in that company's financial statements.



## **DIRECTORS' REPORT**

### **AUDITORS**

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board

**C S DIXON**

Secretary

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements 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 that period. In preparing those financial statements, 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
- prepare the financial statements 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 financial statements comply with the Companies Act. 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.



## Chartered Accountants

Deloitte & Touche  
Colmore Gate  
2 Colmore Row  
Birmingham B3 2BN

Telephone: National 0121 200 2211  
International + 44 121 200 2211  
Fax (Gp. 3): 0121 695 5311

## AUDITORS' REPORT TO THE MEMBERS OF

### CLIMATE SERVICES LIMITED

We have audited the financial statements on pages 6 to 13 which have been prepared under the accounting policies set out on page 8.

#### Respective responsibilities of directors and auditors

As described on page 4 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

#### Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's 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.

*Neil H. Lenn*

Chartered Accountants and Registered Auditors

*2 June 1997*




**PROFIT AND LOSS ACCOUNT**  
**Year ended 31 December 1996**

|  | Note | 1996<br>£   | 1995<br>£   |
|--|------|-------------|-------------|
| <b>TURNOVER</b>  |      | 7,415,416   | 6,550,517   |
| Cost of sales  |      | (4,645,598) | (3,988,615) |
| Gross profit   |      | 2,769,818   | 2,561,902   |
| Administrative expenses                                  |      | (2,255,939) | (2,012,859) |
| <b>OPERATING PROFIT</b>                                  | 3    | 513,789     | 549,043     |
| Interest receivable and similar income                   |      | 1,440       | 1,635       |
| Interest payable   |      | -           | (156)       |
| <b>PROFIT ON ORDINARY ACTIVITIES<br/>BEFORE TAXATION</b> |      | 515,319     | 550,522     |
| Tax on profit on ordinary activities                     | 4    | (168,234)   | (179,054)   |
| <b>PROFIT ON ORDINARY ACTIVITIES<br/>AFTER TAXATION</b>  |      | 347,085     | 371,468     |
| Interim dividend paid                                    |      | (115,000)   | (289,419)   |
| <b>RETAINED PROFIT FOR THE<br/>FINANCIAL YEAR</b>        | 11   | 232,085     | 82,049      |

All activities derive from continuing operations.

There are no recognised gains and losses other than the profit for the financial year. Accordingly, no statement of total recognised gains and losses is given.




**BALANCE SHEET**  
**31 December 1996**

|   | Note | £                | 1996<br>£        | £                | 1995<br>£        |
|---|------|------------------|------------------|------------------|------------------|
| <b>TANGIBLE FIXED ASSETS</b>                          | 5    |                  | 1,005,683        |                  | 589,185          |
| <b>CURRENT ASSETS</b>                                 |      |                  |                  |                  |                  |
| Stocks  | 6    | 995,518          |                  | 976,402          |                  |
| Debtors   | 7    | 914,353          |                  | 1,220,556        |                  |
| Cash at bank and in hand                              |      | 1,171,118        |                  | 1,053,786        |                  |
|   |      | <u>3,080,989</u> |                  | <u>3,250,744</u> |                  |
| <b>CREDITORS: amounts falling due within one year</b> | 8    | (1,859,673)      |                  | (1,869,457)      |                  |
| <b>NET CURRENT ASSETS</b>                             |      |                  | <u>1,221,316</u> |                  | <u>1,381,287</u> |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |      |                  | 2,226,999        |                  | 1,970,472        |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b>         | 9    |                  | (106,793)        |                  | (82,351)         |
| <b>NET ASSETS</b>                                     |      |                  | <u>2,120,206</u> |                  | <u>1,888,121</u> |
| <b>CAPITAL AND RESERVES</b>                           |      |                  |                  |                  |                  |
| Called up share capital                               | 10   |                  | 100              |                  | 100              |
| Profit and loss account                               | 11   |                  | 2,120,106        |                  | 1,888,021        |
| <b>EQUITY SHAREHOLDERS' FUNDS</b>                     | 12   |                  | <u>2,120,206</u> |                  | <u>1,888,121</u> |

These financial statements were approved by the Board of Directors on 21 March 1997.

Signed on behalf of the Board of Directors

D A FOX  
Director

**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1996****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

**Accounting convention**

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

**Depreciation**

Depreciation is provided on all tangible fixed assets (other than land) and is calculated on cost on a straight line basis over the following years, so as to write down the value of the assets to estimated residual value over their anticipated useful lives:-

|                                |          |
|--------------------------------|----------|
| Freehold buildings             | 30 years |
| Long term leasehold buildings  | 30 years |
| Office furniture and equipment | 5 years  |
| Motor vehicles                 | 4 years  |

Site equipment and other items of comparatively low value are normally written off in the year of purchase as revenue expenditure on the grounds that the life expectancy of such assets cannot be predicted with reasonable certainty, although it is likely to be less than 3 years in most instances.

**Stocks**

Contracts in progress are valued individually at the lower of cost, including related overheads, and estimated net realisable value, provision being made for anticipated future losses where appropriate,

Stocks are valued at the lower of cost (ascertained on first in first out principles) and net realisable value.

**Deferred taxation**

Provision is made, where appropriate, for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes. However, no provision is made where the directors consider that a liability to taxation is unlikely to crystallise.

There is no actual or potential liability to deferred taxation for the years ended 31 December 1996 or 31 December 1995.

**Turnover**

Turnover represents the value of invoices rendered as adjusted by the variation between opening and closing valuations of contracts in progress and after making full provision for possible claims and allowances.

**Operating leases**

Operating lease rentals are charged on a straight line basis over the lease terms.

**Pension costs**

The cost of the defined benefits pension arrangements are charged to the profit and loss account as the contributions become payable to the Scheme's principal employer, How Group plc.


**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1996**
**2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

|   | 1996<br>£        | 1995<br>£        |
|---|------------------|------------------|
| <b>Directors' emoluments</b>  |                  |                  |
| Remuneration as executives  | 81,855           | 85,295           |
| Pension contributions   | 8,511            | 8,960            |
|   | <u>90,366</u>    | <u>94,255</u>    |
| Remuneration of the chairman  | -                | -                |
| Remuneration of the highest paid director (excluding pension contributions) | <u>81,855</u>    | <u>85,295</u>    |
| No other director received any remuneration.                                |                  |                  |
| <b>Average number of persons employed</b>                                   | <u>123</u>       | <u>121</u>       |
|   | £                | £                |
| <b>Staff costs during the year (including directors)</b>                    |                  |                  |
| Wages and salaries  | 2,463,389        | 2,356,106        |
| Social security costs   | 194,654          | 188,733          |
| Pension costs   | 141,975          | 140,436          |
|   | <u>2,800,018</u> | <u>2,685,275</u> |

**Pension costs**

The Company is a member of the How Group Staff Pension and Life Assurance Scheme. The Scheme is of the defined benefit type and is funded in advance by contributions at rates assessed by independent professionally qualified actuaries in valuation reports normally every three years. Particulars of the actuarial valuation are contained in the financial statements of the ultimate parent undertaking, How Group plc.

**3. OPERATING PROFIT**

|   | 1996<br>£     | 1995<br>£     |
|---|---------------|---------------|
| <b>After charging:</b>                            |               |               |
| Depreciation (including adjustments on disposals) | 82,170        | 79,488        |
| Rentals under operating leases                    |               |               |
| Land and buildings                                | 16,219        | 15,132        |
| Office equipment, vehicles and plant              | 249,464       | 217,805       |
| Auditors' remuneration:                           |               |               |
| Audit fees and expenses                           | <u>10,000</u> | <u>10,000</u> |


**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1996**
**4. TAX ON PROFIT ON ORDINARY ACTIVITIES**

|  | 1996<br>£      | 1995<br>£      |
|--|----------------|----------------|
| United Kingdom corporation tax at 33% (1995 - 33%) | 171,000        | 179,000        |
| Adjustments relating to prior periods:             |                |                |
| Corporation tax                                    | (2,766)        | 54             |
|  | <u>168,234</u> | <u>179,054</u> |

**5. TANGIBLE FIXED ASSETS**

|                                 | Freehold<br>property<br>£ | Long term<br>leasehold<br>property<br>£ | Office<br>furniture<br>and<br>equipment<br>£ | Motor<br>vehicles<br>£ | Total<br>£       |
|---------------------------------|---------------------------|---|--|------------------------|------------------|
| <b>Cost</b>                     |                           |   |  |                        |                  |
| At 1 January 1996               | 371,508                   | 159,920                                 | 286,853                                      | 196,744                | 1,015,025        |
| Additions                       | -                         | -                                       | 14,415                                       | 26,404                 | 40,819           |
| Disposals                       | -                         | -                                       | -  | (16,350)               | (16,350)         |
| Inter-group transfers           | 561,636                   | -                                       | -  | -                      | 561,636          |
| At 31 December 1996             | <u>933,144</u>            | <u>159,920</u>                          | <u>301,268</u>                               | <u>206,798</u>         | <u>1,601,130</u> |
| <b>Accumulated depreciation</b> |                           |   |  |                        |                  |
| At 1 January 1996               | 50,906                    | 31,985                                  | 242,386                                      | 100,563                | 425,840          |
| Provided in the year            | 10,717                    | 5,331                                   | 31,081                                       | 32,327                 | 79,456           |
| Disposals                       | -                         | -                                       | -  | (8,636)                | (8,636)          |
| Inter-group transfers           | 98,787                    | -                                       | -  | -                      | 98,787           |
| At 31 December 1996             | <u>160,410</u>            | <u>37,316</u>                           | <u>273,467</u>                               | <u>124,254</u>         | <u>595,447</u>   |
| <b>Net book value</b>           |                           |   |  |                        |                  |
| At 31 December 1996             | <u>772,734</u>            | <u>122,604</u>                          | <u>27,801</u>                                | <u>82,544</u>          | <u>1,005,683</u> |
| At 31 December 1995             | <u>320,602</u>            | <u>127,935</u>                          | <u>44,467</u>                                | <u>96,181</u>          | <u>589,185</u>   |

Freehold land not subject to depreciation amounts to £200,000.


**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1996**
**6. STOCKS**

|                                  | 1996<br>£      | 1995<br>£      |
|----------------------------------|----------------|----------------|
| Work in progress                 | 1,010,928      | 1,071,437      |
| Payments received on account     | (624,519)      | (667,760)      |
|                                  | <u>386,409</u> | <u>403,677</u> |
| Stocks of spares and consumables | 609,109        | 572,725        |
|                                  | <u>995,518</u> | <u>976,402</u> |

Payments received on account which are in excess of contract values are included in creditors falling due within one year (Note 8).

**7. DEBTORS**

|                                    | 1996<br>£      | 1995<br>£        |
|------------------------------------|----------------|------------------|
| Trade debtors                      | 729,213        | 1,002,100        |
| Amounts owed by Group undertakings | 145,746        | 185,049          |
| Other debtors                      | -              | 1,000            |
| Prepayments and accrued income     | 39,394         | 32,407           |
|                                    | <u>914,353</u> | <u>1,220,556</u> |

**8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

|                                       | 1996<br>£        | 1995<br>£        |
|---------------------------------------|------------------|------------------|
| Payments received on account (Note 6) | 162,939          | 249,529          |
| Trade creditors                       | 619,669          | 469,814          |
| Amounts owed to Group undertakings    | 61,390           | 105,762          |
| Corporation tax                       | 342,879          | 430,054          |
| Other taxes and social security       | 270,064          | 305,523          |
| Other creditors                       | 52,052           | 43,969           |
| Accruals and deferred income          | 235,680          | 264,806          |
| Dividend payable                      | 115,000          | -                |
|                                       | <u>1,859,673</u> | <u>1,869,457</u> |


**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1996**
**9. PROVISIONS FOR LIABILITIES AND CHARGES**

|                                       | £       |
|---------------------------------------|---------|
| Balance at 1 January 1996             | 82,351  |
| Transfer from profit and loss account | 24,442  |
|                                       | <hr/>   |
| Balance at 31 December 1996           | 106,793 |
|                                       | <hr/>   |

The above provisions relate to warranties on products delivered.

**10. CALLED UP SHARE CAPITAL**

|   | 1996<br>£ | 1995<br>£ |
|---|-----------|-----------|
| Authorised, allotted and fully paid<br>100 ordinary shares of £1 each | 100       | 100       |
|   | <hr/>     | <hr/>     |

**11. PROFIT AND LOSS ACCOUNT**

|                     | £         |
|---------------------|-----------|
| At 1 January 1996   | 1,888,021 |
| Profit for the year | 232,085   |
|                     | <hr/>     |
| At 31 December 1996 | 2,120,106 |
|                     | <hr/>     |

**12. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**

|                                     | 1996<br>£ | 1995<br>£ |
|-------------------------------------|-----------|-----------|
| Profit for the financial year       | 347,085   | 371,468   |
| Dividends                           | (115,000) | (289,419) |
|                                     | <hr/>     | <hr/>     |
| Net increase in shareholders' funds | 232,085   | 82,049    |
| Opening equity shareholders' funds  | 1,888,121 | 1,806,072 |
|                                     | <hr/>     | <hr/>     |
| Closing equity shareholders' funds  | 2,120,206 | 1,888,121 |
|                                     | <hr/>     | <hr/>     |


**NOTES TO THE ACCOUNTS**  
**Year ended 31 December 1996**
**13. FINANCIAL COMMITMENTS**
**Operating lease commitments**

The Company has the following annual obligations under operating lease commitments analysed into the period from the balance sheet date in which the leases expire:

|                          | <b>Land and<br/>buildings<br/>£</b> | <b>Other<br/>assets<br/>£</b> |
|--------------------------|-------------------------------------|-------------------------------|
| Leases which fall due    |                                     |                               |
| Within one year          | -                                   | 43,614                        |
| Within two to five years | 9,350                               | 164,553                       |
| After five years         | 6,995                               | -                             |
|                          | <u>16,345</u>                       | <u>208,167</u>                |

**14. CONTINGENT LIABILITIES**

The Company has entered into an unlimited multilateral guarantee in respect of the bank borrowings of How Group plc and its subsidiary undertakings, under which the Company had a contingent liability at 31 December 1996 of £17,285,303 (1996 - £16,369,737) relating to the overdrafts of certain companies.

**15. ULTIMATE PARENT COMPANY**

The Company's ultimate parent undertaking is How Group plc.

How Group plc is the parent undertaking of the largest group of which Climate Services Limited is a member and for which group accounts are drawn up. Copies of the accounts of this company have been delivered and are available from the Registrar of Companies, Crown Way, Maindy, Cardiff, CF4 3UZ.