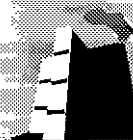
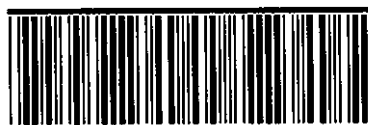


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# Severfield-Reeve Plc

## Annual Report



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COMPANIES HOUSE 25/06/98

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Severfield-Reeve Plc is a specialist engineering Group based at Dalton, near Thirsk, North Yorkshire. Founded in 1979 it moved to its present site in 1980. Its shares are listed on the London Stock Exchange.

The Group has two areas of activity:

the core business of the design, manufacture and erection of structural steelwork through Severfield-Reeve Structures and Rowen Structures

the manufacturing and marketing of an advanced range of equipment primarily for use in the meat and poultry processing industry through Manabo (UK)

At Dalton, the Group operates the largest single production facility for the fabrication of structural steelwork in the UK, with a further plant in Nottinghamshire. Manabo (UK) has two production centres at Thirsk.

The Group is committed to being the market leader in each of the sectors in which it operates.





*Steel fabrication*

*Steel fabrication*

*Steel erection*

*American contracts*

*Project manager  
of building owners*

*Group treating  
portfolio managers*

*Steel trading*

*Metal decking*

*Suppliers of equipment  
to the food industry*

Years ended 31 December	1997	1996	1995	1994	1993
	£000	£000	£000	£000	£000
Turnover	121,119	65,116	39,214	26,645	21,685
Profit before tax	9,163	4,532	2,219	722	407
Taxation charge	2,803	1,495	706	241	100
Profit after tax and minority interest	6,360	3,037	1,513	481	307
Dividends	1,979	1,028	470	156	58
Retained profit	4,381	2,009	1,043	325	229
Earnings per share	32.3p	16.3p	9.7p	3.1p	2.2p
Dividends per share	10.00p	5.25p	3.00p	1.00p	0.50p

## Financial Calendar

Preliminary announcement of full year results	24 March 1998
Publication of annual report	29 April 1998
Annual General Meeting	22 May 1998
Payment of final dividend	29 May 1998
Announcement of interim results	August 1998
Payment of interim dividend	October 1998



## Directors and Advisers

### *Directors*

**Peter Michael Levine** MA (Oxon)

Non-Executive Chairman

**John Leslie Severs**

Managing Director

**Peter Frank Ellison**

Deputy Managing Director

**Peter Jeffrey Davison** BA FCA

Finance Director

**Peter Arthur Emerson**

Commercial Director

**John Robson Featherstone** FCA

Non-Executive Director

**Jonathan Richard Arthur Townsend** BA (Oxon) MSI (Dip)

Non-Executive Director

### *Secretary and Registered Office*

Peter Jeffrey Davison, BA FCA

Dalton Airfield Industrial Estate

Dalton

Thirsk

North Yorkshire YO7 3JN

### *Registered Number*

1721262

Deloitte & Touche  
Chartered Accountants  
10-12 East Parade  
Leeds LS1 2AJ

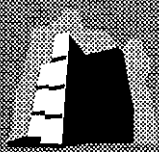
Irene Mitchell  
21 Queen Street  
Leeds LS1 2JW

Hoare Goven Corporate Finance Ltd  
4 Broadgate  
London EC2M 7LE

Yorkshire Bank PLC  
2 Infirmary Street  
Leeds LS1 2JL

CompuShare Services PLC  
Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR

Binn & Co. Public Relations Ltd  
46 St Helen's Place  
London EC2A 6DE



Turnover  
*up 83%*

Profit before tax  
*up 102%*

Earnings per share  
*up 98%*

Dividends  
*up 90%*

## Chairman's Statement

It is particularly pleasing to report on another record year for the Group, which has seen significant rises in turnover, profit before tax and earnings per share.

Our two structural steelwork companies, Severfield-Reeve Structures and Rowen Structures, had record years with both companies showing increases in the amount of steel fabricated and a further improvement in operating margins.

Since we moved to Dalton in 1980 we have consistently invested in our production facilities and we continue to set standards which we believe are unmatched by any of our competitors in Europe. In April 1996 we acquired Rowen Structures for £901,000, including costs. Immediately following the completion of the acquisition we commenced a major investment programme in the manufacturing facilities at Nottingham costing £2.4 million. It is particularly pleasing that last year Rowen Structures made a profit before tax of £2.7 million in its first full year as part of the Group thereby repaying the total investment of £3.3 million in less than 20 months.

Manabo (UK) had another disappointing year and reported a further operating loss of £1.8 million, including the write-off of over £500,000 of development costs. In November we appointed a new managing director who is already having a positive influence on the business. However, we expect Manabo (UK) to report a further, but much reduced, loss in the current year and remain optimistic that it will move into profit in 1999.

### Dividend

With the continued increase in profits and the excellent start to the current financial year, the Board is recommending a final dividend of 6.25p per share (1996: 3.50p) making a total dividend for the year of 10.00p (1996: 5.25p), an increase of 90%. The dividend is covered 3.2 times by earnings.

### Share Buy Back

At the Annual General Meeting on 22 May 1998 the Company will ask the shareholders to authorise the Board to purchase for cancellation up to 10% of the issued share capital of the Company. This authority will be exercised only when market conditions are deemed appropriate.

### Directors

It was with regret that the Company accepted the resignation of John Reeve due to ill health during the year. John was one of the founding directors and made an enormous contribution to the success of the Group and we wish him a long and happy retirement.

I am pleased to report the further strengthening of the Board with three new appointments.

In July 1997, Peter Ellison was appointed Deputy Managing Director of the Group. Peter has successfully run the Group's in-house erection company for the past four years transforming it from a loss making company into a highly efficient, profitable organisation and we were pleased that he agreed to take a broader Group role.

Since the year end two further appointments have been made.

Peter Emerson has been appointed Group Commercial Director. Peter came to the Group through the acquisition of Rowen Structures Limited, where he is also Deputy Managing Director, and has proved himself to be a valuable member of the team. We are particularly pleased to report that Johnny Townsend, Vice-Chairman of Hoare Govett Corporate Finance Limited, has been appointed a non-executive director. Johnny was originally also appointed as Chairman but decided to step down following discussions with the Association of British Insurers and a number of the Company's institutional shareholders. He agreed that it was sensible to restrict his role to that of a non-executive director given his other duties with the financial advisers and stockbrokers to the Company. He brings with him a wealth of experience in corporate finance and the Board is confident that he will be able to make a very positive contribution to the Group in the future.

#### Employees

The strength of Severfield-Reeve is based on the loyalty, commitment and expertise of the people who work for the Group both in the UK and overseas. They are a young team but long on experience. I would like to congratulate them on their performance and thank them for their continuing contribution to our success. In order to provide an additional incentive to the Group's employees, the Board proposes to introduce a new Share Option Scheme, as outlined in the Directors' Report on page 17.

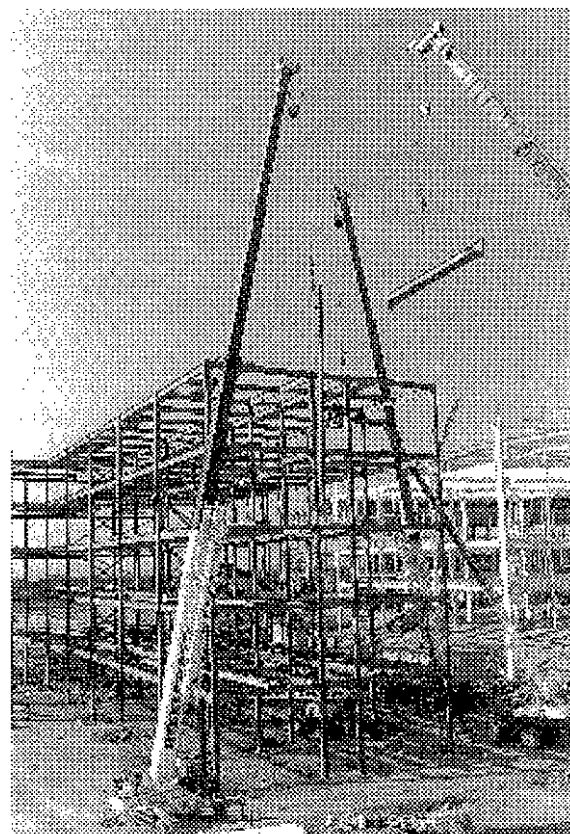
#### Outlook

The current year has started strongly with excellent order books in both of our structural steelwork companies. I am confident that 1998 will be a year in which we continue to increase our share of the UK market and see an increasing flow of overseas work, which already accounts for 21% of the turnover of Severfield-Reeve Structures. With the current strength of our order book, combined with a further improvement in operating margins, I believe shareholders can look forward to another year of above average growth.

Peter Levine

Chairman

29 April 1998



*"Our two structural steelwork companies had record years with both companies showing increases in the amount of steel fabricated and a further improvement in operating margins."*



## Operational Review

### Structural Steelwork

The Group is the largest producer of structural steelwork in the UK with major plants in North Yorkshire and Nottinghamshire.

The market for constructional steelwork remained strong throughout 1997. Based on current statistics, consumption in 1997 rose by over 5.3% and is expected to rise by a further 3.3% in 1998. Our turnover has grown substantially indicating a considerable increase in our market share. The industry is still very fragmented and, despite the disappearance of a large number of fabricators, is made up of predominantly small companies. Competition for the smaller contracts has become more intense during the year but for the larger UK and international projects there are now a limited number of serious competitors with the resources and technical ability to carry out these major contracts.

### Severfield-Reeve Structures

Investment in our plant at Dalton in North Yorkshire has continued with over £3 million being spent during the year on expanding the production facilities, which now extend to approximately 330,000 sq. ft.

During the year, we completed the No. 3 production line and commenced the building of the No. 4 production line. We also constructed a 20,000 sq. ft. integrated components facility to service all four production lines.

The additional capacity enabled us to increase our in-house production to an average of over 1,000 tonnes per week, which represented an increase of 44% over the previous year. On three occasions during 1997 over 1,700 tonnes of steel were fabricated during one week — a record within the industry from one site. This included two consecutive weeks in September when almost 3,500 tonnes were fabricated in the 2 week period.

We are now in the process of further extending the No. 4 production line, which will enable the company to be even more flexible in terms of production capability and versatility. Through continuous monitoring of costs and production systems we have been able to sustain what we believe to be the lowest unit costs in the UK industry. This has been helped by a further reduction in the average number of man hours required to fabricate a tonne of steel. The improvement in operating efficiencies contributed to operating margins rising by 23% to 11.6% compared with 9.4% in 1996.

*"On three occasions during 1997 over 1,700 tonnes of steel were fabricated during one week — a record within the industry from one site."*

*Production Facilities at Dalton*



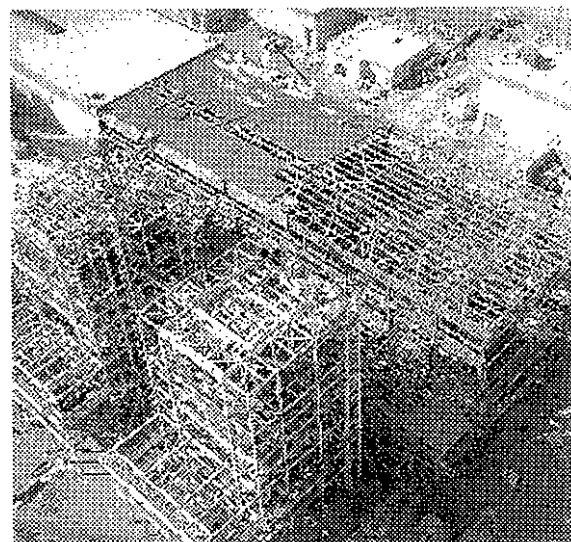
## Overseas

Severfield-Reeve International has had considerable success in exploring opportunities to carry out selected overseas contracts. In 1997 approximately 21% of Severfield-Reeve Structures' turnover was for overseas markets compared with 13% in 1996 and 2% in 1995. We consider international markets to be an important part of the company's growth and are looking for further success in this area, thereby complementing our strong domestic market share.

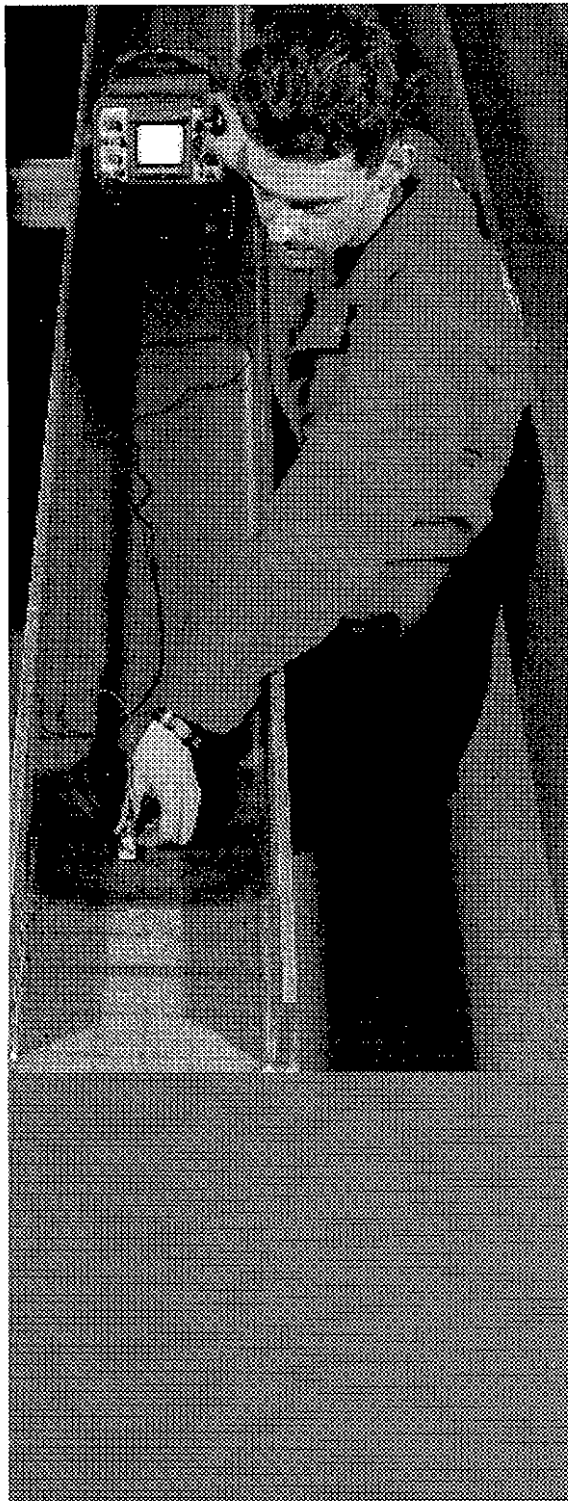
We have so far avoided involvement in the Asian economies and have concentrated instead on exporting to Europe, the Middle East, CIS and Russia. Despite the strong pound we have been able to achieve a rapid increase in sales and profits, confirming our belief that efficient low cost production and a quality service ensure competitiveness in export markets. For the future we will be conducting a detailed analysis of opportunities to establish production facilities in Eastern Europe or the Far East, where the current economic turbulence may provide an opportunity to invest at advantageous prices. In the longer term the Pacific Rim remains an area of significant economic growth potential.

### Contracts undertaken in 1997 included:

- ◆ Microchip facility for Hyundai in Scotland
- ◆ Ink Jet Cartridge plant for Hewlett Packard in Eire
- ◆ Colour picture tube building and semiconductor facility for LG in Wales
- ◆ The new British Embassy for Taylor Woodrow/Skanska in Moscow
- ◆ Further contract at the Power Station in Aqaba for the Jordan Electricity Authority
- ◆ Production facility for ISL on Tyneside
- ◆ Distribution depot for J Sainsbury in Scotland
- ◆ Call centre for BT on Tyneside
- ◆ Distribution depot for Josiah Wedgewood in Staffordshire
- ◆ Office block for BT in Glasgow
- ◆ Stands at 'Scotland's Field of Dreams' Stadium at Hampden Park, Glasgow
- ◆ Office block for Inland Revenue in Manchester



*"We consider international markets to be an important part of the company's growth . . ."*



## Operational Review (continued)

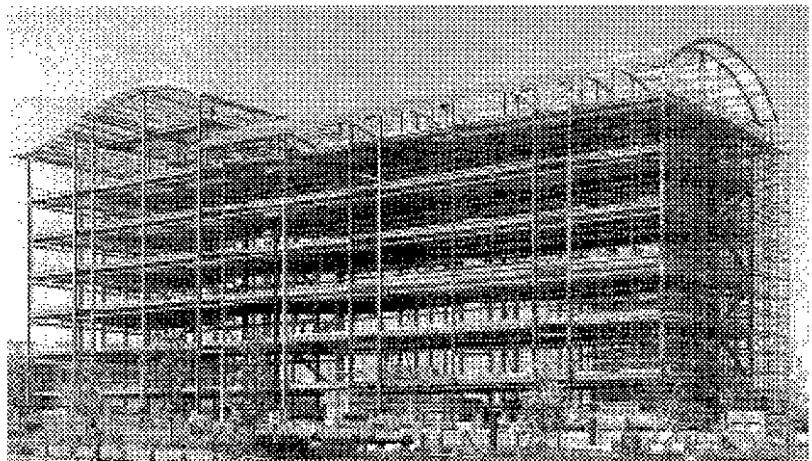
The current order book is very strong and includes the following contracts:

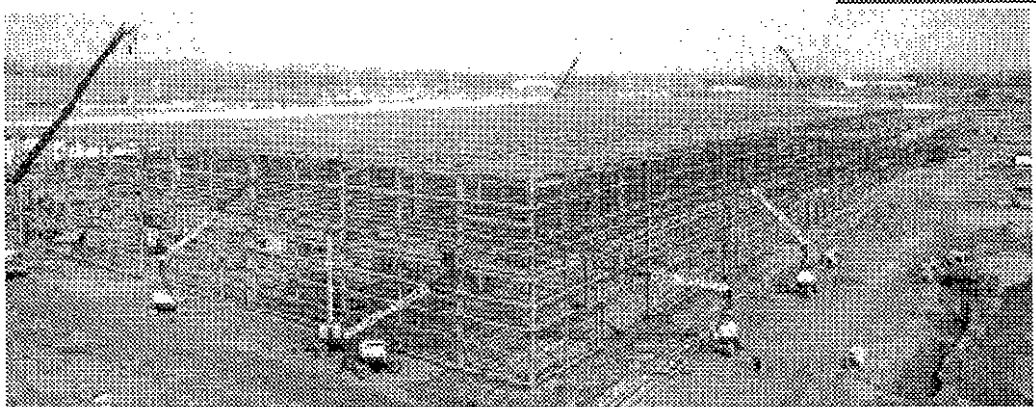
- ◆ Pipe racks for an oil and gas installation for Tengizchevroil in Kazakhstan
- ◆ Distribution centre for Next in Doncaster
- ◆ Distribution centre for Boots in Nottingham
- ◆ Extension to a warehouse for Waitrose in Bracknell
- ◆ Four new buildings at the Cumberland Infirmary
- ◆ Major shopping centre development in Reading
- ◆ Warehouse for PriceCostco in Dublin
- ◆ Office development in central London for Argent
- ◆ The Finnish Warehouse Project at Tilbury Docks

With the current strength of the order book and healthy enquiry levels, I am confident that Severfield-Reeve Structures will have another good year.

## Rowen Structures

In the first full year following the acquisition Rowen Structures won some exceptionally large contracts and supplied 38,000 tonnes of structural steelwork, which was well ahead of the budgeted figure and a record for the business. As a result of the capital investment programme undertaken since the acquisition, throughput and the hours/tonne ratio have continued to improve with operating margins rising from 3% to almost 5.1% in the year.





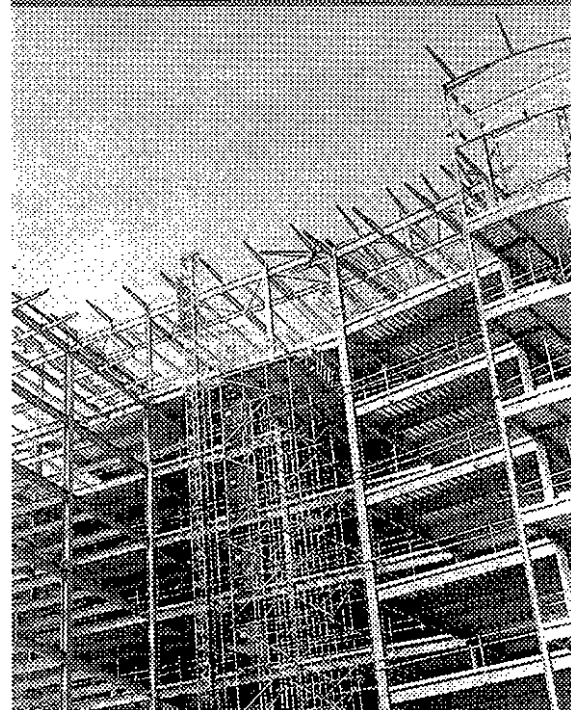
A number of major projects were carried out during 1997 including:

- Globe House Office Development in the City of London
- Medway Hospital expansion
- Bluewater Shopping Mall including outlets for Marks and Spencer and House of Fraser
- New Corporate HQ in Nottingham for Boots
- Expansion of South Humber Bank Power Station for ABB
- New and improved facilities at Heathrow and Gatwick for BAA
- Engine test facilities in South Wales for GEC
- A number of retail/leisure projects for Morrison Developments

The diversity of Rowen's workload continues to be a feature of the current order book. Contracts already secured for 1998 include:

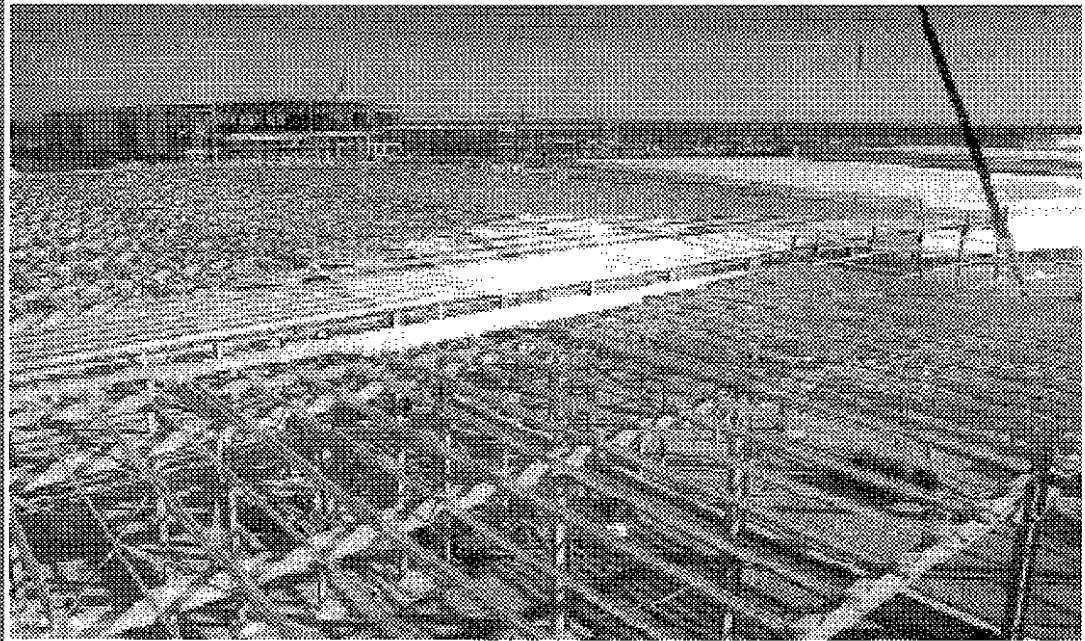
- Rebuilding of offices for Lloyds Register of Shipping
- Alterations and improvements to the centre court at Wimbledon for the All England Lawn Tennis and Croquet Club
- Refurbishment of the Great Eastern Hotel in London
- Pharmaceutical facility in Loughborough for Astra
- Simulator/training facility for British Midland Airways
- Heathrow Airport Terminal 3 Airside development for BAA
- Heathrow Airport Terminal 4 Coaching Gate for BAA
- Airside development at Edinburgh Airport
- Dartford and Gravesham New Acute General Hospital — the first PFI Hospital
- Several projects for J Sainsbury

*"Rowen Structures won some exceptionally large contracts and supplied 38,000 tonnes of structural steelwork . . . a record for the business."*





## Operational Review (continued)



*"An important aspect of Rowen's business has been the development of partnerships with its clients."*

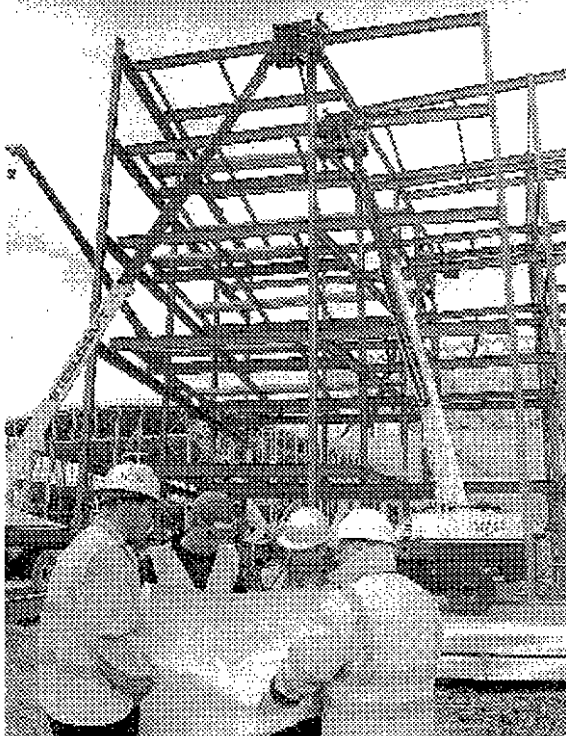
Last year Rowen was appointed by BAA as its structural steelwork contractor for a period of five years under one of its Building Structures framework agreements. During 1997 this framework agreement provided a number of opportunities to work with BAA and this relationship shows every sign of developing during 1998 with a number of major projects already awarded or in the approval process.

An important aspect of Rowen's business has been the development of partnerships with its clients. The consolidation of existing relationships and the development of new ones will remain a priority for the coming year.

The current order book is encouraging and we are confident that margins can at least be maintained on the current year's turnover.

## Steelcraft Erection Services

One of the strengths of the Group is the operation of its own erection company which uses a modern fleet of mobile cranes and access equipment. This gives us full control of the erection process, enabling us consistently to meet very tight deadlines. The past year has seen further strong performances on site with new records being set. These services play an important role in ensuring that we obtain repeat business from the leading contractors.



## Severfield-Reeve Projects

This company has expertise gained over more than a decade in the successful delivery of total 'concept to completion' design and build projects, involving construction of offices, factories, warehouses, roads and infrastructure installations. They are able to maintain direct communication and tight control over the whole of a project as it progresses from the drawing board through every phase of construction leading to the handover of the finalised premises ready for occupation and use.

It has consistently performed well over the years with 1997 being no exception.

## Manabo (UK)

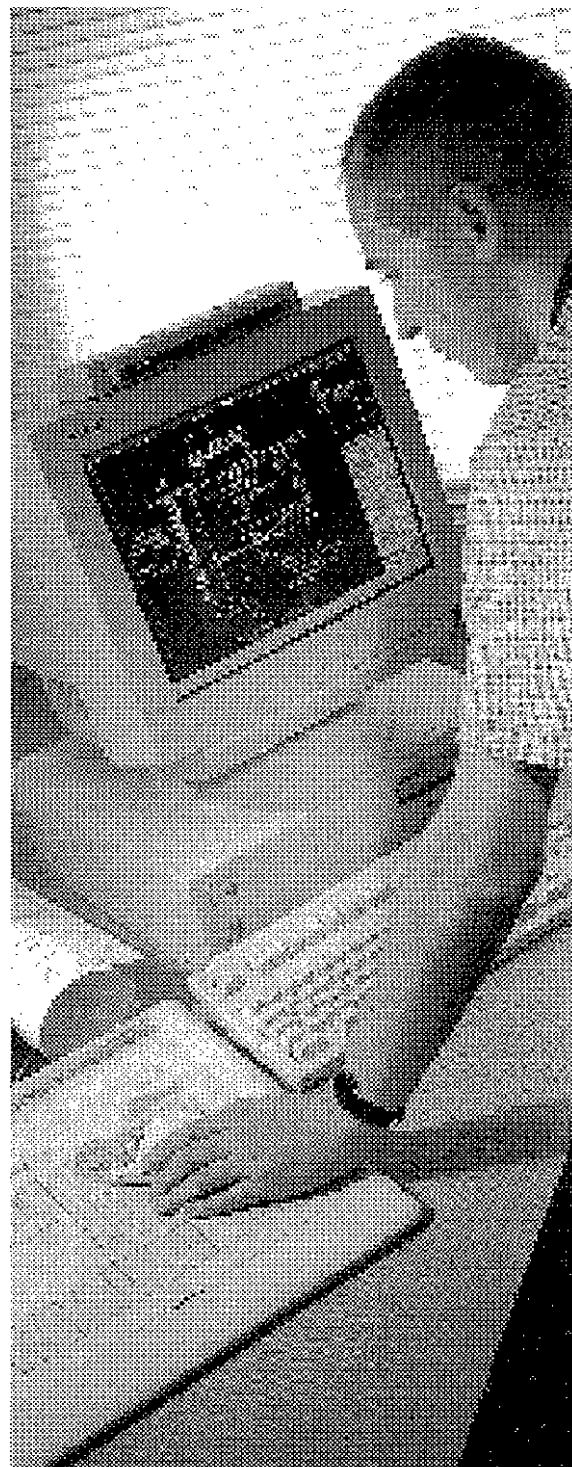
Following the strategic review undertaken in September 1997, the Board decided that the leading edge products produced by Manabo to address some of the problems of food hygiene in the preparation of meat and poultry justified our continuing investment in the company. In November a new Managing Director was appointed and he has already implemented a number of changes within the business.

Glove sales are encouraging with sales in January and February 1998 being ahead of budget. We are not budgeting for a profit in 1998 but we are optimistic that the company will move into profit in 1999.

## Outlook

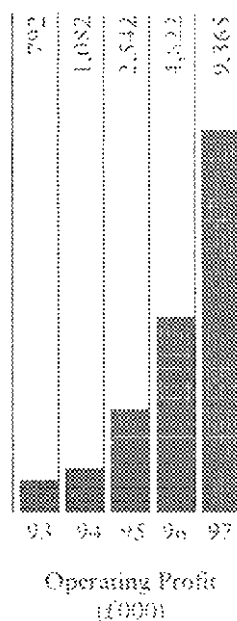
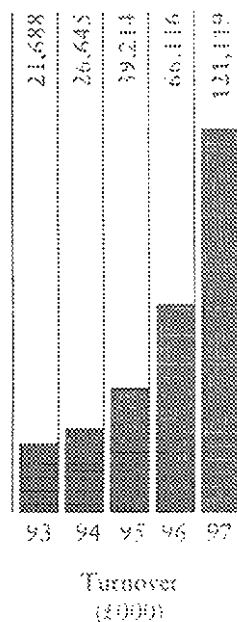
It has been another very good year for the Group and I am confident that we will produce another excellent result in the current year.

John Severs  
Managing Director  
29 April 1998



*"I am confident that we will  
produce another excellent  
result in the current year."*

## Financial Review



### Summary

The Group's results for the year ended 31 December 1997 reflect a further substantial improvement in its financial performance with turnover, profit before tax and earnings per share once again reaching record levels. Profit before tax increased by 102% from £4.53 million to £9.16 million on turnover up 83% at £121.12 million from £66.12 million in 1996. Earnings per share increased by 98% from 16.34p to 32.28p and, as a result, it is proposed to increase the total dividend for the year by 90% to 10.00p per share. The Group also produced an outstanding cash flow performance which, despite the heavy capital investment programme, resulted in a cash balance at the year end of £9.82 million, and no gearing. The Group's balance sheet has been further strengthened with net assets increasing by 31% to £21.48 million.

### Turnover

Group turnover increased by 83% to a record level of £121.12 million and can be analysed as follows:

<b>Structural steelwork</b>			
— Severfield-Reeve Structures:			
UK	43,370	44,882	+3%
Overseas	12,111	14,425	+19%
— Rowen Structures	53,747	24,435	-55%
— Steelcraft Erection Services	7,843	5,399	-31%
	121,733	76,013	+59%
<b>Other Group companies</b>			
— Severfield Infrastructure Projects	3,810	2,425	-36%
— Structural Metal Products	6,595	5,355	-19%
— Steel Tube	1,264	2,399	+89%
— Manabe (UK)	573	244	-57%
	13,042	7,943	-39%
Inter-group trading	(1,571)	(12,354)	-87%
<b>Total</b>	<b>121,119</b>	<b>66,116</b>	<b>+82%</b>

### Operating Profit

The Group's operating profit increased by 94% to £9.37 million, with the overall operating margin increasing from 7.3% to 7.7%. It is particularly encouraging that operating margins improved in the two structural steelwork companies. Severfield-Reeve Structures' margin increased by 23% to 11.6% and Rowen Structures increased by 70% to 5.1%.

The Group results also incorporate an operating loss in Manabe amounting to £1.79 million. In 1996 development costs of over £500,000 were capitalised with the intention of amortising them over three years on a



straight line basis. As a result of the continued losses incurred in 1997 the directors considered that it would be prudent to adopt a conservative approach and consequently have written-off all of these development costs in the year. The operating loss includes this additional amortisation.

#### Taxation

The effective tax charge for the year was 30.6% compared with 33% in the previous year.

#### Earnings Per Share

Earnings per share increased by 98% to 32.28p from 16.34p in 1996.

This calculation is based on the profit after taxation of £6.36 million and 19,703,415 ordinary shares which is the weighted average of the number of shares in issue during the year.

#### Dividend

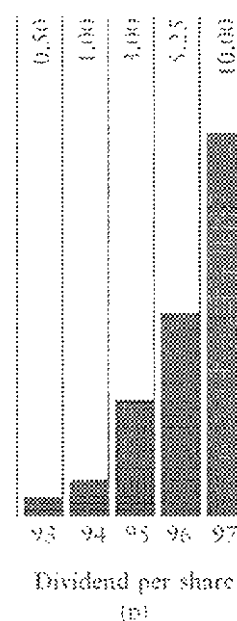
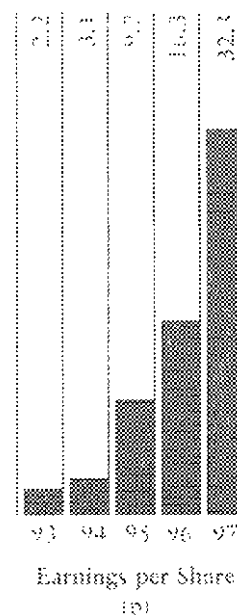
An interim dividend of 3.75p per share was paid in October 1997 which, together with the proposed final dividend of 6.25p per share, will bring the total dividend for the year to 10.00p per share, an increase of 90% over the 1996 payment. This total dividend is covered 3.2 times by earnings, which is in line with the Company's stated policy. The final dividend is payable on 29 May 1998 to shareholders on the register on 11 May 1998. The ex dividend date will be 5 May 1998.

#### Balance Sheet

The balance sheet remains strong with shareholders' funds increasing by £5.10 million in the year to £21.48 million, which equates to a value per share at 31 December 1997 of 108.56p. The two main factors contributing to the increase are retained profits of £4.38 million and an increase in the Revaluation Reserve of £594,000.

A revaluation of the Group's land and buildings at Dalton was carried out in February 1998, with the resulting surplus of the valuation over net book value of £594,000 being transferred to the Revaluation Reserve.

As indicated in the Operational Review, we have continued our capital investment programme, with capital expenditure for the Group amounting to £6.28 million. At Dalton we completed the No. 3 production line and built a substantial part of the No. 4 production line. We also constructed a 20,000 sq. ft. integrated components facility, capable of supplying all four production lines. Total expenditure, including the plant and machinery installed in the new facilities, amounted to over £3 million. Other capital expenditure in the year included mobile cranes for use on site by Steelcraft Erection Services, further production facilities at Rowen and additional mesh-making machines for Manabo.



## Financial Review (continued)

We will be continuing our capital expenditure programme in 1998 with a further £3 million budgeted for the year. This includes the completion of the No. 4 production line and the upgrading of some of the existing plant and machinery at Dalton as well as an extension to our head office.

### Cash Flow

The Group produced a strong net cash inflow from operating activities of almost £16 million. Other significant cash movements were dividends paid of £1.43 million, corporation tax and ACT paid of £1.12 million, the purchase of tangible fixed assets of £3.68 million and outflows in relation to the repayment of financing of £1.96 million.

Overall the Group experienced a cash inflow of £7.55 million and at 31 December 1997 had a positive cash balance of £9.82 million.

Borrowings represent amounts due on hire-purchase contracts and at 31 December 1997 amounted to £4.71 million, leaving a net cash surplus of £5.11 million and, therefore, no gearing.

### Treasury

Group treasury activities are managed and controlled centrally. Risk to assets and potential liabilities to customers, employees and the public, are insured with reputable insurers. The Group maintains its low risk financial management policy by insuring all significant trade debtors.

The borrowings taken out in relation to the assets bought under hire-purchase contracts were negotiated at favourable low fixed interest rates and, therefore, will not be repaid early unless it becomes commercially viable to do so.

The Group is committed to strong financial controls, cash management and prudent accounting and treasury policies.

Peter Davison

Finance Director

29 April 1998

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

## Principal Activity and Business Review

The principal activity of the Group continues to be the design, fabrication and erection of structural steelwork, specialist claddings and ancillary products. A review of the Group's progress during the year and of its future prospects is contained in the Chairman's Statement on pages 4 and 5, the Operational Review on pages 6 to 11, and the Financial Review on pages 12 to 14.

## Results and Dividends

The profit for the year, after taxation and minority interest, amounted to £6,360,000 (1996: £3,037,000), details of which are set out in the financial statements on page 22.

An interim dividend of 3.75p net per share (1996: 1.75p) was paid on 28 October 1997. The directors recommend a final dividend for the year of 6.25p net per share (1996: 3.50p), payable on 29 May 1998 to shareholders on the register on 11 May 1998. If the final dividend is approved, retained profits of £4,381,000 (1996: £2,009,000) will be transferred to reserves.

## Fixed Assets

Details of changes in fixed assets are given in notes 9, 10, 11 and 12 to the financial statements.

## Directors

The present membership of the Board is stated on page 3. P.F. Ellison was appointed a director on 3 July 1997, J.R.A. Townsend was appointed a non-executive director on 20 March 1998, and P.A. Emerson was appointed a director on 2 April 1998. M.J. Reeve retired as a director on 2 October 1997. The directors and their families had the following beneficial interests in the share capital of the Company:

Director	1997	1996	1997	1996
P.A. Levine	12,000	—	10,000	—
J.L. Severs	1,327,000	—	1,334,000	—
P.F. Ellison	5,000	15,000	—	35,000
P.J. Davidson	10,000	125,000	12,500	200,000
J.R. McArthur	63,750	—	63,750	—

J.R.A. Townsend held 210,000 shares in his pension scheme at the date of his appointment.

P.A. Emerson held options over 100,000 shares at the date of his appointment. These were granted on 18 April 1996 at the exercise price of 224p per share.

J.L. Severs sold 300,000 ordinary shares on 25 March 1998 at 600p per share.

Other than the above transaction, there have been no changes in the directors' interests between the year end and 17 April 1998.



## Directors' Report (continued)

P.F. Ellison, P.A. Emerson and J.R.A. Townsend will retire at the Annual General Meeting in accordance with the Articles of Association and will offer themselves for re-election.

### Non-Executive Directors

J.R. Featherstone has been a non-executive director of the Company since 1988. He is also a non-executive director of Abbeycrest plc as well as chairman of several private companies.

P.M. Levine was appointed a non-executive director and Deputy Chairman of the Company in 1993. On 22 April 1998 he was appointed Chairman. He is a corporate lawyer as well as a director of several private companies.

J.R.A. Townsend was appointed a non-executive director of the Company on 20 March 1998. He is Vice-Chairman of Hoare Govett Corporate Finance Ltd and has had a long career in corporate finance. His family have had an involvement in the steel fabricating industry for several generations.

### Directors' and Officers' Liability

Directors' and Officers' liability insurance has been purchased during the year.

### Significant Shareholdings

In addition to the directors' shareholdings on page 15, the Company is aware of the following interests in excess of 3% of the issued share capital.

MacWan Group	3,143,057	11.4
Clevedon Medical Investment Management	2,281,050	11.3
Friends Provident	957,500	4.3
M.J. Reeve	824,157	4.3
Standard Life Group	550,000	3.9

### Share capital

The directors' power to allot equity securities conferred by Special Resolution of the Company passed on 23 May 1997 will expire at the conclusion of the Annual General Meeting to be held on 22 May 1998, unless otherwise varied, revoked or renewed. Your directors consider it desirable that this authority should be renewed at the forthcoming Annual General Meeting. The aggregate nominal value of new shares for which authority is being sought is £99,019 representing 5% of the Company's current issued share capital. The directors have no present intentions of exercising this authority.

The directors are requesting that at the forthcoming Annual General Meeting they are given the authority to buy, by way of market purchases, up to 10% of the issued share capital of the Company. The directors have no present intention of exercising this authority and will only do so at price levels which they consider to be in the interests of the shareholders, after taking account of the Group's overall financial position, and which would lead to a beneficial impact on the earnings per share of the Company.

The two authorities to be proposed will expire either on the date falling 15 months following the passing of the Resolutions or the date of the next Annual General Meeting to be held after 22 May 1998, whichever is the earlier.

#### New Share Option Scheme

In order to provide an additional incentive to the Group's employees, the Board proposes to introduce a new Share Option Scheme.

The terms of the new Share Option Scheme comply with the ABI guidelines and include performance criteria. As the Directors wish to allow flexibility this scheme is not intended to be an Inland Revenue approved scheme.

The adoption of the new scheme is subject to receiving shareholder approval at the forthcoming Annual General Meeting.

Details of the new scheme are set out in the circular dated 29 April 1998.

#### Employee Information

Employees are regularly informed of matters concerning the performance and future developments of the Group.

The Board takes account of employees' interests when making decisions and suggestions from employees aimed at improving the Group's performance are welcomed.

#### Creditor Payment Policy

The Company's current policy concerning the payment of its trade creditors is to agree terms and conditions for its transactions with suppliers and to abide by those terms, subject to those terms and conditions being met by the supplier. At 31 December 1997 trade creditors of the Group represented 65 days of purchases (Company: Nil).

#### Disabled Persons

The Company has continued with its established policy of employing disabled persons where practicable and endeavours to ensure that they benefit from training and career opportunities in common with all employees.

#### 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

P.J. Davison

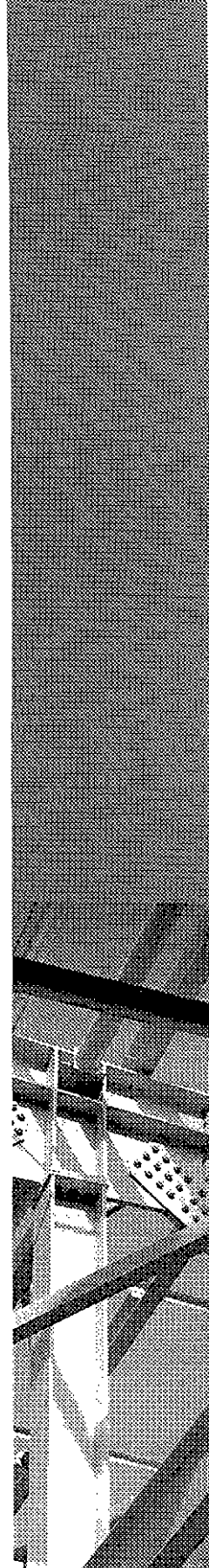
P.J. Davison

Secretary

29 April 1998

Dalton Airfield Industrial Estate,

Dalton, Thirsk, North Yorkshire, YO7 3JN



## Corporate Governance

During the year the Company has continued to review its compliance with the Code of Best Practice of the Committee on the Financial Aspects of Corporate Governance ("the Code"). The Board has also considered the recommendations of the City Group for Smaller Companies (CISCO) in its bulletin 'The Financial Aspects of Corporate Governance: Guidance for Smaller Companies'. This bulletin identified areas of the Code which may initially prove difficult for smaller companies to implement and suggests minimum standards in those areas.

The Board accepts that the CISCO bulletin is not an alternative to the Code. However, the Board believes that the standards outlined in the bulletin are more relevant to a company the size of Severfield-Reeve Plc with its limited resources. Consequently, certain areas of non-compliance with the Code will be justified by reference to the CISCO recommendations.

With the exception of the Board of directors, as noted below, and the audit committee comprising only two non-executive directors, the Company was in compliance with the requirements of the Code for the year ended 31 December 1997.

### Board composition

The Board of directors comprises four executive and three non-executive directors. Prior to the appointment of J.R.A. Townsend as non-executive director on 20 March 1998 the Board comprised only two non-executive directors. The Board considered that due to the size of the Company, and to avoid unnecessary expense, the presence of only two non-executive directors, rather than three as required by the Code, was adequate for the requirements of the Company. This position was consistent with CISCO recommendations. Whilst the appointment of J.R.A. Townsend ensures that the Company now has the required number of non-executive directors, as outlined by the Code, it is envisaged that a further non-executive director will be appointed. The Board meets monthly throughout the year and is responsible for overall Group strategy, acquisition and divestment policy, major capital expenditure and other significant financial matters. It reviews individual trading subsidiaries, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes.

### Audit committee

The audit committee currently comprises two non-executive directors, P.M. Levine and J.R. Featherstone, together with the finance director, P.J. Davison. It is anticipated that J.R.A. Townsend will be appointed to the committee in the near future. The committee has written terms of reference. Meetings are held not less than twice a year and additional meetings may be requested by the auditors.

### Going concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.



#### Internal financial control

The Board of directors has overall responsibility for ensuring that the Group maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal financial control systems which have been established are as follows:

#### Control environment

The Group's control environment is the responsibility of the Group's directors and managers at all levels. The Group's organisational structure has clear lines of responsibility. Operating and financial responsibility for subsidiary companies is delegated to the operating boards.

#### Identification of business risks

All subsidiary companies are required to assess key risks, and related controls and monitoring procedures.

#### Major corporate information systems

The Group operates a comprehensive budgeting and financial reporting system which, as a matter of routine, compares actual results with budgets. Management accounts are prepared for each subsidiary company and the Group on a monthly basis. Material variances from budget are thoroughly investigated. In addition, a more detailed profitability forecast based on actual contracts secured is regularly prepared to monitor the performance of the main operating company of the Group as the year progresses.

Cash flow forecasts are regularly prepared to ensure that the Group has adequate funds and resources for the foreseeable future.

Standard financial control procedures operate throughout the Group to ensure the integrity of the Group's financial statements.

#### Monitoring systems used by the Board

The Board reviews and approves budgets and monitors the Group's performance against those budgets monthly. Variances from the expected outcome are investigated fully and where lapses in internal control are detected, these are rectified. The Group's cash flow is also monitored monthly compared with forecast. The Board receives reports on deficiencies in internal financial control from the audit committee. Where lapses are detected, action is taken to prevent further breaches of the Group's procedures. The Board has reviewed the effectiveness of the systems of internal financial control for the period.

# Report of the Remuneration Committee

## Remuneration Policy

The Remuneration Committee's policy is to ensure that the remuneration packages offered are competitive and designed to attract, retain and motivate executive directors of the right calibre.

## Remuneration Committee

The Remuneration Committee is responsible for determining the emoluments of the executive directors and comprises two non-executive directors, P.M. Levine and J.R. Featherstone. It is anticipated that J.R.A. Townsend will be appointed to the committee in the near future.

The Remuneration Committee has given full consideration to the Code of Best Practice issued by the study group on directors' remuneration. The constitution and operation of the committee is in compliance with Section A of the best practice provisions annexed to the Stock Exchange Listing Rules.

In framing the remuneration policy the Committee has also given full consideration to Section B of the best practice provisions annexed to the Stock Exchange Listing Rules.

The remuneration of the non-executive directors is considered by the executive directors and reflects the time which they commit to the Company.

## Pensions

The Group contributes to each executive directors' money purchase pension fund.

## Share Options

The Committee believes that share ownership by executives strengthens the link between their personal interests and those of shareholders. The Company currently operates two share option schemes and options are granted to executives periodically at the discretion of the Remuneration Committee.

## Service Contracts

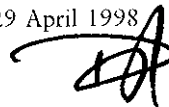
The service contracts of executive directors are no longer than twelve months duration.

Full details of the remuneration packages of individual directors, including pension fund payments, and information on share options are provided in Note 3 to the financial statements.

P.M. Levine

Chairman of the Remuneration Committee

29 April 1998



# Review Report

## TO Severfield-Reeve Plc ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 18 and 19 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

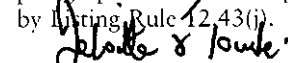
## Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures or on the ability of the Company to continue in operational existence.

## Opinion

With respect to the directors' statements on internal financial control on page 19 and going concern on page 18, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 18 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by Listing Rule 12.43(j).



Deloitte & Touche  
Chartered Accountants  
10-12 East Parade  
Leeds LS1 2AJ  
29 April 1998

## 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 the Group as at the end of the financial year and of the profit or loss of the Group 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 Group will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditors' Report

TO THE MEMBERS OF  
Severfield-Reeve Plc

We have audited the financial statements on pages 22 to 42 which have been prepared under the accounting policies set out on pages 27 and 28.

*Respective responsibilities  
of directors and auditors*

As described above, 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 circumstances of the Company and the Group, 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 and the Group as at 31 December 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche*  
Deloitte & Touche  
Chartered Accountants and Registered Auditors  
10-12 East Parade  
Leeds LS1 2AJ  
29 April 1998

# Consolidated Profit and Loss Account

For the year ended 31 December 1997

	Note	1997 £000	1996 £000
Turnover — Continuing operations	1	121,119	66,116
Cost of sales		108,949	59,181
Gross profit		12,170	6,935
Distribution costs		921	596
Administrative expenses		1,950	1,612
		9,299	4,727
Other operating income		66	95
Operating profit — Continuing operations	2	9,365	4,822
Interest payable and similar charges	4	202	290
Profit on ordinary activities before taxation		9,163	4,532
Tax on profit on ordinary activities	5	2,803	1,495
Profit on ordinary activities after taxation for the financial year		6,360	3,037
Dividends payable to equity shareholders	6	1,979	1,028
Profit retained, transferred to reserves	22	4,381	2,009
Earnings per share	7	32.28p	16.34p
Dividends per share			
Paid		3.75p	1.75p
Proposed		6.25p	3.50p
Total		10.00p	5.25p



# Consolidated Balance Sheet

31 December 1997

	Note	1997 £000	1996 £000
<b>Fixed assets</b>			
Intangible assets	9	—	524
Tangible assets	10	19,683	14,810
Investment properties	11	156	110
		<b>19,839</b>	<b>15,444</b>
<b>Current assets</b>			
Stocks	13	2,885	3,607
Debtors	14	26,103	18,950
Cash at bank and in hand		9,818	2,267
		<b>38,806</b>	<b>24,824</b>
Creditors — amounts falling due within one year	15	32,598	19,340
<b>Net current assets</b>		<b>6,208</b>	<b>5,484</b>
<b>Total assets less current liabilities</b>		<b>26,047</b>	<b>20,928</b>
Creditors — amounts falling due after more than one year	16	3,477	3,531
<b>Provisions for liabilities and charges</b>	17	<b>1,088</b>	<b>1,016</b>
		<b>21,482</b>	<b>16,381</b>
<b>Capital and reserves</b>			
Called up share capital	18	1,979	1,958
Share premium account	19	8,077	7,972
Revaluation reserve	20	1,427	833
Merger reserve	21	114	114
Profit and loss account	22	9,885	5,504
<b>Equity and total shareholders' funds</b>		<b>21,482</b>	<b>16,381</b>

These financial statements were approved by the Board of directors on 29 April 1998.

Signed on behalf of the Board of directors

J.L. Severs

Director

P.J. Davison

Director

# Company Balance Sheet

31 December 1997

	Note	1997 £000	1996 £000
<b>Fixed assets</b>			
Tangible assets	10	8,250	5,750
Investment properties	11	156	110
Investments	12	160	160
		8,566	6,020
<b>Current assets</b>			
Debtors	14	8,059	10,413
Cash at bank and in hand		—	358
		8,059	10,771
Creditors — amounts falling due within one year	15	3,953	3,790
Net current assets		4,106	6,981
Total assets less current liabilities		12,672	13,001
Creditors — amounts falling due after more than one year	16	—	693
		12,672	12,308
<b>Capital and reserves</b>			
Called up share capital	18	1,979	1,958
Share premium account	19	8,077	7,972
Revaluation reserve	20	1,427	833
Profit and loss account	22	1,189	1,545
Equity and total shareholders' funds		12,672	12,308

These financial statements were approved by the Board of directors on 29 April 1998.

Signed on behalf of the Board of directors

J.L. Severs

Director

P.J. Davison

Director

# Consolidated Cash Flow Statement

For the year ended 31 December 1997

	Note	1997 £000	1996 £000
Net cash inflow from operating activities	23	15,999	1,521
Returns on investments and servicing of finance	24	(262)	(324)
Taxation		(1,121)	(652)
Capital expenditure and financial investment	24	(3,683)	(3,315)
Acquisitions and disposals	24	—	(901)
Equity dividends paid		(1,427)	(656)
Cash inflow/(outflow) before use of liquid resources and financing		9,506	(4,327)
Financing	24	(1,955)	5,838
Increase in cash in the year		7,551	1,511

## Reconciliation of net cash flow to movement in net funds

		1997 £000	1996 £000
Increase in cash in the year		7,551	1,511
Cash flow from movement in loans and hire-purchase contracts		2,081	826
Change in net funds from cash flows		9,632	2,337
New hire- purchase contracts		(2,152)	(2,624)
Movement in net funds in the year		7,480	(287)
Net debt at 1 January		(2,367)	(2,080)
Net funds/(debt) at 31 December	25	5,113	(2,367)

The comparatives have been restated following the revision of Financial Reporting Standard 1, "Cash Flow Statements".

## Supplementary Statements

*For the year ended 31 December 1997*

### Statement of Total Recognised Gains and Losses

	1997 £000	1996 £000
Profit attributable to members of the Group	6,360	3,037
Unrealised surplus on revaluation of properties	594	46
Total recognised gains and losses for the year	6,954	3,083

### Reconciliation of Movements in Shareholders' Funds

	1997 £000	1996 £000
Profit for the financial year	6,360	3,037
Dividends	(1,979)	(1,028)
Issue of shares — net	126	6,664
Goodwill written off	—	(387)
Revaluation adjustment	594	46
Net addition to shareholders' funds	5,101	8,332
Opening shareholders' funds	16,381	8,049
Closing shareholders' funds	21,482	16,381



## Accounting Policies

### Accounting Convention

The Group financial statements are prepared under the historical cost convention, as modified by the revaluation of freehold and long leasehold properties, and have been prepared in accordance with applicable accounting standards.

Compliance with SSAP19 "Accounting for investment properties" requires departure from the requirements of the Companies Act 1985 relating to depreciation and an explanation of the departure is given below.

### Basis of Consolidation

The Group financial statements consolidate the financial statements of the Company and all subsidiaries for the financial year ended 31 December 1997.

### Turnover

Turnover in respect of construction activities is calculated on a contract by contract basis and only taken once a contract is substantially complete, or where the contract is so significant to the financial statements for the year that not to take turnover would distort the truth and fairness of the financial statements. Turnover in respect of other activities represents the invoiced value of sales. Value added tax is excluded from turnover.

### Inangible Fixed Assets

Expenditure in relation to projects regarding the development of new products, where the directors are satisfied as to the technical, commercial and financial viability of the projects, was capitalised in 1996 and was to be amortised on a straight line basis over a period of three years. It has now been written off in full in 1997.

Patents and Intellectual Property Rights were to be amortised on a straight line basis over a period of five years, but have also been written off in full in 1997.

### Tangible Fixed Assets

Freehold and long leasehold land is not depreciated.

Depreciation is provided on other fixed assets to write off the cost or revalued amount of each asset over its estimated useful life at the following rates:

Freehold buildings	1% straight line
Plant and machinery	10% on written down value
Fixtures, fittings and office equipment	10% on written down value
Computer equipment	20% straight line
Motor vehicles	25% on written down value

### Investment Properties

In accordance with SSAP 19, investment properties are revalued annually and the aggregate surplus or deficit is transferred to revaluation reserve. No depreciation is provided in respect of investment properties.

The Companies Act 1985 requires all properties to be depreciated. However, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19. The directors consider that, because these properties are not held for consumption, but for their investment potential, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view.

## Accounting Policies (continued)

If this departure from the Act had not been made, the profit for the financial year would have been reduced by depreciation. However, the amount of depreciation cannot reasonably be quantified because depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

### Investments

Investments held as fixed assets are stated at the nominal value of shares or cash issued to acquire the subsidiaries, less any provision for diminution in value.

### Goodwill

Goodwill arising upon the acquisition of subsidiaries and the trade and assets of businesses is written off directly to reserves in the year in which it arises.

### Stocks

Raw materials, consumables and finished goods are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Work in progress represents costs incurred on specific contracts, net of amounts transferred to cost of sales in respect of work recorded as turnover, less any foreseeable losses. Attributable profit is taken on the same basis as turnover, as noted previously.

Amounts recoverable on contracts represents the excess of recorded turnover over amounts invoiced, and is disclosed separately within debtors.

Payments received on account in excess of the value of the work done on the related contract are included in creditors.

### Deferred Taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

### Pensions

The Group operates three defined contribution pension schemes. The costs of these schemes are charged to the profit and loss account in the period in which they are incurred.

### Leases

Assets held under hire-purchase contracts and the related hire-purchase obligations are recorded in the balance sheet at the fair value of the hired assets at the inception of the contract. The amounts by which the hire-purchase payments exceed the recorded contract obligations are treated as finance charges which are amortised over each contract term to give a constant rate of charge on the remaining balance of the obligation.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

## Notes to the Financial Statements

### 1. Turnover and Segmental Analysis

Class of Business	Structural Steelwork		Food Industry Equipment		Group	
	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000
<b>Turnover by destination and class of business:</b>						
United Kingdom	108,233	60,444	328	139	108,561	60,583
Europe	9,124	1,922	79	49	9,203	1,971
Other Countries	3,189	3,506	166	56	3,355	3,562
	120,546	65,872	573	244	121,119	66,116
<b>By class of business:</b>						
Profit/(loss) on ordinary activities before taxation	11,244	5,051	(2,081)	(519)	9,163	4,532
Net assets/(liabilities)	23,345	16,830	(1,863)	(449)	21,482	16,381

### 2. Operating Profit

	1997 £000	1996 £000
<b>Operating profit is after crediting:</b>		
Rents receivable	65	95
Profit on sale of tangible fixed assets	—	22
<b>and after charging:</b>		
Depreciation on owned assets	833	436
Depreciation on assets held under hire-purchase contracts	676	329
Amortisation of intangible fixed assets	524	32
Loss on sale of tangible fixed assets	1	—
Auditors' remuneration — audit	60	50
— other services	38	19
Vehicle operating lease costs	471	351
Hire of plant and machinery	610	505

## Notes to the Financial Statements

### 3. Directors and Employees

	1997 £000	1996 £000
Directors' emoluments — salaries, taxable benefits and pension contributions	630	403
— fees	37	32
Highest paid director (including gain on exercise of share options)	460	126

The aggregate amount of gains made by two directors on the exercise of share options during the year was £427,000 (1996 — £nil).

Details of the directors' emoluments are as follows:

	Basic salary £000	Fees £000	Bonus £000	Taxable benefits £000	Pension £000	1997 Total £000	1996 Total £000
<b>Executive</b>							
J.L. Severs	130		100	3	38	271	154
P.F. Ellison (from 3/7/97)	45			2	3	50	—
P.J. Davison	78		28	12	35	153	106
M.J. Reeve (until 2/10/97)	81		30	7	38	156	143
<b>Non-Executive</b>							
P.M. Levine		23				23	21
J.R. Featherstone		14				14	11
<b>Aggregate emoluments</b>	<b>334</b>	<b>37</b>	<b>158</b>	<b>24</b>	<b>114</b>	<b>667</b>	<b>435</b>

Aggregate emoluments disclosed in the table above do not include any amounts in relation to options to subscribe for ordinary shares in the Company exercised or granted to directors.

Details of the options are as follows:

Name of director	1 January 1997 (or date of appointment)	Exercised in year	31 December 1997	Exercise price	Market price at date of exercise	Date option granted
P.J. Davison	75,000 (75,000)		—	61p	517.5p	16 May 1994
P.J. Davison	70,000		70,000	67p		19 May 1995
P.J. Davison	55,000		55,000	312p		18 Oct 1996
P.F. Ellison	20,000 (15,000)		—	61p	490.5p	16 May 1994
	(5,000)		—	61p	471.5p	16 May 1994
P.F. Ellison	15,000		15,000	67p		19 May 1995

The options are exercisable not less than three years and not more than ten years from the date of grant.

The market price of the shares at 31 December 1997 was 502.5p and the range during 1997 was 314.5p to 517.5p.



### 3. Directors and Employees *(continued)*

The average number of persons employed by the Group (including executive directors) during the year was:

	1997 No.	1996 No.
Production	423	300
Site	90	58
Sales and administration	52	49
	565	407

The aggregate payroll costs of these persons were as follows:

	1997 £000	1996 £000
Wages and salaries	14,492	9,587
Social security costs	1,408	956
Other pension costs	435	368
	16,335	10,911

### 4. Interest Payable and Similar Charges

	1997 £000	1996 £000
Bank loan and overdraft repayable within five years	130	203
Hire-purchase contracts	391	152
	521	355
Less: Interest receivable	319	65
	202	290

### 5. Tax on Profit on Ordinary Activities

	1997 £000	1996 £000
United Kingdom corporation tax charge at 31% (1996: 33%) based on profit for the year	2,749	1,046
Deferred taxation	65	449
Adjustments to prior years' tax provision:		
Corporation tax	(18)	(6)
Deferred taxation	7	6
	2,803	1,495

## Notes to the Financial Statements

### 6. Dividends Payable to Equity Shareholders

	1997 £000	1996 £000
Interim paid — 3.75p per ordinary share (1996: 1.75p)	742	343
Final proposed — 6.25p per ordinary share (1996: 3.50p)	1,237	685
	<b>1,979</b>	<b>1,028</b>

### 7. Earnings per Share

The calculation of earnings per share is based on profit after taxation of £6,360,000 (1996: £3,037,000) and 19,703,415 (1996: 18,585,964) ordinary shares, being the weighted average of the number of shares in issue during the year.

### 8. Profit of Parent Company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The parent company profit for the financial year amounted to £1,623,000 (1996: £167,000).

### 9. Intangible Assets

Group	Development costs £000	Intellectual property rights £000	Patents £000	Total £000
Cost				
At 1 January 1997 and 31 December 1997	526	20	10	556
Amortisation				
At 1 January 1997	26	4	2	32
Provided in year	500	16	8	524
At 31 December 1997	526	20	10	556
Net book value				
At 31 December 1997	—	—	—	—
At 31 December 1996	500	16	8	524

## 10. Tangible Assets

Group	Freehold and long leasehold land and buildings £000	Plant and machinery £000	Fixtures, fittings and office equipment £000	Motor vehicles £000	Total £000
Cost or valuation					
At 1 January 1997	5,892	10,011	1,040	838	17,781
Additions	1,956	3,290	495	494	6,235
Disposals	—	(702)	(489)	(148)	(1,339)
Revaluation adjustment	594	—	—	—	594
At 31 December 1997	8,442	12,599	1,046	1,184	23,271
Depreciation					
At 1 January 1997	142	2,099	535	195	2,971
Provided in year	50	1,102	142	215	1,509
Disposals	—	(378)	(453)	(61)	(892)
At 31 December 1997	192	2,823	224	349	3,588
Net book value					
At 31 December 1997	8,250	9,776	822	835	19,683
At 31 December 1996	5,750	7,912	505	643	14,810

Company	Freehold and long leasehold land and buildings £000
Cost or valuation	
At 1 January 1997	5,892
Additions	1,956
Revaluation adjustment	594
At 31 December 1997	8,442
Depreciation	
At 1 January 1997	142
Provided in year	50
At 31 December 1997	192
Net book value	
At 31 December 1997	8,250
At 31 December 1996	5,750

## Notes to the Financial Statements

### 10. Tangible Assets *(continued)*

#### Group and Company

The amount of freehold and long leasehold land and buildings (included at valuation), determined according to the historical cost convention, is as follows:

	1997 £000	1996 £000
Cost	7,027	5,071
Accumulated depreciation	192	142
Net book value at 31 December	6,835	4,929

Freehold and long leasehold land and buildings at Dalton Airfield Industrial Estate were valued, as at 31 December 1997, on 18 February 1998 on the basis of depreciated replacement cost at £8,250,000 by Foster Bowden Limited, Chartered Surveyors. The surplus above net book value of £594,000 has been transferred to the Revaluation Reserve.

The net book value of the Group's plant and machinery includes £6,371,000 (1996: £4,922,000) in respect of assets held under hire-purchase contracts.

### 11. Investment Properties

Group and Company	1997 £000	1996 £000
At valuation at 1 January	110	348
Additions	46	—
Disposals	—	(250)
Revaluation adjustment	—	12
At valuation at 31 December	156	110

The investment properties represent freehold let units at Dalton Airfield Industrial Estate and a property near Thirsk. The freehold let units were valued, as at 31 December 1997, on 18 February 1998 at open market value on the basis of existing occupation at £110,000 by Foster Bowden Limited, Chartered Surveyors. This valuation resulted in no surplus or deficit compared with the previous valuation in 1997. The addition of the property near Thirsk during 1997 is at cost, which, in the opinion of the directors, equates to market value.

The historical cost of the investment properties is £144,000 (1996: £98,000).



## 12. Investments held as Fixed Assets

### Company

The Company owns the whole of the issued share capital of the subsidiaries noted below, other than Steel (U.K.) Limited, of which it owns 90%. All subsidiaries are registered in England.

Severfield-Reeve Structures Limited	— steel fabrication
Rowen Structures Limited	— steel fabrication
Steelcraft Erection Services Limited	— steel erection
Severfield-Reeve International Limited	— overseas contracts
Severfield-Reeve Projects Limited	— project managers of building contracts
Severfield-Reeve Properties Limited	— group property portfolio managers
Steel (U.K.) Limited	— steel trading
Structural Metal Decks Limited	— metal decking
Manabo (UK) Limited	— suppliers of equipment to the food industry

	1997 £000	1996 £000
Shares in subsidiary undertakings at cost	160	160

## 13. Stocks

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Work in progress	727	887	—	—
Raw materials and consumables	1,531	2,304	—	—
Finished goods and goods for resale	627	416	—	—
	2,885	3,607	—	—

## 14. Debtors

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Trade debtors	14,967	15,340	1	16
Other debtors	115	72	77	—
Prepayments and accrued income	436	1,403	—	—
Amounts recoverable on contracts	10,275	1,963	—	—
Recoverable corporation tax	310	172	309	171
Amounts owed by subsidiary undertakings	—	—	7,672	10,226
	26,103	18,950	8,059	10,413

## Notes to the Financial Statements

### 15. Creditors — Amounts Falling Due Within One Year

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Bank overdraft (see note 16)	—	—	141	—
Bank loan (see note 16)	—	228	—	228
Obligations under hire-purchase contracts (see note 16)	1,228	875	—	—
Trade creditors	22,559	13,162	—	—
Corporation tax	2,393	882	5	10
Advance corporation tax	494	257	494	257
Other taxation and social security	1,239	1,341	—	2
Other creditors and accruals	3,448	1,629	2	2
Proposed dividend	1,237	685	1,237	685
Amounts owed to subsidiary undertakings	—	—	2,074	2,606
Payments received on account	—	281	—	—
	32,598	19,340	3,953	3,790

### 16. Borrowings

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Bank overdraft	—	—	141	—
Bank loan	—	921	—	921
Obligations under hire-purchase contracts	4,705	3,713	—	—
	4,705	4,634	141	921
Due within one year	1,228	1,103	141	228
Due after more than one year	3,477	3,531	—	693
	4,705	4,634	141	921
Analysis of loan repayments:				
Bank loan and overdraft				
Within one year or on demand	—	228	141	228
Between one and two years	—	292	—	292
Between two and five years	—	401	—	401
Obligations under hire-purchase contracts:				
Within one year	1,228	875	—	—
Between one and two years	1,183	844	—	—
Between two and five years	2,294	1,994	—	—
	4,705	4,634	141	921

The bank overdraft is secured by fixed and floating charges on the assets of the Group.

Obligations under hire-purchase contracts are secured by related assets.

## 17. Provisions For Liabilities and Charges

### Deferred Taxation

The amount of deferred taxation provided and unprovided in the financial statements is:

Group	Amount provided		Amount unprovided	
	1997 £000	1996 £000	1997 £000	1996 £000
Excess capital allowances	1,251	1,032	383	339
Surplus on revaluation	—	—	310	—
Gain deferred by roll-over relief	—	—	22	22
Other timing differences	(163)	(16)	—	—
	1,088	1,016	715	361

Deferred Taxation — Movement for the year	£000
At 1 January 1997	1,016
Current year charge	65
Adjustment in respect of prior years	7
At 31 December 1997	1,088

Company	Amount provided		Amount unprovided	
	1997 £000	1996 £000	1997 £000	1996 £000
Excess capital allowances	—	—	383	339
Surplus on revaluation	—	—	310	—
Gain deferred by roll-over relief	—	—	22	22
	—	—	715	361

## Notes to the Financial Statements

### 18. Called Up Share Capital

	1997 £000	1996 £000
Authorised:		
27,000,000 ordinary shares of 10p each	2,700	2,700
Allotted, called up and fully paid:		
19,788,367 ordinary shares of 10p each	1,979	
19,581,067 ordinary shares of 10p each		1,958

During the year 23 executives of the Company exercised their options over a total of 207,300 ordinary shares in the Company at a price of 61p per share.

#### Share Options:

At 31 December 1997 share options remained outstanding as follows:

#### Severfield-Reeve Plc 1996 Executive Share Option Scheme

Date option granted	Number of ordinary shares	Option price
18 April 1996	300,000	224p
18 October 1996	55,000	312p
	355,000	

These options are exercisable not less than three years and not more than seven years from the date of grant.

#### Severfield-Reeve Plc Executive Share Option Scheme

Date option granted	Number of ordinary shares	Option price
16 May 1994	25,700	61p
19 May 1995	217,000	67p
	242,700	

These options are exercisable not less than three years and not more than ten years from the date of grant.

## 19. Share Premium Account

	£000
Group and Company	
At 1 January 1997	7,972
Premium on shares issued	105
At 31 December 1997	8,077

## 20. Revaluation Reserve

	Investment properties revaluation reserve £000	Revaluation reserve £000	Total £000
Group and Company			
At 1 January 1997	12	821	833
Revaluation adjustment	—	594	594
At 31 December 1997	12	1,415	1,427

## 21. Merger Reserve

	£000
Group	
At 1 January 1997 and 31 December 1997	114

## 22. Profit and Loss Account

	Group £000	Company £000
At 1 January 1997	5,504	1,545
Retained profit/(loss) for the year	4,381	(356)
At 31 December 1997	9,885	1,189

The cumulative amount of goodwill written off to reserves is £1,122,000 (1996: £1,122,000).



## *Notes to the Financial Statements*

### 23. Reconciliation of Operating Profit to Operating Cash Flow

	1997 £000	1996 £000
Operating profit	9,365	4,822
Depreciation charges	1,509	765
Amortisation charges	524	32
Profit/(loss) on sale of tangible fixed assets	1	(22)
Decrease/(increase) in Stocks	722	(2,250)
Increase in Debtors	(6,955)	(9,300)
Increase in Creditors	10,833	7,474
Net cash inflow from operating activities	15,999	1,521

### 24. Analysis of Cash Flows

	1997 £000	1996 £000
<b>Returns on investments and servicing of finance</b>		
Interest received	259	48
Interest paid	(130)	(220)
Interest element of hire-purchase payments	(391)	(152)
	(262)	(324)
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(4,129)	(3,329)
Receipts from sales of tangible fixed assets	446	540
Development costs capitalised	—	(526)
	(3,683)	(3,315)
<b>Acquisitions and disposals</b>		
Purchase of subsidiary undertakings	—	(800)
Costs of purchase of subsidiary undertakings	—	(101)
	—	(901)
<b>Financing</b>		
Issue of ordinary share capital (net of costs)	126	6,664
Capital element of bank loan payments	(921)	(256)
Capital element of hire-purchase payments	(1,160)	(570)
	(1,955)	5,838

## 25. Analysis of Net Funds

	At 1 January 1997 £000	Cash flow £000	New hire- purchase contracts £000	At 31 December 1997 £000
Cash at bank and in hand	2,267	7,551	—	9,818
Bank loan	(921)	921	—	—
Hire purchase contracts	(3,713)	1,160	(2,152)	(4,705)
Net funds/(debt)	(2,367)	9,632	(2,152)	5,113

## 26. Capital Commitments

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Contracted for but not provided in the financial statements	1,050	850	600	—
Authorised but not yet contracted for	—	—	—	—

## 27. Contingent Liabilities

The Company and its subsidiaries have provided unlimited multilateral guarantees to secure the bank overdrafts of all other Group companies. The Group has also given performance bonds in the normal course of trade.

## 28. Operating Lease Commitments

At 31 December 1997 the Group was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings £000	Other £000
Leases which expire:		
Within one year	150	129
Within two to five years	170	626
After five years	50	—
	370	755

## Notes to the Financial Statements

### 29. Related Party Transactions

Under FRS8 the Group made the following transactions with related parties during the year:

Related Party	Relationship	Transaction	Value £000
P. Levine & Co.	Associated with P.M. Levine, Non-executive Chairman	Fees for advice on Executive Share Option Scheme and Service Contracts	4
P. Levine & Co.	Associated with P.M. Levine, Non-executive Chairman	Fees for general advice on Company matters	5
P. Levine & Co.	Associated with P.M. Levine, Non-executive Chairman	Fees and expenses for general advice regarding Manabo (UK) Limited	14

Peter Levine has agreed that no new work will be undertaken by P. Levine & Co. from the date of his appointment as Chairman.

### 30. Purchase of Shares in Subsidiary Companies

On 31 October 1997 the Company acquired 10% of the issued share capital of Steel (U.K.) Limited for nil consideration, bringing its total holdings to 90%.

In 1996 the Company acquired the business and assets of J N Rowen Limited and J N R (SMD) Limited for a cash consideration, including costs, of £901,000, and formed two new subsidiary companies, Rowen Structures Limited and Structural Metal Decks Limited.

The acquisition consideration was made up as follows:

	£000
Net book value of tangible assets purchased:	
Plant and machinery	219
Fixtures, fittings and office equipment	219
Motor vehicles	76
	514
Consideration	800
	286
Costs of acquisition	101
Goodwill purchased	387

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Severfield-Reeve Plc will be held at The Angel Inn, Long Street, Topcliffe, Thirsk, North Yorkshire, YO7 3RW on Friday 22 May 1998 at 12.00 noon for the following purposes:

## Ordinary Business

1. To receive and adopt the Directors' Report and Financial Statements for the year ended 31 December 1997 together with the Auditors' Report.
2. To declare a final dividend for the year ended 31 December 1997 of 6.25p net per share, payable on 29 May 1998 to shareholders on the register on 11 May 1998.
3. To re-elect P.F. Ellison as a director.
4. To re-elect P.A. Emerson as a director.
5. To re-elect J.R.A. Townsend as a director.
6. To reappoint Deloitte & Touche as auditors of the Group and to authorise the directors to fix their remuneration.

## Special Business

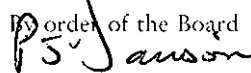
To consider and, if thought fit, to pass the following resolutions as Special Resolutions:

7. That the employee share option scheme ("the scheme") outlined in the circular to shareholders dated 29 April 1998, the rules of which have been produced to the meeting and initialled by the Chairman for the purposes of identification, be and is hereby approved for adoption by the Company and that the directors be and are hereby authorised to do all acts and things which they consider necessary or expedient to establish and carry the scheme into effect.
8. That the directors be and are hereby empowered to make allotments of equity securities (as defined in Section 94 of the Companies Act 1985 (as amended by the Companies Act 1989 ("the Act"))) pursuant to the authority conferred upon the directors by virtue of the Special Resolution of the Company passed on 2 April 1996 as if Section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment of equity securities:
  - (i) in connection with an offer for securities, open for acceptance for a period fixed by the directors, by way of rights to holders of shares in proportion (as nearly as may be) to their holdings on a record date fixed by the directors or (where applicable) in accordance with the rights for the time being attached to such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise howsoever);
  - (ii) otherwise than pursuant to (i) above, up to an aggregate nominal amount of £99,019;and shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution or on 21 August 1999 whichever is the earlier (except to the extent that the same is renewed or extended prior to that date or any later date on which it is due to expire) save that any offer or agreement may be made by the Company before the expiry of this

## Notice of Annual General Meeting

power which would or might require equity securities to be allotted after it has expired and in those circumstances the directors may, by pursuance of any such offer or agreement, allot equity securities notwithstanding the expiry of such power.

9. That the Company be and is hereby unconditionally and generally authorised to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 10p each in its capital subject to the following:
- (i) The maximum number of shares which may be so acquired is 1,980,386, which represents 10% of the issued ordinary share capital as at 29 April 1998;
  - (ii) The minimum price which may be so paid is 10p per share (exclusive of expenses);
  - (iii) The maximum price which may be so paid for each share shall not exceed an amount (exclusive of expenses) equal to 5 per cent over the average of the middle market quotations of the ordinary share according to the Daily Official List of The London Stock Exchange for the five business days immediately preceding the date on which the Company agrees to buy the shares concerned;
  - (iv) This authority shall continue in force until the conclusion of the next Annual General Meeting of the Company but will terminate on 21 August 1999 if the next Annual General Meeting has not been held by that date;
  - (v) The Company may agree before the authority terminates under (iv) above to purchase ordinary shares where the purchase will or may be executed after the authority terminates (either wholly or in part). The Company may complete such a purchase even though the authority has terminated.

By order of the Board  
  
P.J. Davison  
Secretary  
29 April 1998

Dalton Airfield Industrial Estate  
Dalton, Thirsk  
North Yorkshire YO7 3JN

### Notes

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead subject to the Articles of Association of the Company. Proxy forms must be lodged with the registrars of the Company not less than 48 hours before the time fixed for the meeting. Lodgement of proxy forms will not preclude a member from attending and voting at the meeting. A proxy need not be a member of the Company. A form of proxy is included.
2. The following will be available for inspection at the registered office of the Company during normal business hours and, on the day of the Annual General Meeting, at the aforementioned venue 15 minutes prior to and throughout the meeting:  
(a) Register of directors' interests, (b) Copies of all directors' service contracts, (c) Memorandum and Articles of Association of the Company, (d) Rules of the Severfield-Reeve Executive Share Option Scheme, (e) Rules of The Severfield-Reeve Plc 1996 Executive Share Option Scheme, (f) Rules of The Severfield-Reeve Plc 1998 Executive Share Option Scheme.