

Registrar's copy

HOW ENGINEERING SERVICES NORTHERN LIMITED

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1985



HOW ENGINEERING SERVICES NORTHERN LIMITED

DIRECTORS

C J Parkinson (Chairman)
P C How
A Hogarth
J Evans
B A Jones
K H Clayton
P P Gorman
J B Allen

SECRETARY

E Crow

REGISTERED OFFICE

26 Buxton Road
Hazel Grove
Stockport
Cheshire
SK7 6AF

AUDITORS

Binder Hamlyn
The Rotunda
150 New Street
Birmingham
B2 4PD

PRINCIPAL BANKERS

Midland Bank plc
130 New Street
Birmingham
B2 4JU

Barclays Bank plc
15 Bridge Street
Stockport
Cheshire
XK1 1XU

HOW ENGINEERING SERVICES NORTHERN LIMITED
(A wholly owned subsidiary of How Engineering Services Limited,
incorporated in England)

REPORT OF THE DIRECTORS

The directors present their annual report and the financial statements of the company for the year ended 31 December 1985.

ACTIVITIES

The principal activity of the company continues to be that of the design, supply and installation of services to buildings.

GROUP FINANCIAL STATEMENTS

As How Engineering Services Northern Limited is a wholly owned subsidiary of How Engineering Services Limited, group financial statements are not submitted in respect of the company and its subsidiary.

In the opinion of the directors the value of the company's investment in its subsidiary is not less than the amount at which it is stated in the Balance Sheet.

RESULTS AND DIVIDEND

The trading result for the year is shown in the profit and loss account on page 4. The directors do not recommend the payment of a dividend.

REVIEW OF THE BUSINESS

The improved results have been achieved in slightly improved market conditions. The current forward work load is encouraging.

FIXED ASSETS

The changes in fixed assets during the year are shown in note 5 to the financial statements.

DIRECTORS AND THEIR INTERESTS

The directors at 31 December 1985 were:-

C J Parkinson (Chairman)
P C How
A Hogarth
J Evans
B A Jones
K H Clayton
P P Gorman
J B Allen

HOW ENGINEERING SERVICES NORTHERN LIMITED

REPORT OF THE DIRECTORS
(continued)

DIRECTORS AND THEIR INTERESTS (continued)

The directors hold no shares of the company.

The directors who are not directors of the ultimate holding company, Capriranch Limited, held the following £1 ordinary shares in that company:-

	At 31 December 1985 Capriranch Ltd	At 31 December 1984 How Group Ltd
J Evans	7,000	7,000
B A Jones	7,000	7,000
K H Clayton	2,500	2,500
P P Gorman	2,500	2,500
J B Allen	1,500	1,000

In accordance with the Articles of Association directors are not required to seek re-election.

AUDITORS

Binder Hamlyn offer themselves for reappointment in accordance with Section 384(1) Companies Act 1985.

6 June 1986

26 Buxton Road
Hazel Grove
Stockport
Cheshire
SK7 6AF

BY ORDER OF THE BOARD

E CROW

Secretary

HOW ENGINEERING SERVICES NORTHERN LIMITED

**REPORT OF THE AUDITORS TO THE MEMBERS OF
HOW ENGINEERING SERVICES NORTHERN LIMITED**

We have audited the financial statements set out on pages 4 to 13 in accordance with approved Auditing Standards.

As stated on page 7 provision has not been made for depreciation of long term leasehold buildings and, in this respect the financial statements do not comply with the Statement of Standard Accounting Practice No 12. We are satisfied that the effect of this departure from the Standard is not material.

In our opinion the financial statements, which have been prepared on the basis of the accounting policies set out on pages 7 and 8, give a true and fair view of the state of affairs of the company at 31 December 1985 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

The Rotunda
150 New Street
Birmingham B2 4PD
6 June 1986

BINDER HAMLYN

Chartered Accountants

HOW ENGINEERING SERVICES NORTHERN LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1985

	Notes	1985 £	1984 £
TURNOVER	1	19,513,114	13,732,710
Cost of sales		(17,445,959)	(12,206,317)
GROSS PROFIT		2,067,155	1,526,393
Administrative expenses		(1,881,823)	(1,659,451)
		185,332	(133,058)
Other operating income		6,611	7,545
OPERATING PROFIT		191,943	(125,513)
Interest receivable and similar income		41,162	30,613
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	233,105	(94,900)
Tax charge on profit on ordinary activities	3	(93,618)	32,487
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		139,487	(62,413)
Extraordinary income		-	10,000
PROFIT FOR THE FINANCIAL YEAR		139,487	(52,413)
Retained profits brought forward		525,318	577,731
RETAINED PROFITS CARRIED FORWARD		£664,805	£525,318

The notes set out on pages 7 to 13 form part of these financial statements

HOW ENGINEERING SERVICES NORTHERN LIMITED

BALANCE SHEET AT 31 DECEMBER 1985

	Notes	1985 £	1984 £
TANGIBLE FIXED ASSETS	5	440,192	293,944
FIXED ASSET INVESTMENT	6	10,000	10,000
CURRENT ASSETS			
Stocks	7	529,297	3,430,447
Debtors	8	3,972,403	1,845,977
Cash at bank and in hand		287,219	6,733
		<u>4,788,919</u>	<u>5,283,157</u>
CREDITORS: amounts falling due within one year	9	(4,512,864)	(5,112,457)
NET CURRENT ASSETS		<u>276,055</u>	<u>170,700</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>726,247</u>	<u>474,644</u>
DEFERRED TAXATION	10	(4,731)	107,385
NET ASSETS		<u>£721,516</u>	<u>£582,029</u>
CAPITAL AND RESERVES			
Called up share capital	11	10,000	10,000
Other reserves		46,711	46,711
Profit and loss account		664,805	525,318
		<u>£721,516</u>	<u>£582,029</u>

Signed on behalf of the Board

C J PARKINSON)

) Directors

P. C HOW)

Date of approval: 6 June 1986

The notes set out on pages 7 to 13 form part of these financial statements

HOW ENGINEERING SERVICES NORTHERN LIMITED
STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 1985

	1985	1984
	£	£
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	233,105	(94,900)
Adjustment for item not involving the movement of funds:		
Depreciation	143,978	133,356
GENERATED BY TRADING OPERATIONS	377,083	38,456
OTHER SOURCES		
Proceeds from sale of tangible fixed assets	43,700	78,487
Taxation received - Group relief	268,420	64,476
	312,120	142,963
	689,203	181,419
APPLICATION OF FUNDS		
Purchase of tangible fixed assets	333,926	205,038
	333,926	205,038
INCREASE IN WORKING CAPITAL	£355,277	£(23,619)
Comprising:-		
Decrease in stocks	(2,901,150)	2,167,601
Increase in debtors	368,485	501,464
Decrease in creditors (excluding bank overdrafts and taxation)	565,771	(1,009,757)
Increase in inter-group indebtedness	2,095,047	119,988
	128,153	1,779,296
MOVEMENT IN NET LIQUID FUNDS:		
Increase in bank balances and cash	227,124	(1,802,915)
	£ 355,277	£ (23,619)

HOW ENGINEERING SERVICES NORTHERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1985

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.

1 ACCOUNTING CONVENTION

The financial statements have been prepared under the historical cost convention.

2 TANGIBLE FIXED ASSETS AND DEPRECIATION

Provision is not made for the depreciation of long term leasehold buildings as required by Statement of Standard Accounting Practice No 12, as the directors consider that these assets have an increasing value and do not require to be depreciated.

Depreciation of other tangible fixed assets is calculated to write off the excess of cost over estimated residual value over the anticipated useful lives by equal annual instalments at the following rates:-

Plant, furniture and office equipment	10%-20%
Motor vehicles	25%

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.

3 STOCKS

Work in progress is valued at the lower of cost (comprising materials, labour, direct expenses and related overheads) and net realisable value, on an individual contract basis, and including all that expenditure incurred in respect of uncompleted contracts which has not been invoiced to customers by the balance sheet date. Net realisable value is defined as representing the estimated amounts receivable from a contract less the total attributable further costs to completion. As the outcome of the majority of contracts in progress cannot reasonably be assessed before their conclusion, it is considered that it would be imprudent to have regard to profit attributable to that proportion of the work carried out by the end of the financial year.

Stocks is valued at the lower of cost, ascertained on first in, first out principles, and net realisable value after making due provision in respect of redundant, obsolete and defective stocks.

HOW ENGINEERING SERVICES NORTHERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(continued)

4 EXTRAORDINARY ITEMS

Extraordinary items are those items which derive from events or transactions outside the ordinary activities of the business, which are not expected to occur frequently.

5 DEFERRED TAXATION

Deferred taxation is provided at the current rate of corporation tax on differences which arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

As it is not considered practicable to predict the future levels of capital expenditure, the directors are of the opinion that it is prudent to provide in full for the related deferred taxation arising from accelerated capital allowances.

6 HIRE OF PLANT

As the majority of expenditure under this heading is normally costed direct to contracts the directors are of the opinion that it would be impracticable to evaluate the amounts involved, and that in any event the information would have little relevance having regard to the nature of the company's activities and to its capitalisation policy with regard to consumable site equipment.

HOW ENGINEERING SERVICES NORTHERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS
(continued)

1 TURNOVER

Turnover represents the value of invoices rendered (other than progress applications) in respect of goods delivered and installation work carried out after deducting trade discounts, value added tax and making full provision for possible claims and allowances.

2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1985 £	1984 £
This profit is stated after charging:		
Directors' emoluments (note 4)	95,371	90,904
Depreciation (including adjustments on disposals)	143,978	133,356
Auditors' remuneration	5,500	5,000
	<hr/>	<hr/>
And after crediting:		
Group interest receivable	41,162	30,613
	<hr/>	<hr/>

3 TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

Corporation tax at 41.26% (1984 - 46.25%) based on the profit for the year	(11,500)	60,000
Transfer from deferred taxation	110,641	(99,842)
	<hr/>	<hr/>
	99,141	(39,842)
Prior year adjustments	(5,523)	7,355
	<hr/>	<hr/>
	£ 93,618	£ (32,487)

HOW ENGINEERING SERVICES NORTHERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 INFORMATION REGARDING EMPLOYEES INCLUDING DIRECTORS

The average number of persons employed by the company during the year was made up as follows:-

	1985 Number	1984 Number
Production	298	240
Administrative	37	31
Management	9	8
	<u>344</u>	<u>279</u>

The total staff costs were:-

	£	£
Wages and salaries	3,193,460	2,317,633
Social security costs	275,716	218,379
Other pension costs	79,784	71,736
	<u>£3,548,960</u>	<u>£2,607,748</u>

Directors' emoluments for management, are as follows:-

Chairman	-	-
Highest paid director	18,550	17,950

Other directors' remuneration is within the following bands:-

	Number	Number		
£ 0 - £ 5,000	2	2	-	-
£10,001 - £15,000	-	1	-	14,650
£15,001 - £20,000	4	3	67,609	49,750
			<u>86,159</u>	<u>82,350</u>
Pension contributions			9,212	8,554
			<u>£95,371</u>	<u>£90,904</u>

All directors emoluments are paid and borne by How Group Limited.

HOW ENGINEERING SERVICES NORTHERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 TANGIBLE FIXED ASSETS

	Total £	Longterm leasehold property £	Plant and equipment £	Motor vehicles £
Cost				
At 31 December 1984	573,001	-	140,055	432,946
Additions	333,926	79,700	33,345	220,881
Disposals	(146,085)	-	-	(146,085)
At 31 December 1985	<u>760,842</u>	<u>79,700</u>	<u>173,400</u>	<u>507,742</u>
Depreciation				
At 31 December 1984	279,057	-	83,779	195,278
Provided in year	149,676	-	29,004	120,672
Disposals	(108,083)	-	-	(108,083)
At 31 December 1985	<u>320,650</u>	<u>-</u>	<u>112,783</u>	<u>207,867</u>
Net book value				
At 31 December 1985	<u>£440,192</u>	<u>£79,700</u>	<u>£60,617</u>	<u>£299,875</u>
At 31 December 1984	<u>£293,944</u>	<u>£ -</u>	<u>£56,276</u>	<u>£237,668</u>
			1985	1984

Capital Commitments:

Authorised but not contracted for	<u>£33,273</u>	<u>£48,782</u>
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6 FIXED ASSET INVESTMENT

Investment in subsidiary company at cost	<u>£10,000</u>	<u>£10,000</u>
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The company's subsidiary company, which is wholly owned and incorporated in Scotland, is How Engineering Services Scotland Limited.

HOW ENGINEERING SERVICES NORTHERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(continued)

7 STOCKS	1985 £	1984 £
Work in progress	6,027,554	9,323,505
Progress payments	(5,532,495)	(5,933,384)
	<hr/>	<hr/>
	495,059	3,390,121
Raw materials and consumables	34,238	40,326
	<hr/>	<hr/>
	£ 529,297	£3,430,447

Progress payments which are in excess of contract values are included in creditors due within one year (note 9).

8 DEBTORS		
Trade debtors	1,771,374	1,213,471
Amounts owed by group companies	2,075,876	44,018
Value added tax	53,971	263,021
Other debtors	49,843	29,535
Prepayments and accrued income	21,339	22,015
Group relief receivable	-	273,917
	<hr/>	<hr/>
	£3,972,403	£1,845,977

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank overdraft (note 12)	1,378,191	1,324,829
Progress payments (note 7)	476,878	272,819
Trade creditors	2,034,202	2,948,175
Contract completion costs	262,296	106,342
Amounts owed to group companies	147,385	210,574
Income taxes and social security	94,924	103,984
Accruals and deferred income	75,772	69,377
Corporation tax payable	36,005	60,000
Other creditors	7,211	10,357
	<hr/>	<hr/>
	£4,512,864	£5,112,457

HOW ENGINEERING SERVICES NORTHERN LIMITED

NOTES TO THE FINANCIAL STATEMENTS
(continued)

10 DEFERRED TAXATION	1985 £	1984 £
Balance at 31 December 1984	(107,385)	8,185
Transfer from profit and loss account	112,116	(115,570)
Balance at 31 December 1985	£ 4,731	£ (107,385)

The amounts of deferred taxation provided in the financial statements are made up as follows:-

Accelerated capital allowances	4,731	8,970
Other timing differences	-	(116,355)
Full potential liability	£ 4,731	£ (107,385)

11 CALLED UP SHARE CAPITAL

Authorised, allotted and fully paid 10,000 ordinary shares of £1 each	£10,000	£10,000
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12 BANK GUARANTEES

The company has given security and there are inter company guarantees within the group covering bank overdrafts.

13 ULTIMATE HOLDING COMPANY

The company's ultimate holding company, following the group reconstruction which took place in June 1985, is Caprivan Limited, incorporated in England.