

Company Registration No. 1894381

EURO AIR SYSTEMS LIMITED

Report and Financial Statements

31 December 1998



EURO AIR SYSTEMS LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited accounts for the year ended 31st December 1998.

ACTIVITIES

The principal activities of the company are the manufacture and supply of air handling equipment.

REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

The Company experienced an indifferent year where orders did not materialise to match the generally buoyant market. The sales function has been further strengthened and the direction changed which has resulted in an improved workload carried into 1999, compared with the previous year.

RESULTS

The results of the company are as set out in the accounts on pages 6 to 13. The directors do not recommend the payment of a dividend (1997 - £nil).

DIRECTORS

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

- GGR Ludlow (appointed 27/08/98)
- C Gateley (appointed 27/08/98)
- D Summerfield (resigned 31/07/98)
- TKPS Stead (appointed 01/04/98) (resigned 16/08/98)
- DA Fox
- D Collin
- RM Stratton

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

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

The interests of the directors at 31st December 1998 in the capital of the ultimate parent undertakings are as stated as follows:

EURO AIR SYSTEMS LIMITED

REPORT OF THE DIRECTORS (continued)

	<u>Shares of</u> <u>10p each</u>		<u>Options over Shares of</u> <u>10p each</u>		<u>Exercise</u> <u>Price p</u>	<u>Period of</u> <u>Exercise</u>
	1.1.98*	31.12.98	1.1.98*	31.12.98		
<u>Tilbury Douglas plc</u>						
GGR Ludlow	-	-	1,957	1,957	199.20p	01.01.01- 30.06.01
			38,825	38,825	268.40p	18.06.00- 17.06.04
			11,175	11,175	268.40p	18.06.00- 17.06.07
			-	40,000	212.00p	07.10.01- 06.10.05
C Gateley	-	-	-	850	212.00p	07.10.01- 06.10.05
			-	14,150	212.00p	07.10.01- 06.10.08
DA Fox	-	45,067	-	10,850	212.00p	07.10.01- 06.10.05
				14,150	212.00p	07.10.01- 06.10.08
D Collin	-	23,132	-	-		
R M Stratton	-	8,940	-	-		
<u>Loan Notes of £1 each</u>						
D A Fox	-	124,804				
D Collin	-	8,027				
R M Stratton	-	9,274				
<u>How Group Plc</u>						
GGR Ludlow	-	-	-	-		
C Gateley	-	-	-	-		
D A Fox	156,904#	-	15,000#	-	87.00p	16.02.89- 15.02.99
			35,000#	-	68.00p	08.02.90- 07.02.00
			80,000#	-	34.00p	18.07.97- 17.07.04
D Collin	12,500#	-	10,000#	-	87.00p	16.02.89- 15.02.99
			10,000#	-	57.00p	24.05.90- 23.05.00
			25,000#	-	34.00p	18.07.97- 17.07.04
			5,000#	-	59.50p	03.07.00- 02.07.07
RM Stratton	25,000#	-	25,000#	-	34.00p	18.07.97- 17.07.07
			10,000#	-	59.50p	03.07.00- 02.07.07

* or later date of appointment

On the 16th June 1998 the Recommended Offer("the Offer") for How Group Plc by Tilbury Douglas Plc was declared unconditional in all respects. In each case the Offer was accepted in full in respect of both shares and options.

The market price of Tilbury Douglas Plc shares at 31st December 1998 was 218p.
The range of closing prices during the year was 194p to 306p.

The directors have no other interest in any other group undertaking (1997 - none).

EURO AIR SYSTEMS LIMITED

REPORT OF THE DIRECTORS (continued)

SHARE CAPITAL

During the year the Company increased its authorised capital from £50,000 to £400,000. 350,000 ordinary shares of £1 each at par were subsequently allotted as shown in Note 15 on the Accounts.

EMPLOYEE INVOLVEMENT

Within the bounds of commercial confidentiality management disseminates information to all levels of staff about matters that affect the progress of the company and are of interest and concern to them as employees.

A newsletter is also distributed at regular intervals to all employees which includes articles about the group's activities and its performance.

DISABLED PERSONS

The company has an established policy that disabled persons, especially should they become disabled in the course of their employment with the company, are employed where circumstances permit. The company endeavours to ensure that disabled employees benefit from training and career development programmes in common with other employees.

POLICY ON PAYMENT OF CREDITORS

It is the Company's normal practice to agree payment terms with its suppliers and abide by those terms. Payment becomes due when it can be confirmed that goods and/or services have been provided in accordance with the relevant contractual conditions. Trade creditors at 31 December 1998, calculated in accordance with the requirements of the Companies Act 1985, were 64 days (1997 - 74 days). This represents the ratio, expressed in days, between the amounts invoiced to the Company in the year by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

YEAR 2000

The Company continues to review its financial and operating systems in the light of the potential dangers of the "Millennium Bug". Many of the systems have already been modified or replaced in order to minimise such dangers and those areas yet to be completed are planned to have been dealt with well before the end of this year. The Board regularly considers this matter. Any costs related to these changes are not expected to have a significant effect upon Company results.

AUDITORS

Re-appointing Resolutions will be proposed at the annual general meeting to reappoint Deloitte & Touche as auditors to the company and to authorise the directors to fix their remuneration.

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



D. COLLIN
Secretary

7th May 1999

Intersection House
110 Birmingham Road
West Bromwich
West Midlands
B70 6RX

EURO AIR SYSTEMS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

EURO AIR SYSTEMS LIMITED

AUDITORS' REPORT TO THE MEMBERS OF EURO AIR SYSTEMS LIMITED

We have audited the financial statements on pages 6 to 13 which have been prepared under the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4, 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 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 as at 31 December 1998 and of its profit for the year ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

20 May 1999

Deloitte & Touche
Colmore Gate
2 Colmore Row
Birmingham
B3 2BN

EURO AIR SYSTEMS LIMITED**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 1998**

	NOTE	1998 £000	1997 £000
TURNOVER	1	3,055	3,043
Cost of sales		<u>(2,307)</u>	<u>(2,278)</u>
GROSS PROFIT		748	765
Administration Expenses		<u>(671)</u>	<u>(709)</u>
OPERATING PROFIT	3	77	56
Interest payable	6	<u>(1)</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		76	56
Tax on profit on ordinary activities	7	<u>(11)</u>	<u>(24)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION ATTRIBUTABLE TO SHAREHOLDERS TRANSFERRED TO RESERVES	16	<u>65</u>	<u>32</u>

All activities are continuing as defined under FRS3: Reporting Financial Performance.

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

EURO AIR SYSTEMS LIMITED

BALANCE SHEET AT 31ST DECEMBER 1998

	NOTE	£000	1998 £000	£000	1997 £000
FIXED ASSETS					
Tangible assets	8		33		36
CURRENT ASSETS					
Stocks and work in progress	10	111		98	
Debtors	11	588		886	
Cash at bank and in hand		568		1	
		<u>1,267</u>		<u>985</u>	
CREDITORS FALLING DUE WITHIN ONE YEAR					
Bank loans and overdrafts		-		43	
Trade creditors		482		490	
Sundry creditors	12	744		164	
		<u>1,226</u>		<u>697</u>	
NET CURRENT ASSETS			<u>41</u>		<u>288</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			74		324
CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR					
Other creditors			-		(648)
PROVISIONS FOR LIABILITIES AND CHARGES	14		(45)		(62)
NET ASSETS/(LIABILITIES)			<u>29</u>		<u>(386)</u>
CAPITAL AND RESERVES					
Called up share capital	15		400		50
Profit and loss account	16		(371)		(436)
SHAREHOLDERS' FUNDS					
Equity Interest			<u>29</u>		<u>(386)</u>

These financial statements were approved by the Board of Directors on 7th May 1999. Signed on behalf of the Board of Directors.


D A Fox
DIRECTOR


R M Stratton
DIRECTOR

7th May 1999

EURO AIR SYSTEMS LIMITED

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998

1. ACCOUNTING POLICIES

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

CONVENTION

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

TURNOVER

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

TANGIBLE FIXED ASSETS AND DEPRECIATION

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

Furniture and Equipment	-	20% - 33 1/3 %
Motor Vehicles	-	25 %

LEASED ASSETS

Fixed assets held under finance leases are capitalised and depreciated over their expected useful lives. The finance charges are allocated over the primary period of the lease in proportion to the capital element outstanding.

The costs of operating leases are charged to profit and loss account as they accrue.

STOCKS AND WORK IN PROGRESS

Stock in progress is valued at the lower of cost and net realisable value.

Manufacturing work in progress is valued at the lower of prime cost including an appropriate addition for overheads and net realisable value.

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

PENSIONS

The cost of the defined benefits pension arrangements are charged to the profit and loss account as the contributions become payable to the Scheme's principal employer, How Group Ltd.

DEFERRED TAXATION

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

EURO AIR SYSTEMS LIMITED**NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998****2. SEGMENTAL ANALYSIS**

The Company's turnover arises in the U.K. from its activities as a manufacturer of air handling units.

3. OPERATING PROFIT

	1998	1997
	£000	£000
Operating profit is arrived at after charging:		
Depreciation		
On owned assets	18	42
Rentals under operating leases		
Hire of plant and machinery	27	26
Other lease rentals	72	72
Remuneration payable to auditors		
Audit fees	2	3

4. EMPLOYEES

	1998	1997
	Number	Number
The average number employed by the company (including directors) within each category of persons was:		
Production	31	32
Sales	2	2
Administration	11	11
	<u>44</u>	<u>45</u>
	1998	1997
	£000	£000
The costs incurred in respect of these employees (including directors) were:		
Wages and salaries	770	756
Social Security costs	71	60
Other pension costs	22	19
	<u>863</u>	<u>835</u>

Pension Costs

The Company is a member of the How Group Staff Pension and Life Assurance Scheme. The Scheme is of the defined benefit type and is funded in advance by contributions at rates assessed by independent professionally qualified actuaries in valuation reports normally every three years. Particulars of the actuarial valuation are contained in the financial statements of the parent undertaking, How Group Ltd.

5. DIRECTORS

	1998	1997
	£000	£000
Aggregate emoluments	66	137
	Number	Number
Number of directors who exercised share options in ultimate holding company	3	-
	Number	Number
Pension Contributions		
Number of directors to whom retirement benefits are accruing under defined benefit schemes	1	1

EURO AIR SYSTEMS LIMITED

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998

6. INTEREST PAYABLE

	1998	1997
	£000	£000
Group loans	1	-
	<u>1</u>	<u>-</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998	1997
	£000	£000
UK Corporation Tax at 31 % (1997: 31.5%)	26	25
Deferred taxation	2	-
Adjustments relating to earlier years		
- Corporation tax	(1)	(1)
- Deferred tax	(16)	-
	<u>11</u>	<u>24</u>

8. TANGIBLE FIXED ASSETS

a) Movement during year

	Motor Vehicles £000	Furniture and Equipment £000	TOTAL £000
COST			
1 st January 1998	25	236	261
Additions at cost	-	14	14
Group transfers	7	-	7
31st December 1998	<u>32</u>	<u>250</u>	<u>282</u>

DEPRECIATION

1 st January 1998	6	219	225
Provided in year	6	12	18
Group transfers	6	-	6
31st December 1998	<u>18</u>	<u>231</u>	<u>249</u>

NET BOOK VALUE

31st December 1998			
Owned assets	<u>14</u>	<u>19</u>	<u>33</u>
31st December 1997			
Owned assets	<u>19</u>	<u>17</u>	<u>36</u>

9. OPERATING LEASES

At 31st December 1998 the Company had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Other	
	1998	1997	1998	1997
	£000	£000	£000	£000
Commitments expiring: in two to five years	<u>72</u>	<u>72</u>	<u>26</u>	<u>21</u>

EURO AIR SYSTEMS LIMITED**NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998 (continued)****10. STOCKS**

	1998	1997
	£000	£000
Materials	111	98

The replacement cost of stock is not materially different from the amounts stated in the accounts.

Contract work in progress is accounted for in turnover and in accordance with the provisions of Statement of Standard Accounting Practice 9 (Revised) - Stocks and Long-term Contracts, the excess of book value over payments receivable is included in debtors as "Amounts Recoverable on Contracts".

In the previous year work in progress was included in stocks. Comparative figures have been adjusted to reflect this change which has been made to bring presentation in line with that of the ultimate parent undertaking Tilbury Douglas plc.

11. DEBTORS

	1998	1997
	£000	£000
Amounts recoverable on contracts	169	437
Trade debtors	370	392
Amounts owed by fellow subsidiary undertakings	23	45
Other debtors	1	-
Prepayments and accrued income	25	12
	<u>588</u>	<u>886</u>

12. SUNDRY CREDITORS

	1998	1997
	£000	£000
Amounts owed to fellow subsidiary undertakings	657	25
Other creditors	2	2
Corporation tax	26	26
Other taxation and social security	50	88
Advance payments	-	6
Accruals and deferred income	9	17
	<u>744</u>	<u>164</u>

13. OTHER CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Amount owed to parent undertaking	<u>-</u>	<u>648</u>
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EURO AIR SYSTEMS LIMITED

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998 (continued)

14. PROVISIONS FOR LIABILITIES AND CHARGES

	1998 £000	1997 £000
Deferred taxation	(14)	-
Provision for warranties on products delivered	59	62
	<u>45</u>	<u>62</u>
Deferred taxation – provided and potential		
(a) Movement in year		
1st January 1998	-	
(Credit) for year	<u>(14)</u>	
31st December 1998	<u>(14)</u>	
(b) The source of the balance on deferred tax account is as follows:		
Accelerated capital allowances	<u>(14)</u>	
Warranties on products delivered		
Movement in year		
1st January 1998	62	
(Credit) for year	<u>(3)</u>	
31st December 1998	<u>59</u>	

15. CALLED UP SHARE CAPITAL

	1998 £000	1997 £000
Authorised		
400,000 (1997 - 50,000) ordinary shares of £1 each	<u>400</u>	<u>50</u>
Allotted and fully paid		
400,000 (1997 - 50,000) ordinary shares of £1 each	<u>400</u>	<u>50</u>

During the year the Company increased its authorised capital by £350,000.
350,000 ordinary shares of £1 each were subsequently allotted and fully paid.

16. PROFIT AND LOSS ACCOUNT

1st January 1998	(436)
Retained profit for the year	65
31st December 1998	<u>(371)</u>

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	1998 £000	1997 £000
Profit attributable to shareholders	65	32
Capital subscribed	<u>350</u>	<u>30</u>
Movement in year	415	62
Opening shareholders' funds	<u>(386)</u>	<u>(448)</u>
Closing shareholders' funds	<u>29</u>	<u>(386)</u>

EURO AIR SYSTEMS LIMITED

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER 1998 (continued)

18. CONTINGENT LIABILITIES

At 31st December 1998 there were contingent liabilities in respect of guarantees given in the ordinary course of business.

The company has given guarantees covering banking facilities made available to the parent and fellow subsidiary undertakings. At 31st December 1998 there was no contingent liability (1997 - £20,675,000).

19. CASH FLOW STATEMENT

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

20. ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS

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

The Company has taken advantage of the exemption contained in Financial Reporting Standard 8 - Related Party Transactions not to report transactions with Tilbury Douglas Group related parties which are disclosed in the consolidated financial statements of Tilbury Douglas Plc.