

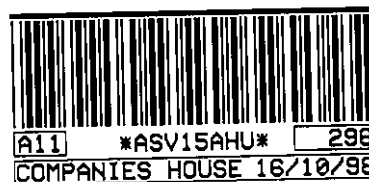


**HOW ENGINEERING SERVICES
SOUTHERN LIMITED**

Report and Financial Statements

31 December 1997

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



**DIRECTORS' REPORT**

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

ACTIVITIES

The Company has not traded during the year and consequently no profit and loss account is presented with this report.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

D Summerfield (Chairman)

C S Dixon

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 1997		At 31 December 1996	
	Fully paid	Share options	Fully paid	Share options
C S Dixon	252,110	185,000	252,110	215,000

D Summerfield is also a director of How Group plc and his interests are disclosed in that company's financial statements.

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.



AUDITORS' REPORT TO THE MEMBERS OF

HOW ENGINEERING SERVICES SOUTHERN LIMITED

We have audited the financial statements on pages 4 and 5 which have been prepared under the accounting policies set out on page 5.

Respective responsibilities of directors and auditors

As described on page 2 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 1997 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and Registered Auditors

15 June 1998

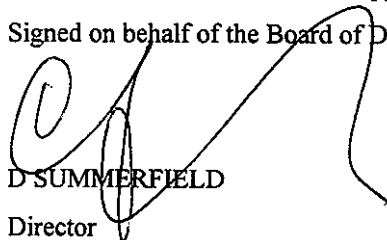


BALANCE SHEET
31 December 1997

	Note	1997 £	1996 £
CREDITORS: amounts falling due within one year	2	<u>(267,342)</u>	<u>(267,342)</u>
REPRESENTED BY:			
CAPITAL AND RESERVES			
Called up share capital	3	10,000	10,000
Other reserves		37,651	37,651
Profit and loss account		<u>(314,993)</u>	<u>(314,993)</u>
EQUITY SHAREHOLDERS' DEFICIT		<u>(267,342)</u>	<u>(267,342)</u>

These financial statements were approved by the Board of Directors on 20 March 1998.

Signed on behalf of the Board of Directors



D SUMMERFIELD

Director


NOTES TO THE ACCOUNTS
Year ended 31 December 1997
1. ACCOUNTING POLICIES

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

The parent undertaking, How Engineering Services Limited, has informed How Engineering Services Southern Limited that it intends to make available the finance necessary to satisfy all agreed creditors reflected in the Balance Sheet at 31 December 1997.

The Company has not traded during the year and consequently no profit and loss account is presented with this report.

2. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1997 £	1996 £
Amounts owed to Group undertakings	267,342	267,342

3. CALLED UP SHARE CAPITAL

	1997 £	1996 £
Authorised, allotted and fully paid 10,000 ordinary shares of £1 each	10,000	10,000

4. 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 1997 of £20,717,728 (1996 - £17,285,303) relating to the overdrafts of certain companies.

The consolidated accounts of How Group plc reflect net cash and bank deposit balances of £9,472,000 at 31 December 1997 (1996 - £7,759,000).

5. PARENT UNDERTAKINGS

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 Southern 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 Southern Limited is a member and for which group accounts are drawn up.

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

The Company has taken advantage of the exemption within Financial Reporting Standard 8 from reporting transactions with other group companies.