

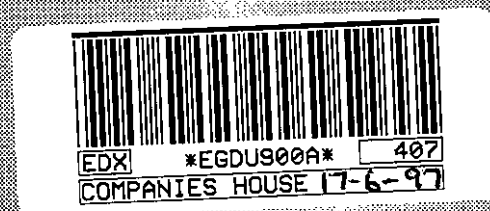
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Severfield-Reeve Plc

Annual Report

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Severfield-Reeve

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.

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Financial Highlights

<i>Years ended 31 December</i>	1996 £000	1995 £000
Turnover	66,116	39,214
Profit before tax	4,532	2,219
Taxation charge	1,495	706
Profit after tax and minority interest	3,037	1,513
Dividends	1,028	470
Retained profit	2,009	1,043
Earnings per share	16.3p	9.7p
Dividends per share	5.25p	3.00p

Turnover (£000)

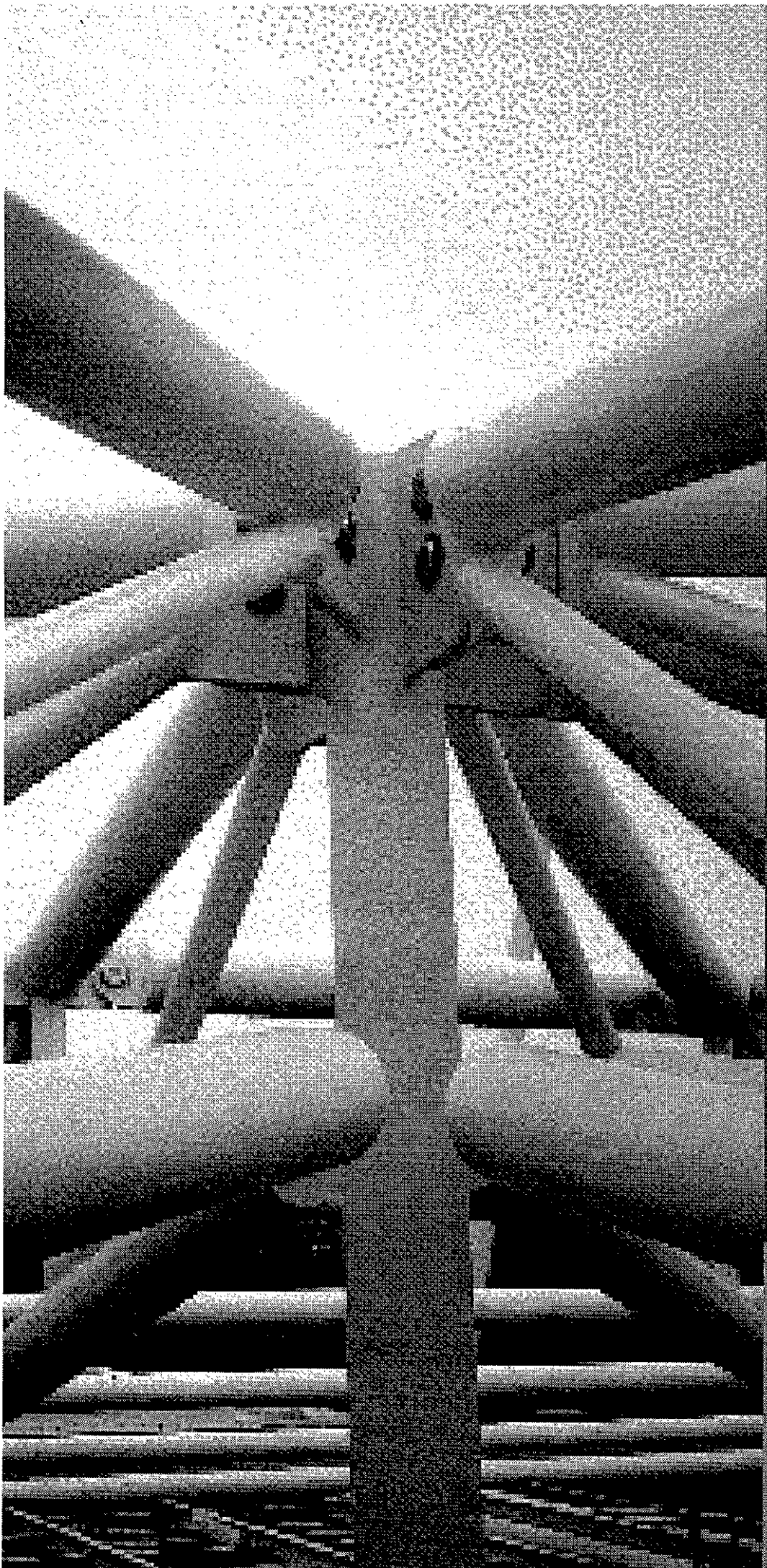
1994	26,645
1995	39,214
	66,116

Profit before taxation (£000)

1994	722
1995	2,219
	4,532

Earnings per share (p)

1994	3.1
1995	9.7
	16.3



Severfield-Reeve
Structures Limited
Steel fabrication

Rowen Structures
Limited
Steel fabrication

Steelecraft 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 (U.K.)
Limited
*Suppliers of equipment
to the food industry*



Five Year Summary

Years ended 31 December	1996	1995	1994	1993	1992
	£000	£000	£000	£000	£000
Turnover	66,116	39,214	26,645	21,688	15,581
Profit/(loss) before tax	4,532	2,219	722	407	(987)
Taxation charge/(credit)	1,495	706	241	100	(352)
Profit/(loss) after tax and minority interest	3,037	1,513	481	307	(635)
Dividends	1,028	470	156	78	—
Retained profit/(loss)	2,009	1,043	325	229	(635)
Earnings/(loss) per share	16.3p	9.7p	3.1p	2.2p	(5.5p)
Dividends per share	5.25p	3.00p	1.00p	0.50p	—

Financial Calendar

Preliminary announcement of full year results	24 March 1997
Publication of annual report	28 April 1997
Annual General Meeting	23 May 1997
Payment of final dividend	30 May 1997
Announcement of interim results	August 1997
Payment of interim dividend	October 1997

Directors and Advisers

Directors

Malcolm John Reeve

Chairman

Peter Michael Levine MA (Oxon)

Non-Executive Deputy Chairman

John Leslie Severs

Managing Director

Peter Jeffrey Davison BA FCA

Finance Director

John Robson Featherstone FCA

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

Auditors

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

Solicitors

Irwin Mitchell
21 Queen Street
Leeds LS1 2TW

Stockbrokers

Hoare Govett
Corporate Finance Limited
4 Broadgate
London EC2M 7LE

Bankers

Yorkshire Bank PLC
2 Infirmary Street
Leeds LS1 2UL

Registrars and Transfer Office

The Royal Bank of Scotland plc
Registrar's Department
PO Box 435
Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

Public Relations

Binns & Co. Public Relations Ltd
16 St Helen's Place
London EC3A 6DE

Chairman's Statement



*1996 was a record year
for the Group.*

*The year was marked by the
outstanding success of our two
structural steelwork companies,
both of which continued to
build on their reputation for
quality, technical expertise and
performance on site.*

1996 was a record year for the Group with:

- Turnover up 68%
- Profit before tax up 104%
- Earnings per share up 69%
- Dividends up 75%

It was a year in which we broadened the base of the Group by acquiring the businesses of J N Rowen Limited and Structural Metal Decks Limited for £800,000 and raised £6.6 million, net of expenses, through a 1 for 4 Placing and Open Offer. We also acquired the outstanding 25% of the shares in Manabo (UK).

The year was marked by the outstanding success of our two structural steelwork companies, both of which continued to build on their reputation for quality, technical expertise and performance on site. Operating margins at each company have improved and the real benefit from the investment we have made in improving the production facilities at Rowen Structures, which was completed at the end of December, has yet to be realised.

Manabo (UK) made an operating loss of £450,000 which was higher than anticipated at the time of the announcement of the interim results. However, the company is now approaching breakeven and is starting to benefit from the growing concern over food hygiene.

Dividend

As a result of the significant increase in profits and the strong start to the current year, the Board is recommending a final dividend of 3.5p per share (1995: 2.0p) making a total dividend for the year of 5.25p (1995: 3.0p), an increase of 75%. The dividend is covered 3.1 times by earnings.

Employees

After a year of further expansion within the Group, I would like to express the directors' thanks to all employees for their continued commitment and their contribution to these excellent results.

Outlook

The current year has seen significant progress with record order books in both of our structural steelwork companies. Sales in Manabo (UK) are increasing and we are committed to moving this company into profit in the near future.

I am confident that 1997 will be a year of significant growth with our structural steelwork companies continuing to benefit from increased market share in the UK, inward investment and increasing emphasis on export markets. I believe that Manabo (UK) will fully justify our investment and longer term plans. Against this background, shareholders can look forward to another excellent set of results.

John Reeve

Chairman

28 April 1997

Operational Review

Overview

The Group now has two major manufacturing sites for structural steelwork and a growing operation at Thirsk providing an advanced range of hygiene equipment for use in the food industry.

Structural Steelwork

Based on current statistics, the UK consumption of constructional steelwork rose by over 4% in 1996 and is forecast to rise by a further 3% in 1997 to 1.1 million tonnes. These figures include a proportion of constructional steelwork which relates to areas outside our normal market such as bridges, agriculture, towers and domestic categories. Excluding these areas, we estimate that our market share in 1996 was approximately 10%. We still operate in a fragmented industry made up of predominantly small companies which gives us substantial scope to expand our market share further.

Severfield-Reeve Structures

At Dalton in North Yorkshire, we have a fully integrated operation involved in the design, manufacture and erection of structural steelwork with approximately 240,000 sq. ft. of production facilities.

During the year, we extended the No. 3 production line and we are now in the process of completing the No. 4 production line, making it the largest single site of its type in the UK.

The number of tonnes processed increased by 20% to 42,000 with turnover on overseas contracts amounting to approximately 13% of this total compared with less than 1% in 1995. Operating margins improved by 38% to 9.4% compared with 6.8% in 1995.

Contracts undertaken during the year included:

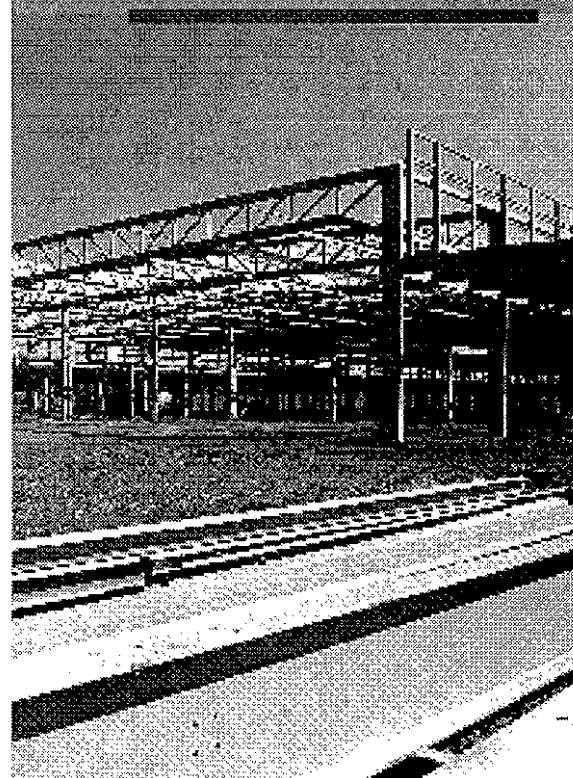
- Microchip factory and offices for Siemens at Wallsend
- Multi-storey car park in Dublin
- Power station in Aqaba for the Jordan Electricity Authority
- Production building for Chunghwa Picture Tubes in Scotland
- Office development at Curzon Street in London

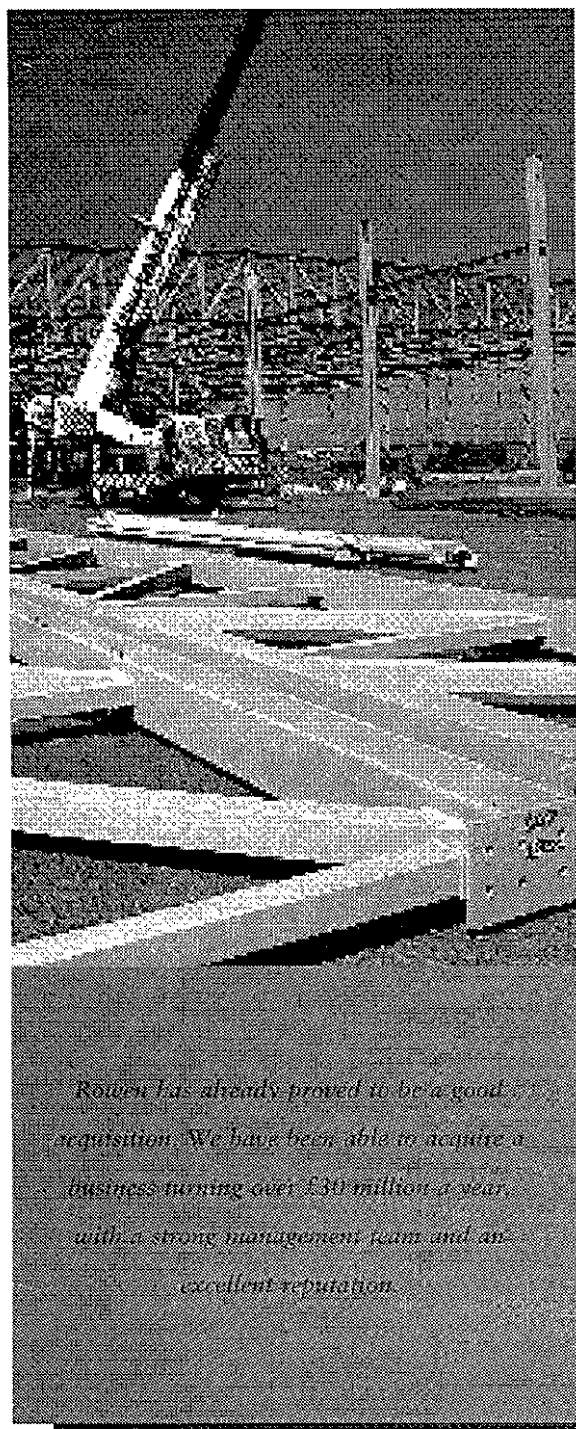
Our order intake has continued at record levels and recent contracts which have been awarded to us include:

- Ink jet cartridge plant for Hewlett Packard in Eire
- Microchip facility for Hyundai in Scotland
- A further contract for the power station in Aqaba
- Distribution depot for J Sainsbury in Scotland
- Colour picture tube building for LG in Wales
- Production facility for ISL on Tyneside
- New British Embassy in Moscow



"I am confident that 1997 will be another excellent year with a further increase in market share and an improvement in margins resulting from operating efficiencies."





Operational Review (continued)

We are now reaping the benefits of the appointment of additional senior management in our international subsidiary and are winning a growing number of overseas contracts. Our strategy is to continue to increase the percentage of turnover carried out on overseas contracts and to take advantage of our operating efficiencies on a world-wide basis.

With the No. 4 production line coming on stream in the first half of the current financial year, I am confident that it will be another excellent year with a further increase in market share and an improvement in margins resulting from operating efficiencies.

Rowen Structures

Rowen has already proved to be a good acquisition. We have been able to acquire a business turning over £30 million a year, with a strong management team and an excellent reputation.

Since the date of the acquisition ageing and inefficient plant and machinery has been replaced, with capital investment amounting to almost £1.5 million in the nine months to 31 December.

The factory layout has been completely reorganised. This has substantially improved the flow of production leading to a significant reduction in the number of hours required to fabricate a tonne of steel and a corresponding increase in production capacity.

Despite the disruption caused by the reorganisation, operating margins in the first nine months of trading increased to almost 3%. This compares very favourably with the 1.6% achieved by J N Rowen in the last full year prior to the acquisition.

With the new plant now fully operational, we expect to see a further improvement in margins in the current year.

In the nine months to 31 December, Rowen Structures produced 15,000 tonnes of structural steel. With the extra capacity now available following the completion of the investment programme, output is improving and we expect to fabricate over 25,000 tonnes in 1997.

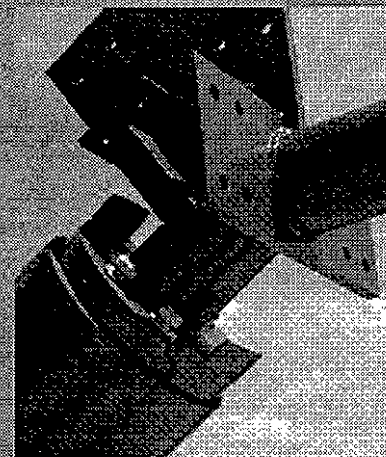
Contacts undertaken since the acquisition include:

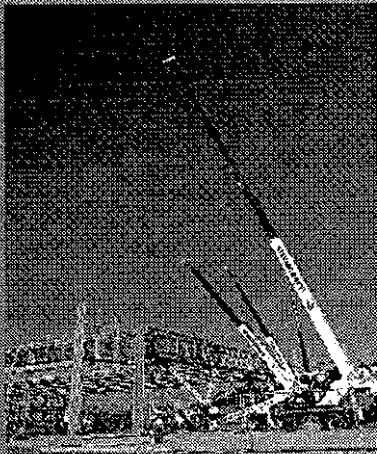
- Alhambra office development in Glasgow for Friends Provident
- Retail unit for Marks & Spencer at Cribbs Causeway Development, in Bristol
- Distribution centre in Haydock for McConnell Properties
- A number of store extensions for J Sainsbury throughout the UK
- Manufacturing facility for Courtaulds Fibres in Grimsby

The flow of new contracts has continued into the current year including:

- The Bluewater Retail Park in Kent including the outlet for Marks & Spencer and a department store for House of Fraser for Lend Lease Projects
- Paddington to Heathrow Express Link for BAA
- Terminal I, Gate 5 contract at Heathrow for BAA
- The rebuilding of a shopping centre in Brighton for Standard Life
- Further supermarket developments

BAA has recently announced that Rowen Structures has been appointed as structural steelwork contractor under one of its Building Structures framework agreements for the next five years. With the strength of the current order book together with the much improved manufacturing facilities, I believe Rowen will have a very good year in 1997.

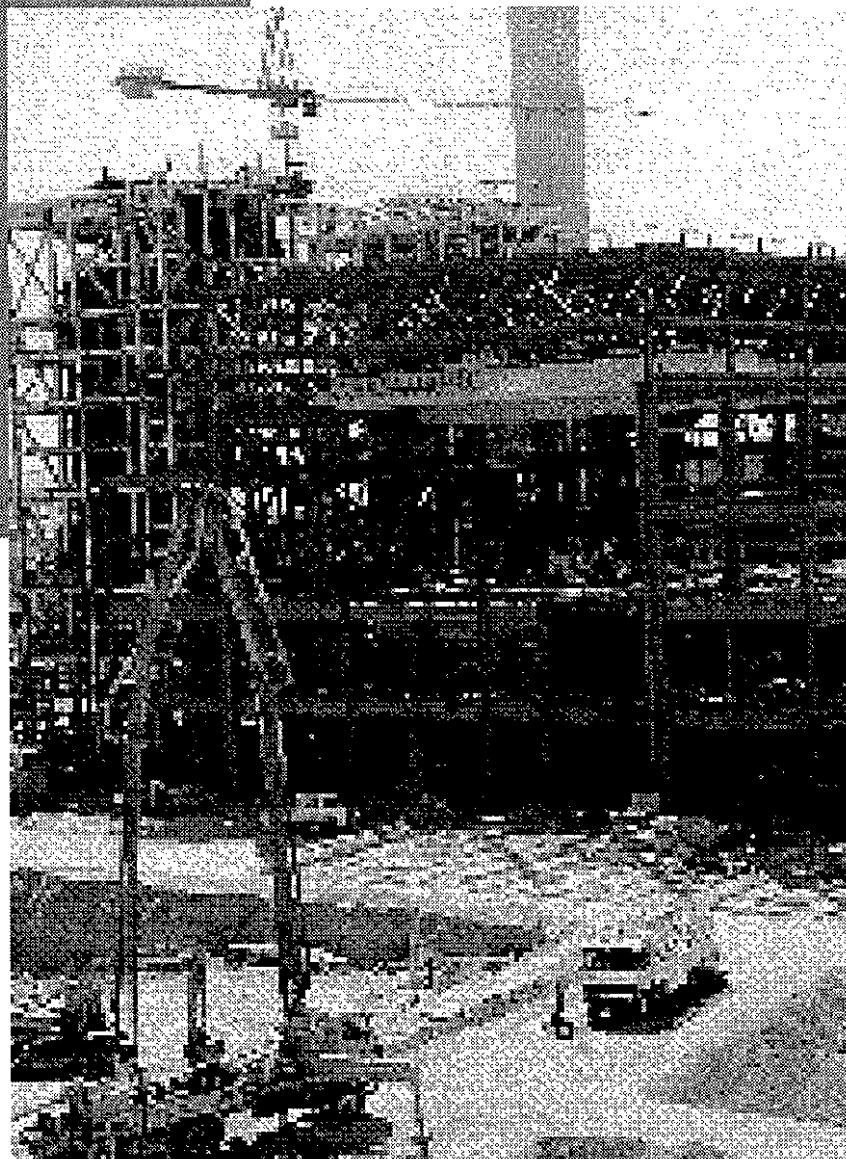




Operational Review (continued)

Steelcraft Erection Services

Through the operation of our in-house erection company, backed up by a modern fleet of mobile cranes and access equipment, we are able to offer our clients a first-class on-site erection service. This in turn enables us to control fully this very important aspect of our business. With increased emphasis being placed on both quality and safety performance, the philosophy of operating this in-house resource has been fully justified. Steelcraft has continued to set record erection performances resulting in our clients being able to set tighter programmes for their projects.



Structural Metal Decks

This company is involved in the metal decking business, often working alongside Severfield-Reeve Structures and Rowen Structures. It has performed well since the acquisition in April and we are benefiting from being able to offer a wider in-house service to our clients.

Manabo (UK)

The outbreak of E. Coli in Scotland has again highlighted the dangers of contamination during the preparation and processing of meat and poultry and undoubtedly Manabo (UK) will benefit from the Government's determination to minimise risk in the preparation of food.

It has, however, taken longer than anticipated to develop the potential of Manabo (UK), particularly in terms of steel mesh production and staff training. There is no doubt in my mind that we have a range of leading edge products for which there will be strong demand from both the UK and overseas.

Recently NEWTEC, a NAMAS accredited laboratory based in Cleveland, undertook microbiological testing of contaminated knives and chainmail gloves using Manabo cleaning machines. The testing of the gloves and knives involved their immersion in a concoction of Listeria, Salmonella and a common strain of E. Coli, millions of times more concentrated than the normal working environment would produce. The results of our patented cleaning process showed a 100% eradication of heavy food bacterial contamination. Alan Mole, the Managing Director of NEWTEC and one of those involved in the testing, found that the standards of cleanliness produced were at previously unattainable levels. "In over 28 years' experience of the veterinary and food industry, I have never seen anything so effective."

Manabo products, which include knife and chainmail glove cleaning machines, knife sharpeners and chainmail gloves, are already being exported to various parts of Europe including Germany, France and Holland, as well as the USA, Australia, New Zealand and South Africa. Although we do not anticipate a large contribution from the company in the current financial year, I believe that Manabo (UK) will be a major contributor to Group profits in the coming years.

John Severs

Managing Director

28 April 1997



The outbreak of E. Coli in Scotland has again highlighted the dangers of contamination during the preparation of meat and poultry



Financial Review

Summary

The Group has continued its rapid growth with turnover, profit before tax and earnings per share for the year ended 31 December 1996 all reaching record levels. Profit before tax increased by 104% from £2,219,000 to £4,532,000 on turnover up by 68% to £66,116,000 from £39,214,000 in 1995. Earnings per share increased by 69% from 9.66p to 16.34p and it is proposed to increase the total dividend for the year by 75% to 5.25p per share. The Group's balance sheet has been further strengthened with net assets increasing by 103% to £16,381,000.

Turnover

Group turnover increased by 68% to a record level of £66,116,000 and can be analysed as follows:

	1996 £'000	1995 £'000	Change %
Structural Steelwork:			
— Severfield-Reeve Structures	40,310	34,471	+17
— Rowen Structures	24,433	—	—
— Steelcraft Erection Services	5,300	4,918	+8
— Severfield-Reeve International	3,748	287	+1,206
	73,791	39,676	+86
Other Group companies:			
— Severfield-Reeve Projects	2,435	2,786	-13
— Steel (UK)	2,390	4,050	-41
— Structural Metal Decks	3,358	—	—
— Manabo (UK)	244	34	+617
	82,218	46,546	+77
Intra-group trading	(16,102)	(7,332)	+119
Total	66,116	39,214	+68

Operating Profit

The Group's operating profit increased by 90% to £4,822,000 with the overall operating margin increasing from 6.5% to 7.3%. This is very encouraging as these results incorporate nine months of trading by Rowen, where, historically, operating margins were very much lower than those achieved in the past by Severfield-Reeve. In the nine months since the acquisition the operating margin of the two new companies was 3.4%. Improvements to the production facilities at Rowen during 1996 will lead to an increase in this percentage in the years to come.

The results also include an operating loss in Manabo amounting to £450,000. The development of Manabo's products has been ongoing throughout the year. The directors are satisfied as to the technical, commercial and financial viability of the new products being developed and consequently the expenditure in relation to the development of these products has been capitalised. The development costs capitalised in 1996 amount to £526,000, and are to be amortised over three years on a straight line basis.

Dividend

An interim dividend of 1.75p per share was paid in October 1996 which, together with the proposed final dividend of 3.50p per share, will bring the total dividend for the year to 5.25p per share, an increase of 75% over the 1995 payment. This total dividend is covered 3.1 times by earnings, which is in line with the Company's stated policy. The final dividend is payable on 30 May 1997 to shareholders on the register on 12 May 1997. The ex dividend date will be 6 May 1997.

Earnings Per Share

Earnings per share increased by 69% to 16.34p from 9.66p in 1995. This calculation is based on the profit after taxation of £3,037,000 and 18,585,964 ordinary shares which is the weighted average of the number of shares in issue during the year. This is calculated following the issue of 3,916,213 ordinary shares on 2 April 1996 through the 1 for 4 Placing and Open Offer.

Taxation

The effective tax charge for the year was 33% compared with 31.8% in the previous year.

Acquisition

The businesses and assets of J N Rowen Limited, a competitor in the structural steelwork industry, and Structural Metal Decks Limited, a specialist metal decking company, were purchased in April 1996 for a cash consideration of £800,000.

This consideration, together with the costs associated with the acquisition, has given rise to a goodwill figure of £387,000 which has been written off directly to reserves in the year.

The integration of the two businesses has gone very well and it is very pleasing that the total profit before tax achieved by them in the nine months of trading amounted to £843,000.

Full details of the acquisitions are provided in note 30 on page 39 of the financial statements.

Balance Sheet

The Placing and Open Offer, which raised £6.6 million net, together with the acquisition of the businesses and assets of J N Rowen Limited and Structural Metal Decks Limited both in April, has significantly improved the strength of the Group's balance sheet where net assets at 31 December 1996 amounted to £16,381,000, with net assets per share of 83p (1995: 51p).

In order to maintain the Group's position at the forefront of the structural steelwork industry our capital investment programme has continued throughout 1996 with capital expenditure for the Group amounting to £5,953,000. This total includes the building and equipping of the No. 3 production line at Dalton, the improvement of the production facilities at Rowen, three mobile cranes for use on site for the erection of steel and a number of mesh-making machines for Manabo. At the date of the acquisition we also acquired assets from J N Rowen Limited with a net book value of £514,000.

A revaluation of the Group's land and buildings and investment properties was carried out in February 1997. The resulting surplus of the valuation over net book value, of £46,000, has been transferred to the Revaluation Reserve.

Our capital expenditure is continuing with a further £3.5 million budgeted for 1997. This primarily includes the building and equipping of the No. 4 production line, together with infrastructure and office improvements, at Dalton.

Gearing

Net borrowings, including amounts due on assets bought under hire-purchase contracts of £3,713,000 and a medium term bank loan of £921,000, at 31 December 1996 were £2,367,000. This level of debt represents gearing of 14%, compared with 26% at 31 December 1995.

Peter Davison

Finance Director

28 April 1997

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 1996.

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 page 4, the Operational Review on pages 5 to 9, and the Financial Review on pages 10 and 11.

Results and Dividends

The profit for the year, after taxation and minority interest, amounted to £3,037,000 (1995: £1,513,000), details of which are set out in the financial statements on page 18.

An interim dividend of 1.75p net per share (1995: 1.0p) was paid on 28 October 1996. The directors recommend a final dividend for the year of 3.50p net per share (1995: 2.0p), payable on 30 May 1997 to shareholders on the register on 12 May 1997. If the final dividend is approved, retained profits of £2,009,000 (1995: £1,043,000) will be transferred to reserves.

Fixed Assets

Details of changes in fixed assets are given in notes 10, 11, 12 and 13 to the financial statements.

Directors

The present membership of the Board is stated on page 3. All directors served throughout the year. The directors' interests in the share capital of the Company, all of which are beneficial, at 31 December 1996 and at 1 January 1996 were:

	31 December 1996		1 January 1996	
	10p Ordinary Shares	Options	10p Ordinary Shares	Options
M.J. Reeve	1,246,167	—	1,676,167	—
P.M. Levine	10,000	—	18,500	—
J.L. Severs	1,334,000	—	1,734,000	—
P.J. Davison	17,500	200,000	18,625	145,000
J.R. Featherstone	63,750	—	51,000	—

P.M. Levine sold 10,000 ordinary shares on 2 January 1997 at 326.5p per share and purchased, into his pension scheme, 20,000 ordinary shares, on the same date, at 327p per share.

M.J. Reeve sold 7,000 ordinary shares on 2 April 1997 at 448p per share.

J.L. Severs sold 8,000 ordinary shares on 3 April 1997 at 452p per share.

Other than the above transactions, there have been no changes in the directors' interests between the year end and 18 April 1997.

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. He is a corporate lawyer as well as a director of several private companies.

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 12, the Company is aware of the following interests in excess of 3% of the issued share capital.

	Ordinary shares	%
NatWest Group	3,336,279	17.0
Friends Provident	1,196,396	6.1
NatWest Nominees Limited	1,158,750	5.9
Clerical Medical and General Life Assurance Society	1,034,000	5.3

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.

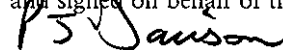
Disabled Persons

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

Secretary

28 April 1997

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 and the audit committee comprising only two non-executive directors, the Company has been in compliance with the requirements of the Code for the year ended 31 December 1996.

Board composition

The Board of directors comprises three executive and two non-executive directors. The Board considers 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, is adequate for the requirements of the Company. This position is consistent with CISCO recommendations. 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 comprises the two non-executive directors, P.M. Levine and J.R. Featherstone, together with the finance director, P.J. Davison. 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 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 the two non-executive directors, P.M. Levine and J.R. Featherstone, together with the finance director, P.J. Davison.

The Remuneration Committee has given full consideration to the Code of Best Practice issued by the study group on directors' remuneration. Other than an executive director forming part of the committee, 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. The Company considers this departure to be appropriate due to the nature and size of the business. In addition, P.J. Davison plays no part in any decisions about his own remuneration.

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.

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 and information on share options are provided in Note 4 to the financial statements.



P.M. Levine

Chairman of the Remuneration Committee
28 April 1997

Review Report

TO Severfield-Reeve Plc ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the directors' statement on pages 14 and 15 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).

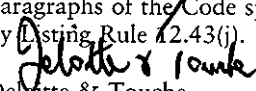
Basis of opinion

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' statement on internal financial control on pages 14 and 15 and going concern on page 14, 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 14 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
28 April 1997

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 18 to 39 which have been prepared under the accounting policies set out on pages 23 and 24.

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 1996 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
28 April 1997

Consolidated Profit and Loss Account

For the year ended 31 December 1996

	Note	1996 £000	1995 £000
Turnover			
— Continuing operations		40,004	39,214
— Acquisitions		26,112	—
Total turnover	1	66,116	39,214
Cost of sales		59,181	35,227
Gross profit		6,935	3,987
Distribution costs		596	419
Administrative expenses		1,612	1,122
		4,727	2,446
Other operating income		95	96
Operating profit			
— Continuing operations		3,929	2,542
— Acquisitions		893	—
Total operating profit	3	4,822	2,542
Interest payable and similar charges	5	290	323
Profit on ordinary activities before taxation		4,532	2,219
Tax on profit on ordinary activities	6	1,495	706
Profit on ordinary activities after taxation for the financial year		3,037	1,513
Dividends payable to equity shareholders	7	1,028	470
Profit retained, transferred to reserves	24	2,009	1,043
Earnings per share	8	16.34p	9.66p

Consolidated Balance Sheet

31 December 1996

	Note	1996 £000	1995 £000
Fixed assets			
Intangible assets	10	524	30
Tangible assets	11	14,810	9,342
Investment properties	12	110	348
		15,444	9,720
Current assets			
Stocks	14	3,607	1,357
Debtors	15	18,950	9,598
Cash at bank and in hand		2,267	756
		24,824	11,711
Creditors — amounts falling due within one year	17	19,340	10,704
Net current assets		5,484	1,007
Total assets less current liabilities		20,928	10,727
Creditors — amounts falling due after more than one year	18	3,531	2,117
Provisions for liabilities and charges	19	1,016	561
		16,381	8,049
Capital and reserves			
Called up share capital	20	1,958	1,566
Share premium account	21	7,972	1,700
Revaluation reserve	22	833	787
Merger reserve	23	114	114
Profit and loss account	24	5,504	3,882
Equity and total shareholders' funds		16,381	8,049

These financial statements were approved by the Board of directors on 28 April 1997.

Signed on behalf of the Board of directors

J.L. Severs

Director

P.J. Davison

Director

Company Balance Sheet

31 December 1996

	Note	1996 £000	1995 £000
Fixed assets			
Tangible assets	11	5,750	4,704
Investment properties	12	110	348
Investments	13	160	160
		6,020	5,212
Current assets			
Debtors	15	10,413	4,878
Cash at bank and in hand		358	—
		10,771	4,878
Creditors — amounts falling due within one year	17	3,790	2,672
Net current assets		6,981	2,206
Total assets less current liabilities		13,001	7,418
Creditors — amounts falling due after more than one year	18	693	959
		12,308	6,459
Capital and reserves			
Called up share capital	20	1,958	1,566
Share premium account	21	7,972	1,700
Revaluation reserve	22	833	787
Profit and loss account	24	1,545	2,406
Equity and total shareholders' funds		12,308	6,459

These financial statements were approved by the Board of directors on 28 April 1997.

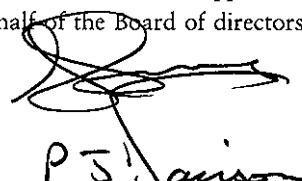
Signed on behalf of the Board of directors

J.L. Severs

Director

P.J. Davison

Director



Consolidated Cash Flow Statement

For the year ended 31 December 1996

	Note	1996 £000	1995 £000
Net cash inflow from operating activities	25(i)	1,521	2,211
Returns on investments and servicing of finance			
Interest paid	(324)	(312)	
Dividends paid	(656)	(235)	
Net cash outflow from returns on investments and servicing of finance		(980)	(547)
Taxation			
Corporation tax paid (net)		(652)	(10)
Investing activities			
Payments to acquire tangible fixed assets	(3,329)	(1,540)	
Payments to acquire intangible fixed assets	—	(30)	
Development costs capitalised	(526)	—	
Purchase of subsidiary undertakings	(800)	—	
Costs of purchase of subsidiary undertakings	(101)	—	
Receipts from sale of tangible fixed assets and investment properties	540	63	
Net cash outflow from investing activities		(4,216)	(1,507)
Net cash (outflow)/inflow before financing		(4,327)	147
Financing			
Bank loan introduced	25(iv)	—	500
Net proceeds from issue of shares	25(iv)	6,664	—
Capital element of bank loan repayments	(256)	(208)	
Capital element of finance lease rentals	(570)	(471)	
Net cash inflow/(outflow) from financing		5,838	(179)
Increase/(decrease) in cash and cash equivalents	25(iii)	1,511	(32)

Supplementary Statements

For the year ended 31 December 1996

Statement of Total Recognised Gains and Losses

	1996	1995
	£000	£000
Profit attributable to members of the Group	3,037	1,513
Unrealised surplus on revaluation of properties	46	—
Total recognised gains and losses for the year	3,083	1,513

Reconciliation of Movements in Shareholders' Funds

	1996	1995
	£000	£000
Profit for the financial year	3,037	1,513
Dividends	(1,028)	(470)
Issue of shares — net	6,664	—
Goodwill written off	(387)	—
Revaluation adjustment	46	—
Net addition to shareholders' funds	8,332	1,043
Opening shareholders' funds	8,049	7,006
Closing shareholders' funds	16,381	8,049

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 1996.

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.

Intangible 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, is capitalised and amortised on a straight line basis over a period of three years.

Patents and Intellectual Property Rights are amortised on a straight line basis over a period of five years.

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	
	1996 £000	1995 £000	1996 £000	1995 £000	1996 £000	1995 £000
Turnover by destination and class of business:						
United Kingdom	64,427	38,893	139	30	64,566	38,923
Europe	1,202	—	49	4	1,251	4
Other Countries	243	287	56	—	299	287
	65,872	39,180	244	34	66,116	39,214
By class of business:						
Profit/(loss) on ordinary activities before taxation	5,051	2,345	(519)	(126)	4,532	2,219
Net assets/(liabilities)	16,830	8,136	(449)	(87)	16,381	8,049

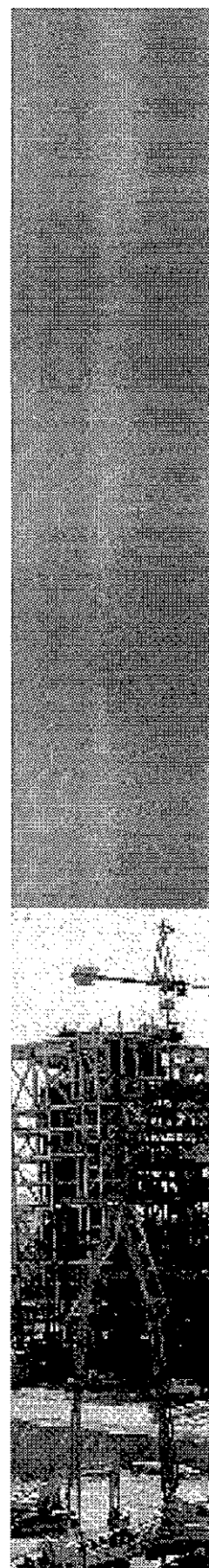
2. Analysis of Continuing Operations and Acquisitions

	1996 Continuing Operations £000	1996 Acquisitions £000	1996 Total £000
Turnover	40,004	26,112	66,116
Cost of sales	34,299	24,882	59,181
Gross profit	5,705	1,230	6,935
Distribution costs	574	22	596
Administrative expenses	1,297	315	1,612
	3,834	893	4,727
Other operating income	95	—	95
Operating profit	3,929	893	4,822

Turnover, in relation to the acquisitions, arises in total in the United Kingdom.

3. Operating Profit

	1996 £000	1995 £000
Operating profit is after crediting:		
Rents receivable	95	93
Profit on sale of tangible fixed assets	22	—
and after charging:		
Depreciation on owned assets	436	366
Depreciation on assets held under hire-purchase contracts	329	217
Amortisation of intangible fixed assets	32	—
Loss on sale of tangible fixed assets	—	12
Auditors' remuneration — audit	50	30
— other services	19	20
Vehicle operating lease costs	351	138
Hire of plant and machinery	505	577
Directors' emoluments — fees	32	26
— salaries, taxable benefits and pension contributions	403	305



Notes to the Financial Statements

4. Directors and Employees

The emoluments, excluding pension contributions, of the directors were as follows:

	1996 £000	1995 £000
Chairman	106	89
Highest paid director	126	105
Other directors' emoluments were in the following ranges:	1996	1995
£5,001 - £10,000	—	1
£10,001 - £15,000	1	—
£15,001 - £20,000	—	1
£20,001 - £25,000	1	—
£65,001 - £70,000	—	1
£75,001 - £80,000	1	—

Details of the directors' emoluments are as follows:

Name of director	Basic Salary £000	Fees £000	Taxable benefits £000	Pension £000	1996 Total £000	1995 Total £000
Executive						
M.J. Reeve	96		10	37	143	104
J.L. Severs	115		11	28	154	121
P.J. Davison	69		10	27	106	80
Non-Executive						
P.M. Levine		21			21	16
J.R. Featherstone		11			11	10
Aggregate emoluments	280	32	31	92	435	331

Aggregate emoluments disclosed above do not include any amounts for the value of options to subscribe for ordinary shares in the Company granted to directors. Details of the options are as follows:

Name of director	1 January 1996	Granted	31 December 1996	Exercise Price	Date option granted
P.J. Davison	75,000	—	75,000	61p	16 May 1994
P.J. Davison	70,000	—	70,000	67p	19 May 1995
P.J. Davison	—	55,000	55,000	312p	18 October 1996

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 1996 was 326p and the range during 1996 was 156p to 347½p.

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

	1996 No.	1995 No.
Production	300	136
Site	58	44
Sales and administration	49	19
	407	199

4. **Directors and Employees** (continued)

The aggregate payroll costs of these persons were as follows:

	1996 £000	1995 £000
Wages and salaries	9,587	4,762
Social security costs	956	479
Other pension costs	368	102
	10,911	5,343

5. **Interest Payable and Similar Charges**

	1996 £000	1995 £000
Bank loan and overdraft repayable within five years	203	240
Hire-purchase contracts	152	98
	355	338
Less: Interest receivable	65	15
	290	323

6. **Tax on Profit on Ordinary Activities**

	1996 £000	1995 £000
United Kingdom corporation tax charge at 33% (1995: 33%) based on profit for the year	1,046	599
Deferred taxation	449	111
Adjustments to prior years' tax provision:		
Corporation tax	(6)	—
Deferred taxation	6	(4)
	1,495	706

7. **Dividends Payable to Equity Shareholders**

	1996 £000	1995 £000
Interim paid — 1.75p per ordinary share (1995: 1.00p)	343	157
Final proposed — 3.50p per ordinary share (1995: 2.00p)	685	313
	1,028	470

8. **Earnings per Share**

The calculation of earnings per share is based on profit after taxation of £3,037,000 (1995: £1,513,000) and 18,585,964 (1995: 15,664,854) ordinary shares, being the weighted average of the number of shares in issue during the year.

Notes to the Financial Statements

9. 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 £167,000 (1995: £6,000).

10. Intangible Assets

Group	Development costs £000	Intellectual property rights £000	Patents £000	Total £000
Cost				
At 1 January 1996	—	20	10	30
Additions	526	—	—	526
At 31 December 1996	526	20	10	556
Amortisation				
At 1 January 1996	—	—	—	—
Provided in year	26	4	2	32
At 31 December 1996	26	4	2	32
Net book value				
At 31 December 1996	500	16	8	524
At 31 December 1995	—	20	10	30

11. 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 1996	4,806	5,726	678	571	11,781
Additions	1,052	4,527	368	520	6,467
Disposals	—	(242)	(6)	(253)	(501)
Revaluation adjustment	34	—	—	—	34
At 31 December 1996	5,892	10,011	1,040	838	17,781
Depreciation					
At 1 January 1996	102	1,695	470	172	2,439
Provided in year	40	507	71	147	765
Disposals	—	(103)	(6)	(124)	(233)
At 31 December 1996	142	2,099	535	195	2,971
Net book value					
At 31 December 1996	5,750	7,912	505	643	14,810
At 31 December 1995	4,704	4,031	208	399	9,342

11. Tangible Assets *continued*

Company	Freehold and long leasehold land and buildings £000
Cost or valuation	
At 1 January 1996	4,806
Additions	1,052
Revaluation adjustment	34
At 31 December 1996	5,892
Depreciation	
At 1 January 1996	102
Provided in year	40
At 31 December 1996	142
Net book value	
At 31 December 1996	5,750
At 31 December 1995	4,704

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:

	1996 £000	1995 £000
Cost	5,071	4,019
Accumulated depreciation	142	102
Net book value at 31 December	4,929	3,917

Freehold and long leasehold land and buildings at Dalton Airfield Industrial Estate were valued, as at 31 December 1996, on 17 February 1997 on the basis of depreciated replacement cost at £5,750,000 by Foster Bowden Limited, Chartered Surveyors. The surplus above net book value of £34,000 has been transferred to the Revaluation Reserve.

The net book value of the Group's fixed assets includes £4,922,000 (1995: £2,477,000) in respect of assets held under hire-purchase contracts.

Notes to the Financial Statements

12. Investment Properties

Group and Company	1996 £000	1995 £000
At valuation at 1 January	348	348
Disposals	(250)	—
Revaluation adjustment	12	—
At valuation at 31 December	110	348

The investment properties represent freehold let units at Dalton Airfield Industrial Estate. They were valued, as at 31 December 1996, on 17 February 1997 at open market value on the basis of existing occupation at £110,000 by Foster Bowden Limited, Chartered Surveyors. The surplus above the previous valuation of £12,000 has been transferred to the Revaluation Reserve.

The historical cost of these investment properties is £98,000 (1995: £352,000).

13. 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 80%. The share capital of both Rowen Structures Limited and Structural Metal Decks Limited was purchased on 7 March 1996 and the companies started trading on 3 April 1996. 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

	1996 £000	1995 £000
Shares in subsidiary undertakings at cost	160	160

14. Stocks

	Group		Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Work in progress	887	233	—	—
Raw materials and consumables	2,304	1,114	—	—
Finished goods and goods for resale	416	10	—	—
	3,607	1,357	—	—

15. Debtors

	Group		Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Trade debtors	15,340	7,185	16	—
Other debtors	72	53	—	—
Prepayments and accrued income	1,403	275	—	—
Amounts recoverable on contracts	1,963	1,947	—	—
Recoverable corporation tax	172	138	171	137
Amounts owed by subsidiary undertakings	—	—	10,226	4,741
	18,950	9,598	10,413	4,878

16. Borrowings

	Group		Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Bank overdraft	—	—	—	461
Bank loan	228	218	228	218
Obligations under hire-purchase contracts due within one year	875	501	—	—
Repayable within one year	1,103	719	228	679
Bank loan:				
Due between one and two years	292	266	292	266
Due between two and five years	401	693	401	693
Repayable after more than one year	693	959	693	959
Obligations under hire-purchase contracts:				
Due between one and two years	844	418	—	—
Due between two and five years	1,994	740	—	—
Repayable after more than one year	2,838	1,158	—	—
Total borrowings	4,634	2,836	921	1,638

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

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

Notes to the Financial Statements

17. Creditors — Amounts Falling Due Within One Year

	Group		Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Bank overdraft (see note 16)	—	—	—	461
Bank loan (see note 16)	228	218	228	218
Obligations under hire-purchase contracts (see note 16)	875	501	—	—
Trade creditors	13,162	6,214	—	—
Corporation tax	882	599	10	—
Advance corporation tax	257	117	257	117
Other taxation and social security	1,341	956	2	—
Other creditors and accruals	1,629	1,786	2	2
Proposed dividend	685	313	685	313
Amounts owed to subsidiary undertakings	—	—	2,606	1,561
Payments received on account	281	—	—	—
	19,340	10,704	3,790	2,672

18. Creditors — Amounts Falling Due After More Than One Year

	Group		Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Bank loan (see note 16)	693	959	693	959
Obligations under hire-purchase contracts (see note 16)	2,838	1,158	—	—
	3,531	2,117	693	959

19. Provisions For Liabilities and Charges

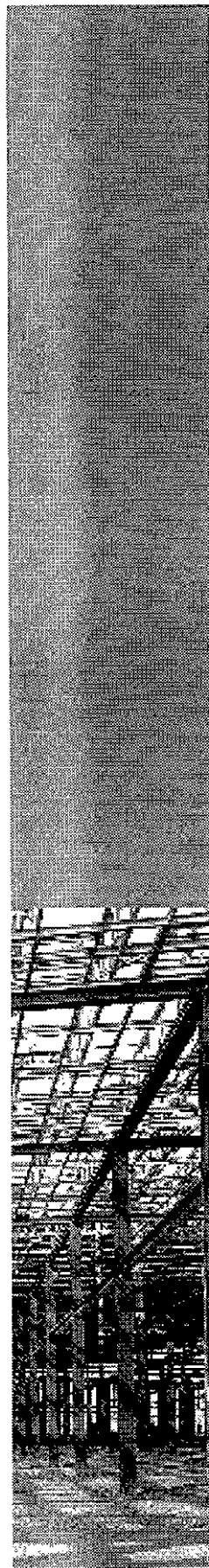
Deferred Taxation

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

Group	Amount provided		Amount unprovided	
	1996 £000	1995 £000	1996 £000	1995 £000
Excess capital allowances	1,032	571	339	293
Surplus on revaluation	—	—	—	50
Gain deferred by roll-over relief	—	—	22	22
Other timing differences	(16)	(10)	—	—
	1,016	561	361	365

Deferred Taxation — Movement for the year	£000
At 1 January 1996	561
Current year charge	449
Adjustment in respect of prior years	6
At 31 December 1996	1,016

Company	Amount provided		Amount unprovided	
	1996 £000	1995 £000	1996 £000	1995 £000
Excess capital allowances	—	—	339	293
Surplus on revaluation	—	—	—	50
Gain deferred by roll-over relief	—	—	22	22
	—	—	361	365



Notes to the Financial Statements

20. Called Up Share Capital

	1996 £000	1995 £000
Authorised:		
27,000,000 ordinary shares of 10p each	2,700	
20,000,000 ordinary shares of 10p each		2,000
Allotted, called up and fully paid:		
19,581,067 ordinary shares of 10p each	1,958	
15,664,854 ordinary shares of 10p each		1,566

The authorised share capital was increased at an Extraordinary General Meeting of the Company on 2 April 1996. At the same meeting it was resolved to increase the issued share capital of the Company by a Placing and Open Offer of 3,916,213 ordinary shares at a price of 180p per share on the basis of one new ordinary share for every four ordinary shares held. The Placing and Open Offer was undertaken to raise sufficient money to:

- finance the acquisition and integration into the Group of the business and assets of J N Rowen Limited and Structural Metal Decks Limited
- develop the business of Manabo (UK) Limited
- improve the Group's existing infrastructure at Dalton
- provide additional working capital for the enlarged Group's future requirements.

Share Options:

During the year options to subscribe for ordinary shares have been granted under the Severfield-Reeve Plc 1996 Executive Share Option Scheme at prices of 224p per share and 312p per share. The options were granted to 3 executives of the Company for a total of 355,000 shares in the Company. At 31 December 1996 the options remained outstanding on these shares as follows:

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.

In addition, at 31 December 1996 options granted under the Severfield-Reeve Executive Share Option Scheme were outstanding on 450,000 ordinary shares, made up as follows

Date option granted	Number of ordinary shares	Option price
16 May 1994	233,000	61p
19 May 1995	217,000	67p
	450,000	

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

21. Share Premium Account

	£000
Group and Company	
At 1 January 1996	1,700
Premium on shares issued (net of expenses)	6,272
At 31 December 1996	7,972

22. Revaluation Reserve

	Investment properties revaluation reserve £000	Revaluation reserve £000	Total £000
Group and Company			
At 1 January 1996	—	787	787
Revaluation adjustment	12	34	46
At 31 December 1996	12	821	833

23. Merger Reserve

	£000
Group	
At 1 January 1996 and 31 December 1996	114

24. Profit and Loss Account

	Group £000	Company £000
At 1 January 1996	3,882	2,406
Retained profit/(loss) for the year	2,009	(861)
Goodwill written off	(387)	—
At 31 December 1996	5,504	1,545

The cumulative amount of goodwill written off to reserves is £1,122,000 (1995: £735,000).

Notes to the Financial Statements

25. Notes to the Cash Flow Statement

(i) Reconciliation of operating profit to net cash inflow from operating activities

	1996 £000	1995 £000
Operating profit	4,822	2,542
Depreciation charges	765	583
Amortisation charges	32	—
(Profit)/loss on sale of tangible fixed assets	(22)	12
Increase in Stocks	(2,250)	(383)
Increase in Debtors	(9,300)	(1,766)
Increase in Creditors	7,474	1,223
Net cash inflow from operating activities	1,521	2,211

(ii) Analysis of the balances of cash and cash equivalents as shown in the consolidated balance sheet

	1996 £000	1995 £000	Change in year	
			1996 £000	1995 £000
Cash at bank and in hand	2,267	756	1,511	(32)

(iii) Analysis of changes in cash and cash equivalents during the year

	1996 £000	1995 £000
Balance at 1 January	756	788
Net cash inflow/(outflow)	1,511	(32)
Balance at 31 December	2,267	756

(iv) Analysis of changes in financing during the year

	Share capital (including share premium) 1996 £000	Loans and hire-purchase obligations 1996 £000	Share capital (including share premium) 1995 £000	Loans and hire-purchase obligations 1995 £000
Balance at 1 January	3,266	2,836	3,266	1,947
Bank loan introduced	—	—	—	500
Net proceeds from issue of shares	6,664	—	—	—
Fixed assets acquired on hire-purchase	—	2,624	—	1,068
Cash outflow from financing	—	(826)	—	(679)
Balance at 31 December	9,930	4,634	3,266	2,836

26. Capital Commitments

	Group		Company	
	1996 £000	1995 £000	1996 £000	1995 £000
Contracted for but not provided in the financial statements	850	565	—	—
Authorised but not yet contracted for	—	—	—	—

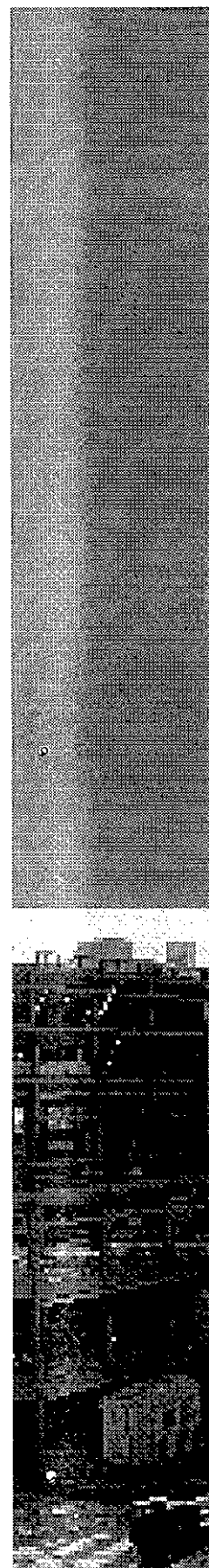
27. Contingent Liabilities

The Company and its subsidiaries have provided unlimited multilateral guarantees to secure the bank loan and 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 1996 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	127
Within two to five years	174	567
After five years	50	—
	374	694



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	Amounts due from Related Party at 31 December 1996 £000
M.J. Reeve	Chairman	Credit transaction	3	3
P. Levine & Co.	Associated with P.M. Levine, Non-executive Deputy Chairman	Fees for advice on acquisition and Placing and Open Offer	5	—
P. Levine & Co.	Associated with P.M. Levine, Non-executive Deputy Chairman	Fees for general advice regarding Manabo (UK)	5	—
P. Levine & Co.	Associated with P.M. Levine, Non-executive Deputy Chairman	Fees for advice on overseas operational matters	3	—
P.J. Davison	Finance Director	Credit transaction	2	2
Threejay Developments Limited	A company controlled by M.J. Reeve, J.L. Severs and J.R. Featherstone	Estate agent, solicitor and planning fees paid on behalf of Threejay Developments Limited	18	18
Threejay Developments Limited	A company controlled by M.J. Reeve, J.L. Severs and J.R. Featherstone	Infrastructure work carried out on land owned by Threejay Developments Limited	6	6

The above values represent the maximum amount outstanding during the year. Since the year end all the above outstanding balances have been repaid in full to the Group.

30. Purchase of New Subsidiary Companies

On 7 March 1996 the Company acquired the total issued share capital of Rowen Structures Limited and Structural Metal Decks Limited for a cash consideration of £2 each.

On 3 April 1996 Rowen Structures Limited acquired the structural steelwork business and assets of J N Rowen Limited for a cash consideration of £761,000. On the same date Structural Metal Decks Limited acquired the business and assets of a subsidiary company of J N Rowen Limited, J N R (SMD) Limited, for a cash consideration of £39,000.

The goodwill element of these transactions amounted to £387,000 and has been written off directly to the reserves of Rowen Structures Limited.

Rowen Structures Limited and Structural Metal Decks Limited commenced trading on 3 April 1996.

On 14 May 1996 a further 98 £1 ordinary shares were issued by both companies at par to Severfield-Reeve Plc.

The acquisition consideration was made up as follows:

	Rowen Structures Limited £000	Structural Metal Decks Limited £000	Total £000
Net book value of tangible assets purchased:			
Plant and machinery	219	—	219
Fixtures, fittings and office equipment	199	20	219
Motor vehicles	57	19	76
	475	39	514
Consideration	761	39	800
	286	—	286
Costs of acquisition	101	—	101
Goodwill purchased	387	—	387

In the opinion of the directors no fair value accounting adjustment was necessary in relation to the assets purchased.

The improvements made during the year to the production facilities at Rowen Structures Limited resulted in the redundancy of thirteen production employees in December. The cost of these redundancies amounted to £68,000 and has been incorporated into these financial statements.

On 19 September 1996 the Company acquired the remaining 25% of the issued share capital of Manabo (UK) Limited for nil consideration.

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 23 May 1997 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 1996 together with the Auditors' Report.
2. To declare a final dividend for the year ended 31 December 1996 of 3.50p net per share, payable on 30 May 1997 to shareholders on the register on 12 May 1997.
3. To reappoint Deloitte & Touche as auditors of the Group and to authorise the directors to fix their remuneration.

Special Business

4. To consider and, if thought fit, to pass the following resolution as a Special Resolution:

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 £97,905

and shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution or on 22 August 1998 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 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.

By order of the Board

P.J. Davison
P.J. Davison

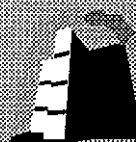
Secretary

28 April 1997

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.



Severfield - Reeve Plc

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