

HOW ENGINEERING SERVICES LIMITED

Report and Financial Statements

31st December 2001



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COMPANIES HOUSE

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11/07/02

REPORT OF THE DIRECTORS

The directors present their report and the audited accounts for the year ended 31st December 2001.

ACTIVITIES

The principal activities of the company were the design, supply and installation of services to buildings.

REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

In an attempt to unify the brand of the parent company, Interserve plc, the decision was taken to transfer the net assets of How Engineering Services Limited to Interserve Project Services Limited on 31st August 2001. The business continues to operate within the same markets. The net assets transferred are detailed in note 17 to the financial statements. As a result of the transfer the activities on page 5 are described as discontinuing.

RESULTS

The results of the company are as set out in the accounts on page 5. The directors do not recommend the payment of a dividend (2000 £ nil). Profits after tax of £867,000 (2000 £855,000) have been transferred to reserves.

DIRECTORS

The directors who served during the year are set out below: -

- B Bracknall
- RED Cotterill (resigned 12/02/02)
- MF Jones (appointed 01/01/01)
- J Matthews
- S Whitehouse (resigned 12/02/02)
- KN Wyke (resigned 12/02/02)

Additionally, the following appointments were made subsequent to the year end:

- PF Ford (appointed 01/01/02)
- AM Ringrose (appointed 01/01/02)

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

None of the directors has any beneficial interest in the shares of the company.

The interests of the directors at 31st December 2001 in the capital of the ultimate parent undertaking are as stated below.

	<u>Shares of</u> <u>10p each</u>		<u>Options for</u> <u>Shares of</u> <u>10p each</u>		<u>Exercise</u> <u>Price</u>	<u>Period of</u> <u>Exercise</u>	<u>To</u>
	<u>1.1.01*</u>	<u>31.12.01</u>	<u>1.1.01*</u>	<u>31.12.01</u>	<u>p</u>	<u>From</u>	
B Bracknall	-	-	-	-	-	-	-
RED Cotterill	-	-	-	-	-	-	-
MF Jones	-	-	-	1,155	439	01/06/2004	01/12/2004
J Matthews	-	-	18,000	18,000	346	14/06/2003	13/06/2007
	-	-	-	15,000	542	26/03/2004	25/03/2008
	-	-	-	1,640	439	01/06/2004	01/12/2004
S Whitehouse	-	-	-	987	439	01/06/2004	01/12/2004
KN Wyke	1,604	1,604	-	1,640	439	01/06/2004	01/12/2004

* or date of appointment

No options to subscribe for shares of 10p each in the ultimate parent undertaking were exercised by directors during the period to 31st August 2001. The market price of the shares at 31st December 2001 was 510p. The range of closing prices during the year was 459p to 605p.

The directors have no other interest in any other group undertaking (2000 - none).

REPORT OF THE DIRECTORS

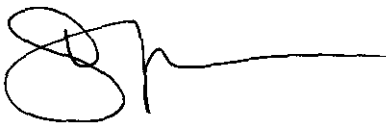
POLICY ON PAYMENT OF CREDITORS.

It is the company's normal practice to agree payment terms with its suppliers and abide by those terms. Payment becomes due when it can be confirmed that goods and/or services have been provided in accordance with the relevant contractual conditions. Trade creditors at 31st August 2001, calculated in accordance with the requirements of the Companies Act 1985, were 99 days (2000 117 days). This represents the ratio, expressed in days between the amounts invoiced to the company in the year by its suppliers and the amounts due, at the end, to trade creditors falling due for payment within one year.

AUDITORS

Re-appointing Resolutions will be proposed at the Annual General Meeting to re-appoint Deloitte & Touche as auditors to the company and to authorise the directors to fix their remuneration.

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



WL Spencer
Secretary

10 May 2002

Interserve House
19 - 23 Blackfriars Road
London
SE1 8NY

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 and of the profit or loss 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 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.

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

We have audited the financial statements of How Engineering Services Limited for the year ended 31st December 2001 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

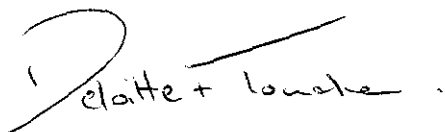
We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates 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 as at 31st December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors



10 May 2002

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31ST DECEMBER 2001

	Note	2001 £000	2000 £000
TURNOVER	1	48,540	49,231
Cost of sales		(45,581)	(45,802)
GROSS PROFIT		2,959	3,429
Administration expenses		(2,110)	(2,427)
OPERATING PROFIT	3	849	1,002
Interest receivable	5	413	161
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,262	1,163
Tax on profit on ordinary activities	6	(395)	(308)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION ATTRIBUTABLE TO SHAREHOLDERS	14	867	855

All activities are discontinued operations as defined under FRS3: Reporting Financial Performance

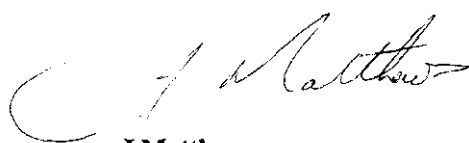
A statement of Total Recognised Gains and Losses is not presented as there have been no recognised gains or losses other than the profit for the years.

BALANCE SHEET AT 31ST DECEMBER 2001

	Note	2001 £000	2000 £000
FIXED ASSETS			
Tangible assets	7	-	345
Investments	9	<u>3</u>	<u>3</u>
		3	348
CURRENT ASSETS			
Debtors	10	2,870	11,652
Cash at bank and in hand		<u>0</u>	<u>17,083</u>
		2,870	28,735
CREDITORS FALLING DUE WITHIN ONE YEAR			
Trade creditors		-	(15,857)
Sundry creditors	11	<u>(182)</u>	<u>(11,402)</u>
		(182)	(27,259)
NET CURRENT ASSETS		<u>2,688</u>	<u>1,743</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,691</u>	<u>1,824</u>
CAPITAL AND RESERVES			
Called up share capital	12	10,050	10,050
Share premium account	13	600	600
Other reserves		-	-
Profit and loss account	14	<u>(7,959)</u>	<u>(8,826)</u>
EQUITY SHAREHOLDERS FUNDS		<u>2,691</u>	<u>1,824</u>

These financial statements were approved by the Board of Directors on 25 April 2002.

Signed on behalf of the Board of Directors.



J Matthews
Director

10 May 2002

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2001

1. ACCOUNTING POLICIES

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

a) CONVENTION

These financial statements have been prepared in accordance with the historical cost convention

b) TURNOVER

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

c) TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is provided on a straight-line basis calculated to write down the value of assets over their estimated useful economic lives at the following annual rates:

Plant and Equipment	-	20 % - 25 %
Motor Vehicles	-	25 %

d) FIXED ASSET INVESTMENTS

Investments and loans to subsidiary and associated undertakings are stated at cost less provision for any impairment in value.

e) STOCKS AND WORK IN PROGRESS

Contract work in progress is valued at cost plus attributable profit less foreseeable losses. Attributable profit is included when the outcome of a contract can be assessed with reasonable certainty. The value of contract work in progress is accounted for within turnover and in accordance with Statement of Standard Accounting Practice 9 (Revised) - Stocks and Long-term Contracts. The excess of the book value over payments receivable is included in debtors as "Amounts recoverable on Contracts". Payments receivable in excess of book value on an individual contract basis are included in creditors as "Advance payments".

f) PENSIONS

On 1st January 1999 the How Group Staff Pension and Life Assurance Scheme was merged with the Interserve Pension scheme. This 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, Interserve Plc. The Scheme enjoyed a pension holiday in 2001 and as such no costs were charged to the profit and loss account. Interserve Plc has adopted the transitional arrangements of FRS 17, as disclosed in note 4.

In addition, the company contributes to a number of defined contribution pension schemes operated within the construction industry for the benefit of operatives and other personnel not eligible to participate in the staff pension scheme. The costs of these schemes are charged to the profit and loss account as the contributions become payable.

g) FOREIGN CURRENCY

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit for the year.

h) DEFERRED TAXATION

Provision is made and relief is taken at projected rates of taxation for timing differences between the treatment of certain items for taxation and for accounting purposes to the extent that liabilities or assets are likely to crystallise in the foreseeable future.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2001

2. SEGMENTAL ANALYSIS

The company's turnover arises in the U.K. from its activities as a provider of design, supply and installation of services to buildings.

3. OPERATING PROFIT	2001 £000	2000 £000
Operating profit is arrived at after charging:		
Depreciation on owned assets	81	145
Rentals under operating leases		
Hire of plant and machinery	555	533
Other lease rentals	451	687
Remuneration payable to auditors		
Audit fees	22	28
	<u> </u>	<u> </u>

4. EMPLOYEES	2001 No	2000 No
Average number of persons employed by the company (including directors) was:		
Production	460	296
Administration	56	164
	<u> </u>	<u> </u>
	516	460
	<u> </u>	<u> </u>

The number of directors to whom relevant benefits are accruing under the defined benefit scheme are:

<u> </u>	<u> </u>
6	5
<u> </u>	<u> </u>

The number of directors who have exercised share options in the ultimate holding company are:

<u> </u>	<u> </u>
-	-
<u> </u>	<u> </u>

For the purposes of FRS 17, the company has been unable to identify its share of the underlying assets and liabilities in the main Group scheme, the Interserve Pension Scheme, on a consistent and reasonable basis.

Therefore, following full implementation of FRS 17, the company will account for contributions to the Scheme as if it were a defined contribution scheme. At 31 December 2001 the valuation of the Scheme for the purposes of FRS 17 showed a net pension liability, as set out in note 6b to the report and accounts of Interserve Plc.

The costs incurred in respect of these employees (including directors) were:	2001 £000	2000 £000
Wages and salaries	10,523	12,485
Social security costs	784	956
Pension cost	73	85
	<u> </u>	<u> </u>
	11,380	13,526
	<u> </u>	<u> </u>

	2001 £000	2000 £000
DIRECTORS		
Aggregate emoluments	387	487
Pension contributions	-	-
	<u> </u>	<u> </u>
	387	487
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2001

	2001 £000	2000 £000
Highest paid director:		
Aggregate emoluments	<u>103</u>	<u>135</u>
Pension contributions:		
Accrued pension at end of year	4	2
Accrued lump sum at end of year	<u>9</u>	<u>5</u>

	2001 £000	2000 £000
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5. INTEREST RECEIVABLE

Group interest	<u>413</u>	<u>161</u>
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	2001 £000	2000 £000
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6. TAX ON PROFIT ON ORDINARY ACTIVITIES

UK Corporation tax at 30%	<u>(395)</u>	<u>(308)</u>
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7. TANGIBLE FIXED ASSETS

	Motor vehicles £000	Plant, equipment & fixtures £000	Total £000
COST			
At 1st January 2001	101	2,504	2,605
Addition at cost	-	29	29
Transfer to Group company	(44)	(2,533)	(2,577)
Disposals	<u>(57)</u>	<u>-</u>	<u>(57)</u>
31st December 2001	<u>-</u>	<u>-</u>	<u>-</u>
DEPRECIATION			
At 1st January 2001	75	2,185	2,260
Provided in year	9	72	81
Transfer to Group company	(39)	(2,257)	(2,296)
Disposals	<u>(45)</u>	<u>-</u>	<u>(45)</u>
31st December 2001	<u>-</u>	<u>-</u>	<u>-</u>
NET BOOK VALUE AT 31st DECEMBER 2001	<u>-</u>	<u>-</u>	<u>-</u>
31st December 2000	<u>26</u>	<u>319</u>	<u>345</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2001

8. OPERATING LEASES

At 31st December, the company had annual commitments under operating leases as follows:

	Land and buildings		Other	
	2001	2000	2001	2000
	£000	£000	£000	£000
Annual commitments expiring :				
Within one year	-	15	-	37
In two to five years	-	23	-	415
After five years	-	198	-	-
	-	236	-	452

9. INVESTMENTS

	Trade Investment		Subsidiary Undertakings	
	2001	2000	2001	2000
	£000	£000	£000	£000
Cost	-	-	457	457
Provisions	-	-	(454)	(454)
Net Book Value	-	-	3	3

The principal subsidiary undertakings are set out below. The subsidiary undertakings are wholly owned and incorporated in Great Britain and with the exception of How Engineering Services Scotland Limited are all dormant.

Subsidiary undertakings:

Principal activity:

How International Limited

How Engineering Services Northern Limited.

How Engineering Services Southern Limited.

How Engineering Services Scotland Limited.

The company ceased trading in 1997 and since then has been involved in remedial works in accordance with its contractual obligations

In accordance with the provisions of Section 228 of The Companies Act 1985 the company is exempt from the obligation to prepare and deliver group accounts as the company is included in the audited consolidated accounts of its ultimate parent undertaking, Interserve Plc, which is registered in England and Wales. Accordingly these financial statements present information about the company as an individual undertaking and not as a group.

In the opinion of the directors the aggregate value of the shares less provisions for net liabilities and the amounts owing from the company's subsidiary undertakings is not less than the total amount at which they are stated in the balance sheet.

10. DEBTORS

	2001	2000
	£000	£000
Trade debtors	-	175
Amounts recoverable on contracts	-	5,911
Amounts owed by group companies	2,870	5,540
Other debtors	-	26
	<u>2,870</u>	<u>11,652</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2001

11. SUNDRY CREDITORS	2001 £000	2000 £000
Amounts owed to group undertakings	-	6,859
Other creditors	-	463
Other taxation and social security	-	1,843
Corporation Tax	182	272
Advance payments	-	1,965
	<u>182</u>	<u>11,402</u>
12. CALLED UP SHARE CAPITAL	2001 £000	2000 £000
Authorised 12,000,000 (2000 : 12,000,000) ordinary shares of £1 each	<u>12,000</u>	<u>12,000</u>
Allotted and fully paid 10,050,000 (2000 : 10,050,000) ordinary shares of £1 each	<u>10,050</u>	<u>10,050</u>
13. SHARE PREMIUM ACCOUNT	2001 £000	
At 1 January 2001 and 31 December 2001	<u>600</u>	
14. PROFIT AND LOSS ACCOUNT	2001 £000	
1 January 2001	(8,826)	
Profit for the year	<u>867</u>	
31 December 2001	<u>(7,959)</u>	
15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS	2001 £000	2000 £000
Profit attributable to shareholders	867	855
Opening shareholders funds	<u>1,824</u>	<u>969</u>
Closing shareholders funds	<u>2,691</u>	<u>1,824</u>

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 2001

16. CONTINGENT LIABILITIES

At 31st December 2001 there were contingent liabilities in respect of guarantees given in the ordinary course of business. The company has given guarantees covering banking facilities made available to its ultimate parent and fellow subsidiary undertakings. At 31st December 2001 these amounted to £65,890,000 (2000: £85,131,000)

17. NET ASSETS TRANSFERRED TO INTERSERVE PROJECT SERVICES LIMITED

On 31st August 2001, the trade and the following net assets were transferred to Interserve Project Services Limited, a fellow Group undertaking of Interserve Plc.

Tangible fixed assets	281
Stocks	(32)
Debtors	4,716
Cash	22,586
Creditors	(25,310)
	<hr/>
	2,241
	<hr/>

The transfer was performed through an intra Group account with Interserve Project Services Limited.

18. CASH FLOW STATEMENT

The company is not presenting a cash flow statement. It has taken advantage of the exemption contained in Financial Reporting Standard 1 (Revised) - Cash Flow Statements, as the ultimate parent undertaking, Interserve Plc, has included a consolidated cash flow statement in the group accounts.

19. ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS

The company's immediate parent undertaking is How Group Limited and the ultimate parent undertaking and ultimate controlling party is Interserve Plc, which is incorporated in Great Britain. The Group accounts of Interserve Plc are available from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.

The company has taken advantage of the exemption contained in Financial Reporting Standard 8 - Related Party Transactions not to report transactions with Investee Companies in the Interserve Group which are disclosed in the consolidated financial statements of Interserve Plc.