

CLIMATE SERVICES LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1994



CLIMATE SERVICES LIMITED

DIRECTORS

D Summerfield (Chairman)  
D A Fox  
D Collin

SECRETARY

C S Dixon

REGISTERED OFFICE

Highlands Road  
Shirley  
Solihull  
West Midlands  
B90 4NL

REGISTERED NUMBER - 703568

AUDITORS

Touche Ross & Co  
Chartered Accountants and Registered Auditors  
Colmore Gate  
2 Colmore Row  
Birmingham  
B3 2BN

PRINCIPAL BANKERS

Midland Bank plc  
130 New Street  
Birmingham  
B2 4JU

## CLIMATE SERVICES LIMITED

(A wholly owned subsidiary of Climate Equipment Holdings Limited,  
registered in England and Wales)

### REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements of the Company for the year ended 31 December 1994.

#### DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing financial statements for each financial year which comply with the Companies Act 1985 and 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 for that period.

The financial statements should be prepared on a going concern basis unless, exceptionally, it is inappropriate to presume that the Company will continue in business. In preparing the statements the directors are required to follow applicable accounting standards and to select suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

The directors are also responsible for ensuring that proper and adequate accounting records have been maintained and that appropriate procedures have been followed for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

#### PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be the servicing of air conditioning equipment.

#### RESULTS AND DIVIDEND

Details of the results for the year are set out in the profit and loss account on Page 4.

An interim dividend of £130,000 has been paid to the parent company. No final dividend is proposed.

#### BUSINESS REVIEW

The Company enjoyed an excellent year, the predominant factor being the much higher level of additions to contract work. Although return on these works is less than the traditional core maintenance business, careful control of overheads has produced a result well ahead of forecast.

#### TANGIBLE FIXED ASSETS

Movement in tangible fixed assets during the year are detailed in Note 5 to the financial statements. During the year the Company sold and leased back the greater part of its fleet of vehicles. The proceeds of such disposals amounted to £224,000.

CLIMATE SERVICES LIMITED

REPORT OF THE DIRECTORS  
(continued)

**DIRECTORS AND THEIR INTERESTS**

The directors at 31 December 1994 were:-

D Summerfield (Chairman)  
D A Fox  
D Collin - appointed 1 August 1994

R S Parkes resigned as a director of the Company on 1 September 1994.

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 31.12.94		At 31.12.93 (or date of appointment)	
	Fully Paid	Share Options	Fully Paid	Share Options
D A Fox	187,364	156,000	187,364	76,000
D Collin	-	50,000	30,000	50,000

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

**AUDITORS**

The Birmingham partnership of BDO Binder Hamlyn merged their practice with Touche Ross & Co on 1 October 1994 and now carry on business under the name of Touche Ross & Co. The directors consented to the appointment of the Birmingham partnership of BDO Binder Hamlyn as auditors of the company being treated as extending to Touche Ross & Co. A resolution to re-appoint Touche Ross & Co as auditors will be proposed at the Annual General Meeting.

This report was approved by the Board on 20 April 1995.



C S Dixon  
Secretary

AUDITORS' REPORT

TO THE MEMBERS OF CLIMATE SERVICES LIMITED

We have audited the financial statements on pages 4 to 12 which have been prepared on the basis of the accounting policies set out on pages 6 and 7.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 1, 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 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 affairs of the Company as at 31 December 1994 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Touche Ross & Co*

Touche Ross & Co  
Chartered Accountants and Registered Auditors  
Colmore Gate  
2 Colmore Row  
Birmingham  
B3 2BN

5 June 1995

CLIMATE SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1994

	Notes	1994 £	1993 £
TURNOVER		6,594,527	6,192,673
Cost of sales		(4,002,634)	(3,722,690)
		<hr/>	<hr/>
GROSS PROFIT		2,591,893	2,469,983
Administrative expenses		(1,912,193)	(2,002,352)
		<hr/>	<hr/>
OPERATING PROFIT	2	679,700	467,631
Interest receivable and similar income		1,803	6,074
Interest payable		(13)	(10)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		681,490	473,695
Tax on profit on ordinary activities	3	(297,909)	(161,000)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		383,581	312,695
Interim dividend payable		(130,000)	(200,000)
		<hr/>	<hr/>
Retained profits for the year		253,581	112,695
Retained profits brought forward		1,552,391	1,439,696
		<hr/>	<hr/>
RETAINED PROFITS CARRIED FORWARD		£1,805,972	£1,552,391
		<hr/>	<hr/>

All activities derive from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than as stated above in the Profit and Loss Account.

CLIMATE SERVICES LIMITED

BALANCE SHEET AT 31 DECEMBER 1994

	Notes	1994 £	1993 £
TANGIBLE FIXED ASSETS	5	634,421	952,703
CURRENT ASSETS			
Stocks	6	1,218,263	1,132,647
Debtors	7	882,406	870,942
Cash at bank and in hand		1,168,728	791,712
		<hr/>	<hr/>
		3,269,397	2,795,301
CREDITORS (amounts falling due within one year)	8	(2,031,391)	(2,135,828)
		<hr/>	<hr/>
NET CURRENT ASSETS		1,238,006	659,473
		<hr/>	<hr/>
TOTAL ASSETS			
LESS CURRENT LIABILITIES		1,872,427	1,612,176
PROVISIONS FOR LIABILITIES AND CHARGES	9	(66,355)	(59,685)
		<hr/>	<hr/>
NET ASSETS		£1,806,072	£1,552,491
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	10	100	100
Profit and loss account		1,805,972	1,552,391
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS	11	£1,806,072	£1,552,491
		<hr/>	<hr/>

The financial statements set out on pages 4 to 12 were approved by the Board on 20 April 1995.

D A Fox  
Director

CLIMATE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1994

1 ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the Company's financial statements.

(a) ACCOUNTING CONVENTION

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

(b) 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.

(c) STOCKS

(i) 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.

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

(d) DEFERRED TAXATION

Provision is made for deferred taxation, where appropriate, 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 1994 or 31 December 1993.



CLIMATE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
(continued)

1 ACCOUNTING POLICIES (cont'd)

(e) TURNOVER

Turnover represents the invoiced value of goods supplied and services rendered as adjusted by the variation between opening and closing valuations of contracts in progress and after making full provision for potential claims and allowances.

(f) OPERATING LEASES

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

(g) 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.

2 OPERATING PROFIT

After charging:	1994 £	1993 £
Depreciation (including adjustments on disposals)	176,066	220,133
Auditors remuneration - audit fees and expenses	7,000	7,000
Operating lease charges - land and buildings	16,892	15,526
- office equipment and vehicles	66,237	25,390
	<hr/>	<hr/>

3 TAX ON PROFIT ON ORDINARY ACTIVITIES

UK corporation tax at 33% (1993 - 33%) based on profit for the year	251,000	161,000
Adjustments relating to prior periods: Corporation tax	46,909	-
	<hr/>	<hr/>
	£297,909	£161,000
	<hr/>	<hr/>

The tax charge for the year has been increased as a result of disclaiming capital allowances in order to enhance future tax relief.

CLIMATE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
(continued)

4 INFORMATION REGARDING DIRECTORS  
AND OTHER EMPLOYEES

- (i) The average number of persons employed by the Company during the year, including directors, was 121 (1993 - 128).

Total employee remuneration, including that of directors, was:	1994 £	1993 £
Wages and salaries	2,253,089	2,242,395
Social security costs	182,415	181,096
Other pension costs	142,083	85,177
	<hr/>	<hr/>
	£2,577,587	£2,508,668
	<hr/>	<hr/>

(ii) DIRECTORS' EMOLUMENTS

Directors' emoluments comprise:-

Remuneration as executives	75,982	68,498
Pension contributions	3,563	5,104
	<hr/>	<hr/>
	£79,545	£73,602
	<hr/>	<hr/>
The emoluments of the Chairman	£ -	£ -
	<hr/>	<hr/>
The emoluments of the highest paid director (excluding pension contributions)	£75,982	£68,498
	<hr/>	<hr/>
Other directors' emoluments (excluding pension contributions) for the year were within the following bands:	Number	Number
£0 - £5,000	2	2
	<hr/>	<hr/>

(iii) 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.

CLIMATE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
(continued)

5 TANGIBLE FIXED ASSETS

	Freehold property £	Long term leasehold property £	Office furniture and equipment £	Motor vehicles £	Total £
<b>COST</b>					
At 1 January 1994	371,508	159,920	250,152	869,766	1,651,346
Additions	-	-	16,503	128,675	145,178
Disposals	-	-	-	(792,044)	(792,044)
Intercompany transfers	-	-	-	10,468	10,468
<b>At 31 December 1994</b>	<b>371,508</b>	<b>159,920</b>	<b>266,655</b>	<b>216,865</b>	<b>1,014,948</b>
<b>DEPRECIATION</b>					
At 1 January 1994	29,472	21,323	183,480	464,368	698,643
Provided in year	10,717	5,331	30,876	129,876	176,800
Disposals	-	-	-	(501,924)	(501,924)
Intercompany transfers	-	-	-	7,008	7,008
<b>At 31 December 1994</b>	<b>40,189</b>	<b>26,654</b>	<b>214,356</b>	<b>99,328</b>	<b>380,527</b>
<b>NET BOOK VALUE</b>					
At 31 December 1994	331,319	133,266	52,299	117,537	£634,421
<b>At 31 December 1993</b>	<b>342,036</b>	<b>138,597</b>	<b>66,672</b>	<b>405,398</b>	<b>£952,703</b>

6 STOCKS

	1994 £	1993 £
Work in progress	1,029,460	1,305,288
Payments received on account	(306,705)	(777,538)
	<hr/>	<hr/>
	722,755	527,750
Stocks of spares and consumables	495,508	604,897
	<hr/>	<hr/>
	£1,218,263	£1,132,647
	<hr/>	<hr/>

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

CLIMATE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
(continued)

7 DEBTORS	1994 £	1993 £
Trade debtors	654,433	560,623
Amounts owed by Group undertakings	195,464	246,117
Other debtors	4,783	2,958
Prepayments and accrued income	27,726	61,244
	<hr/>	<hr/>
	£882,406	£870,942
	<hr/>	<hr/>
 8 CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)		
Payments received on account (Note 6)	332,933	333,494
Trade creditors	435,224	466,237
Contract completion costs	6,250	38,000
Amounts owed to Group undertakings	38,833	104,547
Corporation tax	459,258	387,020
Other taxes and social security	306,038	293,857
Other creditors	54,466	45,263
Accruals and deferred income	268,389	267,410
Dividend payable	130,000	200,000
	<hr/>	<hr/>
	£2,031,391	£2,135,828
	<hr/>	<hr/>
 9 PROVISIONS FOR LIABILITIES AND CHARGES		
At 1 January 1994	59,685	56,498
Transfer from profit and loss account	6,670	3,187
	<hr/>	<hr/>
At 31 December 1994	£66,355	£59,685
	<hr/>	<hr/>
The above provisions relate to warranties on products delivered.		
 10 CALLED UP SHARE CAPITAL	1994	1993
Authorised, allotted and fully paid		
100 ordinary shares of £1 each	£100	£100
	<hr/>	<hr/>

CLIMATE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
(continued)

11 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS	1994 £	1993 £
Profit for the financial year	383,581	312,695
Dividends	(130,000)	(200,000)
	<hr/>	<hr/>
Net increase in shareholders' funds	253,581	112,695
Opening shareholders' funds	1,552,491	1,439,796
	<hr/>	<hr/>
Closing equity shareholders' funds	£1,806,072	£1,552,491
	<hr/>	<hr/>

12 CONTINGENT LIABILITIES

The Company has entered into an unlimited multilateral guarantee in respect of the bank borrowing of How Group plc and its subsidiary undertakings, under which the company had a contingent liability at 31 December 1994 of £20,406,231 (1993 - £21,146,305) relating to the overdrafts of certain companies.

13 CAPITAL COMMITMENTS	1994	1993
Authorised, but not contracted for	£95,500	£82,500
	<hr/>	<hr/>

14 FINANCIAL OBLIGATIONS

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:

<u>Land and buildings</u>		
Within one year	-	3,000
Within two to five years	4,500	-
After five years	11,846	11,846
	<hr/>	<hr/>
	£16,346	£14,846
	<hr/>	<hr/>
<u>Other assets</u>		
Within one year	15,025	-
Within two to five years	146,889	45,202
	<hr/>	<hr/>
	£161,914	£45,202
	<hr/>	<hr/>

CLIMATE SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS  
(continued)

15 PARENT UNDERTAKING

The company's ultimate parent undertaking is How Group plc, registered in England and Wales.

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.

CLIMATE SERVICES LIMITED

TRADING ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1994

	1994		1993	
	£	£	£	£
<b>TURNOVER</b>				
Sales		6,870,355		5,809,763
Add: Closing work in progress		1,029,460		1,305,288
		<hr/>		<hr/>
		7,899,815		7,115,051
Less: Opening work in progress		1,305,288		922,378
		<hr/>		<hr/>
		6,594,527		6,192,673
		<hr/>		<hr/>
 <b>COST OF SALES</b>				
Direct costs:				
Materials and other external charges	2,276,289		2,025,429	
Direct labour (including N.I.)	1,117,722		1,148,907	
Operatives' expenses	81,459		72,038	
	<hr/>	3,475,470	<hr/>	3,246,374
Indirect costs:				
Non productive labour	156,995		115,114	
Holiday and sick pay	154,051		144,127	
Tool and equipment repairs	34,518		43,187	
Consumables	22,931		16,721	
Commercial vehicle expenses	179,216		173,184	
Service charges on intergroup labour	(20,547)		(16,017)	
	<hr/>	527,164	<hr/>	476,316
		<hr/>		<hr/>
		4,002,634		3,722,690
		<hr/>		<hr/>
<b>GROSS PROFIT</b>		2,591,893		2,469,983
Less: Overheads (per attached schedule)		1,912,193		2,002,352
		<hr/>		<hr/>
<b>OPERATING PROFIT FOR THE YEAR</b>		£679,700		£467,631
		<hr/>		<hr/>

For the information of the directors

CLIMATE SERVICES LIMITED

SCHEDULE OF OVERHEAD EXPENSES

FOR THE YEAR ENDED 31 DECEMBER 1994

	1994		1993	
	£	£	£	£
Staff salaries and temporary staff		773,134		824,980
Staff NI		84,718		89,771
Group management and finance charges		253,178		333,519
Rent and rates		53,743		53,512
Insurances		31,724		26,349
Pension schemes		174,067		119,596
Lighting and heating		18,578		14,492
Printing, stationery, drawing				
office materials and advertising		33,515		32,585
Telephone		65,081		64,902
Travelling and entertainment expenses		26,440		29,950
Postage, cleaning and sundry				
trade expenses		52,380		39,640
Motor expenses		124,005		77,785
Audit and accountancy charges		7,000		7,000
Bank charges		6,512		6,026
Repairs and renewals:				
Furniture and office equipment	10,948		7,529	
Buildings	6,491		7,586	
		17,439		15,115
Legal and professional charges		3,177		5,031
Depreciation:				
Fixtures and office equipment	30,876		36,377	
Motor vehicles	129,876		171,330	
Property	16,048		16,048	
		176,800		223,755
Training costs		8,429		16,753
Subscriptions and donations		2,236		2,207
Bad debts		1,576		6,979
Consultancy fees		8,351		13,662
Computer costs		10,348		11,323
		1,932,431		2,014,932
Deduct: Miscellaneous income:-				
Discounts received	19,504		8,958	
Profit on sale of fixed assets	734		3,622	
		20,238		12,580
NET OVERHEAD EXPENSES		£1,912,193		£2,002,352

For the information of the directors