Howden Group Limited

Annual report

for the year ended 31 December 2002

Registered Number 472621



Howden Group Limited

Annual report
for the year ended 31 December 2002

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Howden Group Limited

Directors and Advisors for the year ended 31 December 2002

Directors
J Brown
R R Wilson
R J Cleland

Secretary
F MacLean

Auditors
PricewaterhouseCoopers LLP
Kintyre House
209 West George Street
Glasgow
G2 2LW

Registered Office
10 Foster Lane
LONDON
EC2V 6HR

Howden Group Limited

Directors' report for the year ended 31 December 2002

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2002.

Results and dividends
The results for the year are set out in the profit and loss account on page 6. The Directors recommend that no dividend be proposed (2001: £nil).

Principal Activities, Business Review and Future Developments
The Company operated as a holding company whose subsidiary company activities are the design, manufacture and marketing of air and gas handling equipment. The Directors consider the results for the year to be in line with expectations.

Directors and their interests
The Directors who held office during the year are given below:

Mr J Brown
Dr R R Wilson
Mr R J Cleland
Mr R G Wilson (resigned 31 March 2002)

Mr J Brown had no interests in the shares of the Company or any other company within the Charter plc group. Mr R G Wilson held 2,512 (2001: 2,512) ordinary shares of 2p each in Charter plc and had no other interests in the shares of any other company within the Charter plc group. Mr R J Cleland held 7,578 (2001: 7,578) ordinary shares of 2p each in Charter plc and had no interests in the shares of any other company within the Charter plc group. Dr R R Wilson held 6,692 (2001: 6,692) ordinary shares of 2p each in Charter plc and had no other interests in the shares of any other company within the Charter plc group.

No contract subsisted during or at the end of the financial period in which a Director of the Company is or was materially interested.

Statement of Directors' responsibilities
Company law requires the Directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company 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, subject to any material departures disclosed and explained in the financial statements; and
- 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 that disclose with reasonable accuracy at any time the financial position of the Company and 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.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 27 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the Board

Flore Maclean

F MacLean
Secretary
Renfrew
19th January 2004

Howden Group Limited

Independent Auditors' report to the members of Howden Group Limited

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit 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.

Fundamental uncertainty – Going Concern
In forming our opinion we have considered the adequacy of the disclosures made in the Accounting Policies note concerning the fundamental uncertainty in respect of going concern. In view of the significance of this fundamental uncertainty we consider it should be drawn to your attention but our opinion is not qualified in this respect.

Howden Group Limited

Opinion
In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its loss for the year then ended and have been properly prepared in accordance with the *Companies Act 1985*.

Pricewaterhouse Coopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow
19th January 2004

Howden Group Limited

Profit and loss account for the year ended 31 December 2002

	Note	2002	2001
		£	£
Operating loss on ordinary activities before interest	1	**(401,666)**	(1,875,502)
Net interest payable	2	**(5,783,578)**	(6,036,081)
Loss on ordinary activities before taxation		**(6,185,244)**	(7,911,583)
Tax on loss on ordinary activities	3	**2,216,983**	3,070,337
Loss for the financial year	11	**(3,968,261)**	(4,841,246)

All amounts relate to the continuing operations of the Company.

There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents.

Statement of total recognised gains and losses for the year ended 31 December 2002

	Note	2002	2001
		£	£
Loss for the financial year	11	**(3,968,261)**	(4,841,246)
Exchange adjustments offset in reserves	11	**(989,467)**	(1,636,115)
Total recognised losses		**(4,957,728)**	(6,477,361)

Howden Group Limited

Balance sheet as at 31 December 2002

	Note	2002	2001
		£	£
Fixed assets			
Tangible assets	6	**245,052**	27,292
Investments	7	**168,797,218**	166,654,704
		169,042,270	166,681,996
Current assets			
Debtors	8	**5,058,642**	7,935,394
Cash at bank and in hand		**4,054,821**	2,745,825
		9,113,463	10,681,219
Creditors – Amounts due within one year	9	**(123,392,397)**	(117,642,151)
Net current liabilities		**(114,278,934)**	(106,960,932)
Net assets		**54,763,336**	59,721,064
Capital and reserves			
Called up share capital	10	**200**	200
Share premium account	11	**74,842,894**	74,842,894
Capital reserve	11	**1,832,270**	1,832,270
Profit and loss account	11	**(21,912,028)**	(16,954,300)
Total shareholders' funds	11	**54,763,336**	59,721,064

The financial statements on pages 6 to 16 were approved by the Board of Directors on 19th January 2004 and were signed on its behalf by:



Director

Howden Group Limited

Accounting policies

The financial statements have been prepared on a going concern basis, the validity of which depends on the group headed by the Company's ultimate parent company, Charter plc, reducing debt significantly through planned asset disposals. The directors of Charter plc believe that disposals can be made both within a timeframe and at prices that will prove to be acceptable and ensure that the group is able to meet its obligations on an ongoing basis. Full disclosure of the position is given in the financial statements of Charter plc for the year ended 31 December 2002.

In the light of information currently available to them, the directors believe that the banks will continue to provide support on terms acceptable to the Charter plc Group. On this basis, the directors consider it appropriate to prepare the accounts on a going concern basis. Should the banks not support Charter plc Group in this respect, adjustments would be necessary to record additional liabilities and to write down assets to their recoverable amount. Furthermore, additional provisions might need to be made in the company's balance sheet in respect of liabilities which are currently contingent. It is not practical to quantify these possible adjustments.

The company has adopted FRS19, Deferred tax, in the financial statements but this has not had any impact on the results for the year.

Accounting convention
The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies are set out below.

The financial statements present information about the company as an individual undertaking and not about it as a group. The company has not prepared group accounts as it is exempt from the requirement to do so under s228 of the Companies Act 1985 as it is a wholly owned subsidiary of the Charter plc group which draws up consolidated accounts including this company.

Leases
Where assets are financed by leasing agreements that give rights approximating ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the pre-set value of the minimum lease payments payable during the lease term. The corresponding lease commitments are shown as obligations to the lessor. Lease payments are split between capital and interest elements using the annuity method. Deprecation on the relevant assets and interest are charged to the profit and loss account.
All other leases are operating leases and the annual rentals are charged to operating profit on a straight-line basis over the lease term.

Depreciation of tangible assets
Depreciation is calculated to write off the book value in equal instalments over the anticipated lives of the assets concerned. In the case of revalued assets, depreciation is calculated by reference to the enhanced values. The principal rates used are 20% to 25% for Motor Vehicles and 25% to 33% for Machinery and Equipment.

Fixed asset investments
Fixes asset investments are included at cost less any provision for impairment.

Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling at the balance sheet date. Exchange gains or losses are included in profit on ordinary activities.

Differences arising from the retranslation of investments in subsidiaries and of currency borrowings used to finance or hedge such investments are taken to reserves and are reported in the statement of total recognised gains and losses.

Deferred tax
Deferred tax is provided at current corporation tax rates on all material timing differences. Deferred tax assets are recognised where it is more likely than not that they will be recovered.

Pension
The Howden Group operates a contributory defined benefit pension scheme, the Howden Group Pension Plan, which is open to all United Kingdom employees who meet the eligibility requirements. The schemes funds are administered by trustees and are independent of the Group's finances., Pension surpluses and deficits are allocated on a straight line basis over the expected remaining service lives of current employees. Since the company is unable to identify its share of the assets and liabilities of the scheme exemptions available under FRS17 have been taken with the relevant disclosures being made in note 13.

Cash flow statement and related party disclosures
The Company is a wholly owned subsidiary of Charter plc and is included in the consolidated financial statements of Charter plc, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash-flow statement under the terms of Financial Reporting Standard 1. The Company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Charter plc group or investees of the Charter plc group.

Notes to the financial statements for the year ended 31 December 2002

1. Operating loss

	2002	2001
	£	£
Materials and external charges	**(248,602)**	(270,207)
Employment costs (note 5)	**(2,396,167)**	(3,239,386)
Management fee income	**2,330,839**	1,677,906
Depreciation	**(51,867)**	(13,452)
Auditors' remuneration	**(35,869)**	(30,363)
Operating loss	**(401,666)**	(1,875,502)

2. Net interest (payable)/receivable

	2002	2001
	£	£
Interest payable:		
Bank loans and overdrafts	-	(54,355)
Group undertakings	**(6,471,848)**	(6,728,857)
	(6,471,848)	(6,783,212)
Interest receivable:		
Bank deposits	**12,345**	-
Group undertakings	**675,925**	747,131
	688,270	747,131
Net interest payable	**(5,783,578)**	(6,036,081)

3. Taxation

	2002	2001
	£	£
UK Corporation Tax at 30% (2001: 30%)	2,233,985	3,117,164
Overseas Withholding Tax	(17,002	(46,827)
Tax credit on Loss on ordinary activities	**2,216,983**	**3,070,337**
The current tax assessed is different to the standard rate of corporation tax in the UK (30%).		
The differences are explained below:		
Loss on ordinary activities before tax	**(6,185,244)**	**(7,911,583)**
Tax on Loss on ordinary activities at standard rate in the UK (30%)	1,855,573	2,373,475
Effects of:		
Tax on exchange adjustments offset in Reserves	296,840	490,835
Expenses not deductible for tax purposes	(61,867)	(16,637)
Overseas Withholding Tax	(17,002)	(46,827)
Others	143,439	269,491
Tax credit on Loss on ordinary activities	**2,216,983**	**3,070,337**

4. Directors' emoluments

	2002	2001
	£	£
Aggregate emoluments	**578,466**	349,568

Included in the aggregate emoluments is the value of the compensation received by a former Director for loss of office amounting to £185,000 (2001 : NIL). No Directors exercised options over shares in Charter plc during the financial year (2001 : NIL)

Highest Paid Director

Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**244,293**	171,148

Retirement benefits are accruing to two (2001 : 2) Directors under a defined benefit scheme.

5. Employee information

	2002	2001
	£	£
Employment costs:		
Wages and salaries	**2,389,124**	2,332,000
Social security costs	**239,702**	329,986
Pension costs (note 13)	**(232,659)**	577,400
	2,396,167	3,239,386

	2002	2001
	Number	Number
The average number of persons including Directors employed by the Company during the year was:		
Administration	**26**	29

6. Tangible assets

	Motor Vehicles £	Machinery and Equipment £	Total £
Cost			
As at 1 January 2002	41,485	11,592	53,077
Additions	91,865	177,762	269,627
Disposals	(12,064)	-	(12,064)
As at 31 December 2002	**121,286**	**189,354**	**310,640**
Accumulated depreciation			
As at 1 January 2002	20,790	4,995	25,785
Depreciation charge for year	23,450	28,417	51,867
Disposals	(12,064)	-	(12,064)
As at 31 December 2002	**32,176**	**33,412**	**65,588**
Net book amount			
31 December 2002	**89,110**	**155,942**	**245,052**
31 December 2001	20,695	6,597	27,292

7. Investments

	2002	2001
	£	£
Shares in subsidiary and associated companies	**36,032,275**	36,032,275
Loans to subsidiary and associated companies	**132,764,943**	130,622,429
	168,797,218	166,654,704

The Directors are of the opinion that the value of the Company's investment in the subsidiary is not less than the above amount.

The Company is the owner of all the issued ordinary share capital of the following companies except where indicated.

Subsidiaries, associates and investments	**Country of incorporation**	**Nature of Business**
Howden Compressors Ltd (49%)	Scotland	Engineering
James Howden & Godfrey Overseas Ltd	Scotland	Investment Holding Company
Anderson Group Inc (0.55%)	USA	Investment Holding Company
Howden Sirocco Group Ltd	Scotland	Dormant
James Howden & Co Ltd	Scotland	Engineering
Howden Buffalo Ltd	England	Dormant

8. Debtors

	2002	2001
	£	£
Due within one year:		
Amounts owed by group undertakings	**3,713,127**	7,114,484
Other debtors	**23,260**	656,471
Prepayments and accrued income	**1,322,255**	164,439
	5,058,642	7,935,394

9. Creditors – Amounts falling due within one year

	2002	2001
	£	£
Amounts owed to group undertakings	**122,620,611**	116,801,446
Finance leases	**4,411**	11,117
Taxation and Social Security	**196,410**	70,547
Other creditors	**242,569**	183,391
Pension funds	**44,147**	9,847
Accruals and deferred income	**784,249**	565,803
	123,892,397	117,642,151

Amounts owed to Group undertakings are unsecured and due on demand.

10. Called up share capital

	2002	2001
	£	£
Authorised, allotted, called up and fully paid:		
200 ordinary shares of £1 each	**200**	200

11. Reconciliation of movements on shareholders' funds

	Share Capital	Share Premium	Capital Reserve	Profit & loss account	Total
	£	£	£	£	£
As at 1 January 2002	200	74,842,894	1,832,270	(16,954,300)	**59,721,064**
Loss retained	-	-	-	(3,968,261)	**(3,968,261)**
Exchange adjustments	-	-	-	(989,467)	**(989,467)**
As at 31 December 2002	200	74,842,894	1,832,270	(21,912,028)	**54,763,336**

12. Contingent liabilities

The Company is a member of the Charter plc UK borrowing group and as such has access to the overdraft and/or sterling dealing line, along with other members of the borrowing group.

Cross guarantees are given in respect of other Charter plc Group companies which are limited to the amounts of cleared credit balances in sterling accounts.

13. Pension Scheme

The Company and its participating UK subsidiaries operate the Howden Group Pension Plan, a funded defined benefit pension scheme.

The pension charge is determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method. The last such valuation was as at 30 April 2002. The actuarial valuation indicated that the value of the assets of the scheme was 83% of the value of the accrued liabilities at that date. Contributions have been increased to eliminate the deficit in line with the recommendation of the actuary and as agreed with the trustees.

The assumptions underlying the valuation are disclosed in the financial statements of Charter plc. Since more than one employer participates in the Howden Group Pension Plan, the company is unable to identify its share of the assets and liabilities.

The pension cost for the defined benefit scheme incurred by Howden Group Limited was a credit of £232,659 (2001: charge of £577,400).

14. Ultimate parent company

The ultimate parent undertaking and controlling party is Charter plc, a company incorporated in England. Copies of its annual report may be obtained from 52 Grosvenor Gardens, London SW1W 0AU.

Charter plc is the smallest and largest group to consolidate these financial statements.