

725578

HOW ENGINEERING SERVICES LIMITED
AND ITS SUBSIDIARY COMPANIES

DIRECTORS' REPORT

AND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1987



HOW ENGINEERING SERVICES LIMITED

(A wholly owned subsidiary of How Group plc, incorporated in England)

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements of the Group for the year ended 31 December 1987.

PRINCIPAL ACTIVITIES

The principal activities of the Group continue to be the design, supply and installation of services to buildings.

RESULTS AND DIVIDEND

Details of the consolidated profit and appropriations for the year are set out in the profit and loss account on Page 5.

The Company has paid an interim dividend of £1,350,000 to its parent company in respect of the year. No final dividend is proposed.

BUSINESS REVIEW

The Group increased its turnover by approximately 50 per cent compared to 1986 and this led to a doubling of profit before taxation.

The Group entered the present year with strong order books and it is therefore anticipated that further growth will be achieved in 1988.

FIXED ASSETS

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

The directors are of the opinion that the open market value of land and buildings exceeded book value by approximately £450,000 at the balance sheet date.

DIRECTORS AND THEIR INTERESTS

The directors at 31 December 1987 and their beneficial interests in the 10p ordinary shares of How Group plc, the ultimate holding company, were:-

	At 31.12.87		At 31.12.86	
	Fully paid	Share options	Fully paid	Share options
Directors acting throughout the year:				
J D Stratton (Chairman)	1,715,000	63,333	250,000	-
A Hogarth	4,003,830	-	607,690	-
A G Lawson	182,000	25,166	25,000	500
C J Parkinson	1,512,000	27,777	220,000	-
J Watson	252,000	45,833	35,000	2,500

HOW ENGINEERING SERVICES LIMITED

REPORT OF THE DIRECTORS

(continued)

DIRECTORS AND THEIR INTERESTS (cont'd)

	At 31.12.87		At date of appointment	
	Fully paid	Share options	Fully paid	Share options
Appointed 2 January 1987:				
I D Clunie	-	85,555	-	10,000
Appointed 18 February 1987:				
R G Abbott	420,000	8,500	60,000	500
J B Allen	112,000	49,333	15,000	3,000
J C Burke	175,000	21,833	25,000	500
K H Clayton	175,000	7,388	25,000	500
R E D Cotterill	35,000	11,166	5,000	500
C K Delve	70,000	16,277	10,000	500
P Elsworth	70,000	8,500	10,000	500
J Evans	490,000	16,833	70,000	500
P P Gorman	175,000	19,055	25,000	500
R D Goundry	147,000	31,833	20,000	500
P B Hession	77,000	76,333	10,000	8,000
R D H Holtom	140,000	15,333	20,000	1,000
D E Hudson	-	15,166	-	500
B A Jones	490,000	16,833	70,000	500
M S Lea	35,000	24,055	5,000	2,500
S B Lee	-	17,500	-	2,500
J S Moore	70,000	12,388	10,000	500
R H Poole	77,000	82,666	10,000	8,000
C Prandle	35,000	35,833	5,000	2,500
M Rooney	35,000	35,833	5,000	2,500
K L Sandoz	175,000	11,166	25,000	500
M J Silvester	-	26,500	-	2,500
W F Stanton	77,000	50,000	10,000	5,000
B P Turner	35,000	29,166	5,000	2,500
P A Wilcock	35,000	29,166	5,000	2,500
Appointed 8 April 1987:				
J E Hall	140,000	21,833	20,000	500
Appointed 2 November 1987:				
R A S Essery	-	5,000	-	-

In addition, T M Halligan, C R Palmer and J C Denham have also served as directors during the year.

In accordance with the Articles of Association directors are not required to retire by rotation, but R A S Essery who has been appointed since the last annual general meeting is required to retire. However, being eligible, he offers himself for re-election.

The directors hold no shares of the Company.

HOW ENGINEERING SERVICES LIMITED

REPORT OF THE DIRECTORS (continued)

EMPLOYEES

For many years the Group has followed a policy of investment in employees which is backed up by extensive training programmes. Wherever possible, management succession is achieved from within the Group's own trained staff and many of the senior and middle management have enjoyed long-term careers with the Group. It is an essential part of the Group's philosophy that employee commitment is strengthened by share ownership. This concept is evidenced by the establishment by its parent company, ~~How~~ Group plc, of Executive and Savings Related Share Option Schemes.

The Group encourages the employment of disabled persons wherever practicable according to the circumstances of each situation. Particular efforts are made to retain the services of existing employees who become disabled.

CHARITABLE AND POLITICAL CONTRIBUTIONS

Charitable contributions amounted to £2,000 during the year. There were no political contributions.

AUDITORS

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

6 May 1988

Intersection House
West Bromwich
West Midlands
B70 6RX

BY ORDER OF THE BOARD

C S Dixon
Secretary

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

We have audited the financial statements set out on pages 5 to 16 in accordance with approved Auditing Standards.

In our opinion the financial statements, which have been prepared on the basis of the accounting policies set out on pages 8 and 9, give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1987 and of the profit and source and application of funds of the Group for the year then ended and comply with the Companies Act 1985.

The Rotunda
150 New Street
Birmingham
B2 4PD.

6 May 1988

BINDER HAMLYN
Chartered Accountants

HOW ENGINEERING SERVICES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1987

	Notes	1987 £000	1986 £000
TURNOVER		125,205	83,603
Cost of sales		(109,104)	(71,921)
GROSS PROFIT		16,101	11,682
Administrative expenses		(13,777)	(11,084)
Other operating income		122	111
Interest receivable and similar income		<u>45</u>	<u>542</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	2,491	1,251
Tax on profit on ordinary activities	3	<u>(931)</u>	<u>(530)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,560	721
Dividend		<u>(1,350)</u>	<u>(11)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR		<u>210</u>	<u>710</u>

The notes set out on pages 8 to 16 form part of these financial statements.

HOW ENGINEERING SERVICES LIMITED

BALANCE SHEETS AT 31st DECEMBER 1986

	Notes	Group		Company	
		1987 £000	1986 £000	1987 £000	1986 £000
FIXED ASSETS					
Tangible assets	5	3,380	2,517	3,334	145
Investments	6	-	-	197	197
		<hr/>	<hr/>	<hr/>	<hr/>
		3,380	2,517	3,531	342
CURRENT ASSETS					
Stocks	7	12,602	10,995	12,326	-
Debtors	8	12,051	14,947	13,597	5,500
Cash at bank and in hand		3,690	71	3,627	-
Current investments		3,692	4,750	3,692	4,750
		<hr/>	<hr/>	<hr/>	<hr/>
		32,035	30,763	33,242	10,250
CREDITORS (amounts falling due within one year)	9	(31,518)	(30,187)	(33,159)	(10,209)
		<hr/>	<hr/>	<hr/>	<hr/>
NET CURRENT ASSETS		517	576	83	41
TOTAL ASSETS		<hr/>	<hr/>	<hr/>	<hr/>
LESS CURRENT LIABILITIES		3,897	3,093	3,614	383
CREDITORS (amounts falling due after more than one year)	10	(1,007)	(306)	(1,007)	-
DEFERRED TAXATION	11	91	(16)	91	(40)
		<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS		2,981	2,771	2,698	343
		<hr/>	<hr/>	<hr/>	<hr/>
CAPITAL AND RESERVES					
Called up share capital	12	198	198	198	198
Profit and loss account	13	2,756	2,546	2,500	145
Other reserves	13	27	27	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
SHAREHOLDERS' FUNDS		2,981	2,771	2,698	343
		<hr/>	<hr/>	<hr/>	<hr/>

Signed on behalf of the Board

J D Stratton

) 
) Directors

A Hogarth

) 

Date of approval 6 May 1988

The notes set out on pages 8 to 16 form part of these financial statements.

HOW ENGINEERING SERVICES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1987

SOURCE OF FUNDS	1987		1986	
	£000	£000	£000	£000
Profit on ordinary activities before taxation		2,491		1,251
Adjustment for item not involving the movement of funds:				
Depreciation		<u>858</u>		<u>828</u>
GENERATED BY TRADING OPERATIONS		3,349		2,079
OTHER SOURCES				
Proceeds from sale of tangible fixed assets	210		218	
Taxation recovered (net)	-		93	
Disposal of subsidiary company	-		1	
	<u>210</u>		<u>312</u>	
		3,559		2,391
APPLICATION OF FUNDS				
Purchase of tangible fixed assets	1,931		1,718	
Dividend	1,350		11	
Taxation paid (net)	<u>787</u>	<u>4,068</u>	<u>-</u>	<u>1,729</u>
DECREASE IN WORKING CAPITAL		<u>(509)</u>		<u>662</u>
Comprising:-				
Increase in stocks	1,607		5,571	
Decrease in debtors	(3,186)		5,907	
Increase in creditors (excluding taxation)	(5,241)		(5,417)	
Inter-group indebtedness	<u>14</u>	(6,806)	<u>(1,451)</u>	4,610
INCREASE IN NET LIQUID FUNDS:				
Bank balances and cash	7,355		(8,698)	
Current investments	<u>(1,058)</u>	<u>6,297</u>	<u>4,750</u>	<u>(3,948)</u>
		<u>(509)</u>		<u>662</u>

HOW ENGINEERING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

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

(a) BASIS OF CONSOLIDATION

The Group financial statements are prepared under the historical cost convention and consolidate the financial statements of the Company and its subsidiaries, which are made up to 31 December in each year.

(b) TANGIBLE FIXED ASSETS AND DEPRECIATION

Provision is not made for the depreciation of freehold and long term leasehold buildings, as required by Statement of Standard Accounting Practice 12, as the directors consider that these assets have an increasing value and do not require to be depreciated. The effect of the departure from the Standard has reduced the charge for depreciation in these financial statements by approximately £12,000, and is not considered to be material.

Expenditure in respect of short term leasehold property up to the end of 1986 is written off over 5 years. Subsequent expenditure is being written off over the remaining terms of the leases.

Depreciation of other tangible fixed assets is calculated on cost on a straight line basis at the following annual rates, so as to write down the value of the assets to estimated residual value over their anticipated useful lives:-

Plant, equipment and fixtures	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.

(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.

In the case of certain substantial long term contracts an element of profit, prudently estimated, is also included. However, as the outcome of the majority of contracts cannot reasonably be assessed before their completion, it is considered that it would be imprudent to have regard to accrued profit on these contracts.

HOW ENGINEERING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(continued)

(c) STOCKS (continued)

(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, using the liability method, for taxation deferred by capital allowances on fixed assets.

It is not considered practicable to predict future levels of capital expenditure and accordingly the directors consider that it is prudent to provide in full for deferred taxation.

Account is also taken of other timing differences resulting from expenditure not being immediately allowable for taxation purposes and to certain accrued income not being immediately taxable.

(e) TURNOVER

Turnover represents the invoiced value of goods supplied and services rendered (excluding transactions within the Group), 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 expenditure is written off on an accruals basis.

2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

After charging:	1987 £000	1986 £000
Directors emoluments (Note 4)	767	57
Depreciation (including adjustments on disposals)	858	828
Auditors' remuneration	25	25
Operating lease charges:		
land and buildings	298	304
hire of plant and machinery	1,533	990
	<u> </u>	<u> </u>

3 TAX ON PROFIT ON ORDINARY ACTIVITIES

UK corporation tax at 35.0% (1986 36.25%) based on profit for the year	1,066	406
Transfer from deferred tax	(116)	118
	<u> </u>	<u> </u>
	950	524
Adjustments relating to prior years	(19)	6
	<u> </u>	<u> </u>
	931	530
	<u> </u>	<u> </u>

HOW ENGINEERING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 INFORMATION REGARDING DIRECTORS AND OTHER EMPLOYEES

- (i) The average number of persons employed by the Group during the year was 2,046 (1986 - 1,654)

Total employee remuneration, including that of directors, was:

	1987 £000	1986 £000
Wages and salaries	23,344	17,330
Social security costs	2,416	1,417
Other pension costs	697	163
	<hr/>	<hr/>
	26,457	18,910
	<hr/>	<hr/>

- (ii) DIRECTORS' EMOLUMENTS
(EXCLUDING PENSION CONTRIBUTIONS)

Emoluments of the Chairman	£ -	£ -
	<hr/>	<hr/>
Emoluments of the highest paid director	£42,000	£30,750
	<hr/>	<hr/>

Other directors' emoluments for the year were within the following bands:

	Number 1987	Number 1986
£0 - £5,000	2	4
£5,001 - £10,000	3	-
£10,001 - £15,000	1	-
£15,001 - £20,000	11	-
£20,001 - £25,000	12	-
£25,001 - £30,000	2	1
£30,001 - £35,000	3	-

- (iii) PENSION COMMITMENTS

The Group contributes to independently administered contributory pension schemes and, in addition, contributes to a scheme operated by the appropriate Joint Industry Board for the benefit of plumbing operatives.

Contributions are made to Group schemes in accordance with the recommendations of independent actuaries so as to maintain full funding and are charged against profits as incurred.

During the year ended 31 December 1986 the Group enjoyed a one year pension contribution holiday, which resulted in a saving of £521,000.

HOW ENGINEERING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
(continued)

5 TANGIBLE FIXED ASSETS
GROUP

	Total £000	Freehold property £000	Leasehold property		Plant and equipment £000	Motor vehicles £000
			Long term £000	Short term £000		
COST						
At 31 December 1986	4,309	218	507	28	913	2,643
Additions	1,931	156	266	87	113	1,309
Disposals	(734)	-	-	-	(37)	(697)
Intra-group disposals	(49)	-	-	-	(13)	(36)
At 31 December 1987	5,457	374	773	115	976	3,219
DEPRECIATION						
At 31 December 1986	1,792	-	-	15	582	1,195
Provided in year	819	-	-	9	132	678
Disposals	(523)	-	-	-	(31)	(492)
Intra-group disposals	(11)	-	-	-	(3)	(8)
At 31 December 1987	2,077	-	-	24	680	1,373
NET BOOK VALUE						
At 31 December 1987	3,380	374	773	91	296	1,846
At 31 December 1986	2,517	218	507	13	331	1,448

HOW ENGINEERING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
(continued)

5 TANGIBLE FIXED ASSETS
COMPANY

	Total	Freehold property	Leasehold Long term	property Short term	Plant and equipment	Motor vehicles
	£000	£000	£000	£000	£000	£000
COST						
At 31 December 1986	152	88	25	-	12	27
Additions	1,892	156	266	87	110	1,273
Disposals	(713)	-	-	-	(36)	(677)
Intra-group additions	4,070	130	482	28	871	2,559
Intra-group disposals	(48)	-	-	-	(12)	(36)
At 31 December 1987	5,353	374	773	115	945	3,146
DEPRECIATION						
At 31 December 1986	7	-	-	-	2	5
Provided in year	804	-	-	9	130	665
Disposals	(503)	-	-	-	(30)	(473)
Intra-group additions	1,721	-	-	15	554	1,152
Intra-group disposals	(10)	-	-	-	(2)	(8)
At 31 December 1987	2,019	-	-	24	654	1,341
NET BOOK VALUE						
At 31 December 1987	3,334	374	773	91	291	1,805
At 31 December 1986	145	88	25	-	10	22

6 FIXED ASSET INVESTMENTS
COMPANY

	1987 £000	1986 £000
Shares in subsidiary companies at cost	197	197

The Company directly holds the whole of the issued share capital of the following companies:-

How Engineering Services Midlands Limited
How Engineering Services Northern Limited
How Engineering Services Southern Limited

With effect from 1st January 1987 the activities of these subsidiaries were taken over by the Company and they ceased to trade.

In addition, How Engineering Services Northern Limited holds the whole of the issued share capital of How Engineering Services Scotland Limited, which is incorporated in Scotland.

HOW ENGINEERING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 STOCKS	Group		Company	
	1987 £000	1986 £000	1987 £000	1986 £000
Work in progress	87,098	48,385	84,961	-
Progress payments	(74,606)	(37,536)	(72,736)	-
	<hr/>		<hr/>	
Raw materials and consumables	12,492 110	10,849 146	12,225 101	- -
	<hr/>		<hr/>	
	12,602	10,995	12,326	-
	<hr/>		<hr/>	

Progress payments which are in excess of contract values are included in creditors. (Note 9)

8 DEBTORS	Group		Company	
	1987 £000	1986 £000	1987 £000	1986 £000
Trade debtors	8,716	7,760	8,310	162
Amounts owed by Group companies	1,164	1,324	3,609	1,079
Corporation tax recoverable	484	34	-	-
Value added tax	933	1,080	933	-
Other debtors	311	4,086	303	3,752
Prepayments and accrued income	443	663	442	507
	<hr/>		<hr/>	
	12,051	14,947	13,597	5,500
	<hr/>		<hr/>	

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	Group		Company	
	1987 £000	1986 £000	1987 £000	1986 £000
Bank overdrafts (Note 14)	-	3,736	-	8,734
Progress payments (Note 7)	850	1,863	802	-
Trade creditors	25,310	19,694	24,506	35
Contract completion costs	1,321	1,027	1,236	-
Amounts owed to Group companies	2,384	2,558	4,947	1,170
Corporation tax payable	-	-	44	51
Other taxes and social security	738	534	725	187
Other creditors	285	475	280	-
Accruals and deferred income	630	300	619	32
	<hr/>		<hr/>	
	31,518	30,187	33,159	10,209
	<hr/>		<hr/>	

Bank overdrafts are secured by a fixed charge over book debts and a floating charge over the remainder of Group assets.

HOW ENGINEERING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
(continued)

10 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	Group		Company	
	1987 £000	1986 £000	1987 £000	1986 £000
Corporation tax payable 1 January 1989	1,007	306	1,007	-

11 DEFERRED TAXATION	Group		Company	
	1987 £000	1986 £000	1987 £000	1986 £000
Balance at 31 December 1986	16	(84)	40	-
Transfer from profit and loss account	(107)	117	(116)	40
Disposal of subsidiary	-	(17)	-	-
Intra-group transfers	-	-	(15)	-
Balance at 31 December 1987	(91)	16	(91)	40

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

Accelerated capital allowances	1	11	-	1
Other timing differences	(92)	5	(91)	39
	(91)	16	(91)	40

12 CALLED UP SHARE CAPITAL	1987 £000	1986 £000
Authorised 202,500 ordinary shares of £1 each	202	202
Allotted and fully paid 197,911 ordinary shares of £1 each	198	198

HOW ENGINEERING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(continued)

13 RESERVES

	Group		Company
	Profit and loss account £000	Other reserves £000	Profit and loss account £000
At 1 January 1987	2,546	27	145
Retained profits for the year	210	-	2,355
	<hr/>		<hr/>
At 31 December 1987	2,756	27	2,500
	<hr/>		<hr/>

As permitted by Section 223(7) of the Companies Act 1985 the profit and loss account of the Company is not presented as part of these financial statements. The consolidated profit on ordinary activities after taxation includes £1,486,000 (1986 - £156,000) which is dealt with in the financial statements of the Company.

14 CONTINGENT LIABILITIES

The Company and its subsidiaries have entered into an unlimited multilateral guarantee in respect of the bank borrowings of How Group plc and its subsidiaries, under which the Company had a contingent liability at 31 December 1987 of £3,197,000 (1986 - £568,000) relating to the overdrafts of certain companies.

In addition, the Group was contingently liable at 31 December 1987 in respect of guarantees, indemnities and performance bonds arising in the ordinary course of business of £2,518,000 (1986 - £3,795,000).

15 CAPITAL COMMITMENTS

	Group		Company	
	1987 £000	1986 £000	1987 £000	1986 £000
Commitments under contract	272	290	272	-
	<hr/>		<hr/>	<hr/>
Authorised but not yet contracted for	225	69	225	-
	<hr/>		<hr/>	<hr/>

HOW ENGINEERING SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(continued)

16 FINANCIAL OBLIGATIONS

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

	Land and Buildings		Other Assets	
	1987	1986	1987	1986
	£000	£000	£000	£000
Within one year	-	10	1	2
Within two to five years	-	-	46	29
After five years	296	260	1	1
	<hr/>	<hr/>	<hr/>	<hr/>
	296	270	48	32
	<hr/>	<hr/>	<hr/>	<hr/>

17 ULTIMATE HOLDING COMPANY

The Company's ultimate holding company is How Group plc, incorporated in England.