



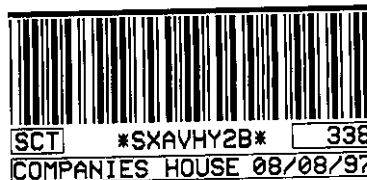
**HOW ENGINEERING SERVICES
SCOTLAND LIMITED**

Report and Financial Statements

31 December 1996

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

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REPORT AND FINANCIAL STATEMENTS 1996

CONTENTS

Page

Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Auditors' report	5
Profit and loss account	6
Balance sheet	7
Notes to the accounts	8
Additional information	13

REPORT AND FINANCIAL STATEMENTS 1996

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A G Lawson (Managing Director)
D Summerfield (Chairman)

SECRETARY

C S Dixon

REGISTERED OFFICE

1 Albion Way
Kelvin Industrial Area
East Kilbride
Glasgow
G75 0XZ

BANKERS

Barclays Bank plc
1 Bridge Street
Stockport
Cheshire
SK1 1XU

AUDITORS

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



DIRECTORS' REPORT

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

ACTIVITIES AND REVIEW OF DEVELOPMENTS

The principal activity of the Company throughout the year continued to be that of the design, supply and installation of services to buildings.

Following the Company's dramatic fall in turnover, resulting in an operating loss for the year, the directors have decided to discontinue the Company's activities and it is anticipated that the East Kilbride office will be closed and operations terminated during the first half of 1997.

RESULTS AND DIVIDENDS

Details of the loss for the year are set out in the profit and loss account on page 6.

The directors are unable to recommend the payment of a dividend to the parent company in respect of the year.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

D Summerfield (Chairman)

A G Lawson

C J Parkinson

C J Parkinson resigned on 31 January 1996.

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

The directors hold no shares of the Company.

The director who is not also a director of the ultimate parent undertaking, How Group plc, held the following interests in the 10p ordinary shares of that company:

	At 31 December 1996		At 31 December 1995	
	Fully paid	Share options	Fully paid	Share options
A G Lawson	220,500	255,000	220,500	255,000

D Summerfield was also a director of How Group plc at 31 December 1996 and his interests are disclosed in that company's financial statements.

**DIRECTORS' REPORT****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



C S Dixon

Secretary

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 as at the end of the financial year and of the profit or loss of the Company 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. 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.



Chartered Accountants

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

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AUDITORS' REPORT TO THE MEMBERS OF

HOW ENGINEERING SERVICES SCOTLAND LIMITED

We have audited the financial statements on pages 6 to 12 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 Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

11th June 1997




PROFIT AND LOSS ACCOUNT
Year ended 31 December 1996

	Note	1996 £	1995 £
TURNOVER		1,619,827	3,000,506
Cost of sales		(1,373,710)	(2,714,623)
Gross profit		246,117	285,883
Administrative expenses		(285,881)	(206,204)
OPERATING (LOSS)/PROFIT	3	(39,764)	79,679
EXCEPTIONAL ITEM		(154,000)	-
Provision for operations to be discontinued			
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(193,764)	79,679
Tax on (loss)/profit on ordinary activities	4	64,303	(17,400)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(129,461)	62,279
Retained profit brought forward		86,970	24,691
(ACCUMULATED LOSSES)/RETAINED PROFIT CARRIED FORWARD		(42,491)	86,970

All activities derive from continuing operations.

There are no recognised gains or losses other than as stated above in the profit and loss account.


BALANCE SHEET
31 December 1996

	Note	£	1996 £	£	1995 £
TANGIBLE FIXED ASSETS	5		2,457		2,987
CURRENT ASSETS					
Stocks	6	366,294		290,637	
Debtors	7	1,178,076		951,223	
Cash at bank and in hand		500		146,980	
		<u>1,544,870</u>		<u>1,388,840</u>	
CREDITORS: amounts falling due within one year	8	<u>(1,476,638)</u>		<u>(1,294,857)</u>	
NET CURRENT ASSETS			<u>68,232</u>		<u>93,983</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			70,689		96,970
PROVISION FOR LIABILITIES AND CHARGES	9		<u>(103,180)</u>		<u>-</u>
NET (LIABILITIES)/ASSETS			<u><u>(32,491)</u></u>		<u><u>96,970</u></u>
CAPITAL AND RESERVES					
Called up share capital	10		10,000		10,000
Profit and loss account			<u>(42,491)</u>		<u>86,970</u>
EQUITY SHAREHOLDERS' (DEFICIT)/FUNDS	11		<u><u>(32,491)</u></u>		<u><u>96,970</u></u>

These financial statements were approved by the Board of Directors on 21 March 1997.

Signed on behalf of the Board of Directors

A G Lawson

Director

NOTES TO THE ACCOUNTS
Year ended 31 December 1996

1. ACCOUNTING POLICIES

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

Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Tangible fixed assets

Depreciation is provided on all tangible fixed assets and is calculated on cost on a straight line basis over the following years, so as to write down the value of the assets to estimated residual value over their anticipated useful lives:

Plant, fixtures and equipment	5 years
Motor vehicles	4 years

Contracts in progress

Contracts in progress are valued individually at the lower of cost, including related overheads, and estimated net realisable value, provision being made for anticipated future losses where appropriate.

In the case of certain substantial long term contracts an element of profit, prudently estimated, is also included. However, where the outcome of such contracts cannot reasonably be assessed no profit is taken before completion.

The excesses of turnover over payments on account in respect of those contracts classified as long term and valued inclusive of accrued profit are included in debtors as "amounts recoverable on contracts". All other contracts are included as stocks, net of progress payments received.

Trade creditors

Trade creditors are stated to exclude subcontractors' progress applications not certified for payment by the Balance Sheet date, as these are included in "accruals and deferred income" to the extent that they are considered likely to become payable.

Deferred taxation

Provision is made for deferred taxation, where appropriate, using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes.

Turnover

Turnover represents the invoiced 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.

Operating leases

Operating lease rentals are charged on a straight line basis over the lease terms.

Pension costs

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 plc.

NOTES TO THE ACCOUNTS
Year ended 31 December 1996

2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1996	1995
	No	No
Average number of persons employed	<u>25</u>	<u>32</u>
	£	£
Staff costs during the year		
Wages and salaries	371,136	605,432
Social security costs	31,520	49,061
Pension costs	8,230	9,719
	<u>410,886</u>	<u>664,212</u>

No director received any remuneration from the Company in respect of the year.

Pension costs

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

3. OPERATING (LOSS)/PROFIT

	1996	1995
	£	£
After charging:		
Depreciation	530	530
Auditors' remuneration:		
Audit fees and expenses	1,000	1,000
Operating lease charges:		
Land and buildings	13,500	13,500
Vehicles and plant	13,847	30,050
	<u>13,847</u>	<u>30,050</u>

4. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	1996	1995
	£	£
UK Corporation tax at 33% (1995 - 33%)	(13,000)	17,400
Deferred tax	(50,820)	-
Adjustments relating to prior periods:		
Corporation tax	(483)	-
	<u>(64,303)</u>	<u>17,400</u>


NOTES TO THE ACCOUNTS
Year ended 31 December 1996
5. TANGIBLE FIXED ASSETS

	Plant, fixtures and equipment £	Motor vehicles £	Total £
Cost			
At 1 January 1996 and 31 December 1996	34,257	10,840	45,097
Depreciation			
At 1 January 1996	32,270	9,840	42,110
Provided in year	530	-	530
At 31 December 1996	32,800	9,840	42,640
Net book value			
At 31 December 1996	1,457	1,000	2,457
At 31 December 1995	1,987	1,000	2,987

6. STOCKS

	1996 £	1995 £
Work in progress	1,356,638	1,071,145
Payments received on account	(990,583)	(780,508)
	366,055	290,637
Stock of consumables	239	-
	366,294	290,637

Payments received on account which are in excess of contract values are included in creditors falling due within one year (note 8).


NOTES TO THE ACCOUNTS
Year ended 31 December 1996
7. DEBTORS

	1996 £	1995 £
Trade debtors	31,908	13,060
Amounts recoverable on contracts	1,068,913	877,732
Amounts owed by Group undertakings	-	1,909
Corporation tax recoverable	13,000	-
Other debtors	51,171	50,462
Prepayments and accrued income	6,563	8,060
Value added tax	6,521	-
	<u>1,178,076</u>	<u>951,223</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1996 £	1995 £
Bank overdraft	440,147	-
Payments received on account (note 6)	164,226	134,101
Trade creditors	324,925	517,144
Contract completion costs	10,051	28,547
Amounts owed to Group undertakings	184,405	179,594
Corporation tax	-	17,400
Other taxes and social security	14,983	31,577
Other creditors	5,833	7,054
Accruals and deferred income	332,068	379,440
	<u>1,476,638</u>	<u>1,294,857</u>

The bank overdraft is subject to a composite accounting agreement to which the Company's parent and its ultimate parent undertaking are also parties.

9. PROVISION FOR LIABILITIES AND CHARGES

	Redundancy and closure costs £	Deferred tax £	Total £
Transfer from profit and loss account	<u>154,000</u>	<u>(50,820)</u>	<u>103,180</u>

10. CALLED UP SHARE CAPITAL

	1996 £	1995 £
Authorised, allotted and fully paid 10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>



NOTES TO THE ACCOUNTS
Year ended 31 December 1996

11. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	1996 £	1995 £
(Loss)/profit for the financial year and net (decrease)/increase in shareholders' funds	(129,461)	62,279
Opening shareholders' funds	96,970	34,691
Closing equity shareholders' (deficit)/funds	<u>(32,491)</u>	<u>96,970</u>

12. FINANCIAL COMMITMENTS

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

	Land and buildings £	Other £
Leases which expire:		
Between two and five years	-	9,759
After 5 years	13,500	-
	<u>13,500</u>	<u>9,759</u>

13. CONTINGENT LIABILITIES

The Company has entered into an unlimited multilateral guarantee in respect of the bank borrowings of How Group plc and its subsidiary undertakings under which the Company had a contingent liability at 31 December 1996 of £16,845,156 (1995 - £16,369,737) relating to the overdrafts of certain companies.

14. ULTIMATE PARENT UNDERTAKING

The Company's ultimate parent undertaking is How Group plc.

How Group plc is the parent undertaking of the largest group of which How Engineering Services Scotland Limited is a member and for which group accounts are drawn up.

How Engineering Services Limited is the parent undertaking of the smallest group of which How Engineering Services Scotland Limited is a member and for which group accounts are drawn up.

Accounts for both undertakings have been delivered and are available from the Registrar of Companies, Crown Way, Maindy, Cardiff, CF4 3UZ.