

# Severfield-Rowen

1721262



Severfield-Rowen Plc  
Annual Report 99

## **Severfield–Rowen Plc**

**Severfield–Rowen 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.**

*During 1999 the Group had 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.

The Group is committed to being the market leader in its sector.



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Production Facilities  
at Dalton, including  
new Line 5.



## Severfield-Rowen Group

### List of Companies

#### Severfield-Rowen Plc

Holding company

#### Severfield-Reeve Projects Ltd.

Project managers of building contracts

#### Severfield-Reeve Structures Ltd.

Steel fabrication

#### Severfield-Reeve Properties Ltd.

Group property portfolio managers

#### Rowen Structures Ltd.

Steel fabrication

#### Steel (U.K.) Ltd.

Steel trading

#### Steelcraft Erection Services Ltd.

Steel erection

#### TGIS Ltd.

(formerly Manabo (UK) Ltd.)

Suppliers of equipment to the food industry

Non-trading since 3 March 2000

#### Severfield-Reeve International Ltd.

Overseas contracts

#### Surreal Ltd.

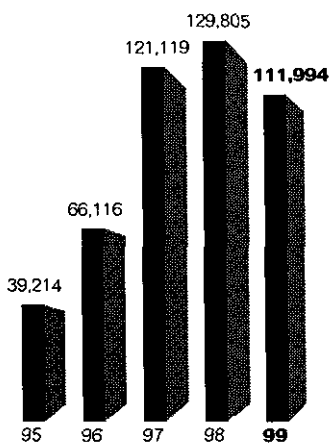
(formerly Structural Metal Decks Limited)

Non-trading since 1 July 1998

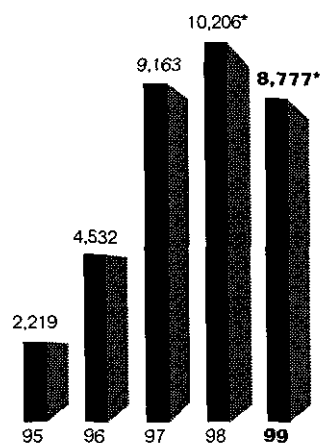
# Financial Highlights

<b>Years ended 31 December</b>	<b>1999</b>	1998
	<b>£000</b>	£000
Turnover	<b>111,994</b>	129,805
Profit before tax*	<b>8,777</b>	10,206
Exceptional items	<b>(2,852)</b>	1,676
Taxation charge	<b>(1,822)</b>	(3,175)
Profit after tax and minority interest	<b>4,103</b>	8,707
Dividends	<b>(2,414)</b>	(2,384)
Retained profit	<b>1,689</b>	6,323
Basic earnings per share	<b>20.5p</b>	43.9p
Adjusted earnings per share	<b>30.8p</b>	35.9p
Dividends per share	<b>12.00p</b>	12.00p

\* Excluding exceptional items

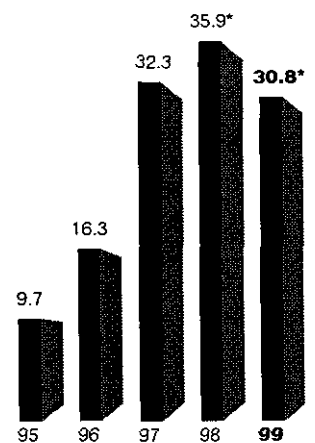


Turnover  
(£000)



Profit before taxation  
(£000)

\* Excluding exceptional items



Earnings per share  
(pence)

\* Excluding exceptional items

# Five Year Summary

Office headquarters at Dalton

Years ended 31 December	<b>1999</b>	1998	1997	1996	1995
	<b>£000</b>	£000	£000	£000	£000
Turnover	<b>111,994</b>	129,805	121,119	66,116	39,214
Profit before tax and exceptional items	<b>8,777</b>	10,206	9,163	4,532	2,219
Exceptional items	<b>(2,852)</b>	1,676	—	—	—
Taxation charge	<b>(1,822)</b>	(3,175)	(2,803)	(1,495)	(706)
Profit after tax and minority interest	<b>4,103</b>	8,707	6,360	3,037	1,513
Dividends	<b>(2,414)</b>	(2,384)	(1,979)	(1,028)	(470)
Retained profit	<b>1,689</b>	6,323	4,381	2,009	1,043
Basic earnings per share	<b>20.5p</b>	43.9p	32.3p	16.3p	9.7p
Adjusted earnings per share	<b>30.8p</b>	35.9p	32.3p	16.3p	9.7p
Dividends per share	<b>12.00p</b>	12.00p	10.00p	5.25p	3.00p

## Financial Calendar

Preliminary announcement of full year results	29 March 2000
Publication of annual report	28 April 2000
Annual General Meeting	30 May 2000
Payment of final dividend	1 June 2000
Announcement of interim results	August 2000
Payment of interim dividend	October 2000

## Chairman's Statement

In what was a difficult year for the structural steel sector, the 1999 results of Severfield-Rowen reflect a most creditable performance and demonstrate the sound progress of the Group's core business.

During the year Severfield-Rowen consolidated its leading position in the UK structural steel market and ended the year on a high note with a record order book of £70 million, a strong cash balance and an expansion of its production capabilities.

During the year it was increasingly evident that Severfield-Rowen had become a "brand" within our industry denoting quality, service and fair dealing. This is reflected in our growing reputation at home and abroad and our blue chip client base.

Pressure on margins was evident throughout the year and a calculated decision was taken not to buy turnover. This, together with our efficiency and a greater emphasis towards negotiated contracts, helped mitigate external market effects. As a result our operating margins increased in 1999.

The Group is the acknowledged UK market leader in the design, manufacture and erection of structural steelwork. The business is conducted through the two major subsidiaries of the Group, Severfield-Reeve Structures

- Turnover £112.0m (1998: £129.8m)
- Pre-tax profit of core business £9.8m (1998: £11.6m) significantly exceeding expectations, despite challenging conditions
- Group pre-tax profit, before exceptional write-downs, £8.8m (1998: 10.2m)
- Increase in Group trading operating margin, before exceptional write-downs to 8.1% (1998: 7.9%)
- Exceptional loss before tax of £2.9m on sale of principal Manabo business
- Total dividend maintained at 12.0p
- Nil gearing with strong year end cash balance of £4.9m
- Record order book in excess of £70m at year end
- Building of fifth production line commenced at Dalton
- Market leadership position to be maintained

based in Dalton, North Yorkshire and Rowen Structures based near Nottingham. The Dalton plant is believed to be the largest single production facility for structural steel in Europe and with the completion of line 5 in May 2000, weekly in-house production at Dalton is expected to average 1,400 tonnes.

The Group's expertise and manufacturing base enable it to carry out contracts of any size or complexity world-wide. The structural steel industry in the United Kingdom consists of predominantly small companies. However, we are one of the few large companies able to carry out the substantial or more complex contracts within the timescale and budgetary constraints currently being required by clients.

In March 2000 the principal business and assets of the loss-making subsidiary Manabo were sold. Losses due to fixed asset and stock write-downs have been provided for in full in 1999. The sale also included the company name and as a result the name of Manabo (UK) Ltd was changed to TGIS Ltd on 25 April 2000.

#### **Dividend**

Despite a reduction in operating profit, the Board has maintained the total dividend at 12.0p. This move reflects the directors' continued confidence in the Group's core business. Dividend cover remains at a most satisfactory level of 2.57 times adjusted earnings. The final dividend is payable on 1 June 2000 to shareholders on the register on 8 May 2000.

#### **Share Buy-back**

At the Annual General Meeting on 30 May 2000 the Company will ask shareholders to renew the authorisation of the Board to purchase for cancellation up to 10% of the issued share capital of the Company. During April 2000 the Company purchased for cancellation a total of 63,510 ordinary shares, as detailed in the Directors' Report on page 21. This authority will be exercised further only when market conditions are appropriate.

#### **Name Change**

At the last Annual General Meeting the shareholders voted

to change the name of our Group from its former name of Severfield-Reeve Plc. This was effected shortly thereafter.

#### **Acquisition**

In January 1999, Severfield-Rowen Plc purchased a 25.1% stake in Kennedy Watts Partnership Ltd, a CAD/CAM steelwork design company. The total consideration, including costs, was £464,000, of which £408,000 was paid by the issue of £136,912 10p ordinary shares of Severfield-Rowen Plc and the balance in cash.

#### **Disposals**

The comparative figures for 1998 reflect the sale of the business and assets of Structural Metal Decks Ltd in July of that year. The consideration was £1.80m and resulted in a profit on sale of £1.68m which was included in the accounts as an exceptional item.

#### **Directors**

It was with regret that on 7 April 2000 the directors accepted the resignation of Johnny Townsend as a director for personal reasons.

The directors wish to record their appreciation of his valued contribution to the Group over the last few years.

#### **Employees**

In the challenging times of 1999 our hardworking, loyal and

skilled workforce yet again rose to the occasion. The Group is greatly indebted to them and it is pleasing to see increasing progress in quality recruitment and internal advancement. The Board extends its sincere appreciation to all the workforce.

As envisaged in my last annual statement, in 1999 the new Annual Deferred Bonus Scheme was introduced and it is contemplated that the first Group-wide awards will be made in November 2000. Active consideration is being made to other incentive schemes, including those announced in the recent Budget.

### **Outlook**

The market remains competitive and whilst the year has begun well there can be no room for complacency or sitting back on our laurels. Order books, however, remain at record levels still representing some £70 million. In order to capitalise on this, management continue to take all steps to ensure, so far as is possible, that margins are not sacrificed to turnover.

There is an increasing trend for contracts to be won by the Group on tenders where our prices were not necessarily the lowest. This is due in no small part to the excellent reputation Severfield-Rowen has acquired in the sector for delivery on time and on budget, particularly important in these sensitive times. The Dalton site continues to lead

Europe in both capacity and efficiency. Rowen continues to contribute successfully and in a complementary way to Severfield-Reeve Structures.

The Group is rightly proud of its achievements. It is the unsurpassed leader in its UK marketplace, at the leading edge of technology and efficiency, achieving unmatched margins through genuine innovation and good business practice, and making creditable profits, with cash generation and with solid and valuable assets.

The year 2000 will see Severfield-Rowen returning to concentrating on its core business. The Board is looking forward to facing the challenges which still remain in the structural steel industry and is confident that the Group will continue to maintain its market leadership. It is also intending to develop the business through either organic or acquisitive growth, as and when circumstances permit.

We expect the strength of the Group to grow and 2000 to be a year of solid progress in the context of a challenging market.

**Peter Levine**

Chairman

28 April 2000

# Operational Review

## **Core Business Overview**

In the face of challenging conditions the returns in the core business of our Group, comprising primarily Severfield-Reeve Structures and Rowen Structures, significantly exceeded expectations. Key features of the core business in 1999 were:

- operating margin increased to 9.0% (1998: 8.7%);
- pre-tax profit of £9.8m (1998: £11.6m);
- a record £70m order book at the close of the year; and
- commencement of the building of a fifth production line at our Dalton site.

Pressure on margins was evident throughout the year and a calculated decision was taken not to buy turnover. This, together with efficiencies and a greater emphasis towards

negotiated contracts, helped mitigate external market effects. As a result operating margins increased in 1999.

The year ended well and in January 2000 the Group had a record order book of £70m.

Reflecting the increase in demand, building of the fifth production line at Dalton commenced in December 1999. When operative, this line will increase average weekly production from 1,100 tonnes to 1,400 tonnes. This underpins our view of Dalton as the single largest and most efficient site for structural steel production in Europe.

It is pleasing to record the performance of Rowen Structures and the continuing integration and co-operation between our two core subsidiaries.

## **Severfield-Reeve Structures**

Production efficiency continued at an outstanding level during 1999. The operating efficiencies achieved by the Company are already unsurpassed within the industry and the addition of line 5 is expected to consolidate this position.

Contracts were undertaken in a wide variety of sectors during the year including the first stage of the Paternoster Square redevelopment at Christ Church Court in London, hospitals in Glasgow, Edinburgh and Durham, a number of new power generation projects and the new exhibition centre, Excel, in Docklands, London. International work continued with contracts including a hotel in St Lucia, a power station in Egypt and further oil and gas work in Kazakhstan, the latter both for Bechtel.

The year 2000 has started very satisfactorily for Severfield-Reeve Structures. While general market conditions are still challenging, the order book remains at a record level.

New contracts include:

- A major retail development at Ocean Terminal, Leith Docks, Edinburgh;
- The Lowry Galleria entertainment centre project in Manchester;

- Extension to town centre shopping complex in Basingstoke;
- Caterpillar Production Facility in Leicester; and
- Office blocks at Bishopsgate and Northcliffe House in the City.

Relative to the prevailing market conditions in our industry, Severfield-Reeve Structures produced a strong performance in 1999. Although there is some evidence of renewed pressure on margins, taking into account the strength of our order book and the operating efficiencies of our Dalton Site, Severfield-Reeve Structures is well positioned for 2000.

#### **Rowen Structures**

Rowen Structures performed satisfactorily in 1999. Some of the fabrication work previously subcontracted by Rowen is now being brought in-house to be fabricated at either Nottingham or Dalton. The beneficial effect of this continues to be felt in 2000.

The quality, complexity and intricacy of work carried out by Rowen for certain clients, including BAA, is worthy of particular mention. This is a reflection of the quality and expertise of the workforce in Nottingham whose contribution to the Group in 1999 was significant and praiseworthy.

A range of major contracts were performed by Rowen in 1999. These included a prestigious office development at Woolgate Exchange in London, the Terminal 3 expansion at Heathrow, a pharmaceutical facility for Pfizer in Sandwich, the ongoing Brindleyplace office development in Birmingham and the South Terminal extension at Gatwick.

Contracts for 2000 include:

- Stansted Terminal Extension for BAA;
- North Terminal Extension at Gatwick for BAA;
- A large leisure and residential development in Birmingham;
- A large distribution depot for Sainsbury in Haydock; and

- A theatre complex in Durham.

The current year is expected to show that Rowen will continue to make a positive contribution to the success of the Group.

### **Steelcraft Erection Services**

During 1999 the continuing importance and value of Steelcraft as the in-house erection service for the Group was demonstrated. Despite only erecting structures for the Group, it is now believed to be the largest and most efficient erection company in the UK, judged in terms of number of employees and tonnage erected.

To our clients, speed and efficiency of erection is one of the key qualities they require, and the presence of teams of well-trained and hardworking professional erectors on site is, in effect, our shop window as far as the outside world is concerned. Steelcraft's contribution to the Group cannot accordingly be underestimated.

An example of the performance of Steelcraft in 1999 was in the erection of 9,000 tonnes of steel at Excel, the Exhibition Centre for London, in what is believed to be a record erection programme for the capital of 16 weeks.

### **Severfield-Reeve Projects**

Severfield-Reeve Projects continued to perform satisfactorily in 1999 with turnover and profit before tax ahead of budget.

Several of the Company's contracts were of high local profile and attracted a great amount of press coverage.

1999 also saw the conclusion of lengthy negotiations for a new regional office headquarters for the National Crime Squad which in itself will provide a significant contribution to the Company's performance in 2000. The Company

also gained valuable contracts from a number of new clients which have helped to establish a solid foundation for the future.

### **Manabo**

Manabo continued to be very disappointing in 1999, something the Group could no longer tolerate. Having successfully concentrated on improving the cost base and operating efficiency of Manabo, the business thus became a viable and saleable entity. On 3 March 2000 we completed the sale of the principal business and assets of Manabo, being the manufacture and distribution of steel and titanium mesh gloves and related products.

The initial sale proceeds received were £2.1 million with a further £600,000 payable in two equal instalments over the next 2 years. In addition, there is a variable royalty payment over a five year period, up to a maximum of £475,000. The effect of the sale on the Group results for 1999 was a £2.9 million write-down of assets.

The remaining parts of the Manabo business relate to the manufacture and sale of cleaning and knife sharpening machines which are non-trading. The Manabo losses incorporated in the 1999 accounts include a write-down to net realisable value of all its assets. As such, no material adverse consequences will affect the current year. At the time of writing this statement discussions are continuing with a number of parties to dispose of the remainder of Manabo.

**Outlook**

The year 2000 will see us returning to concentrating on our core business and we are looking forward to facing the challenges which are still confronting us in our industry with the aim of continuing to maintain our market leadership.

**John Severs**  
Managing Director  
28 April 2000

# Financial Review

## Overview

The Group's results for the year ended 31 December 1999 are in line with City expectations and are very good in the demanding market conditions which prevailed during the year in the structural steel industry. In fact, returns in the core business of the design, fabrication and erection of structural steelwork actually significantly exceeded expectations.

In March 2000 the principal business and assets of the loss-making subsidiary Manabo were sold with the resulting loss being provided in full in these statements.

Group turnover in 1999 was £112.0 million with profit before tax, prior to the loss on sale of Manabo, being £8.8

million. The exceptional loss on sale provided in the accounts amounts to £2.9 million.

Adjusted earnings per share is 30.8p. It is proposed that the level of dividend cover will be reduced to approximately 2.6 times with the total dividend for the year being the same as in 1998 at 12.0p per share.

The year ended with a cash balance of £4.9 million, and no gearing. Net assets, despite the write-off in Manabo, increased by 7.8% to £30.2 million.

## Turnover

Group turnover reduced by 13.7% from that achieved in 1998 to £112.0 and can be analysed as follows:

	1999 £000	1998 £000
Structural Steelwork:		
— Severfield-Reeve Structures:		
UK	63,848	56,448
Overseas	3,690	9,663
— Rowen Structures	39,812	55,945
— Steelcraft Erection Services	16,649	9,653
	123,999	131,709
Other Group companies:		
— Severfield-Reeve Projects	4,294	6,238
— Steel (UK)	1,523	3,987
— Manabo	839	719
— Structural Metal Decks (to 1/7/98)	3	3,428
	130,658	146,081
Intra-Group trading	(18,664)	(16,276)
<b>Total</b>	<b>111,994</b>	<b>129,805</b>

### Operating Profit

The Group's operating profit reduced by 11.2% to £9.1 million, prior to any write-off due to the sale of the assets of Manabo. However, it is pleasing to report, on the same basis, that the overall Group operating margin increased from 7.9% in 1998 to 8.1% in 1999.

It is particularly encouraging that operating margins in the core business of structural steelwork increased from 8.7% in 1998 to 9.0% in 1999, which is a very creditable performance relative to other companies in the industry.

### Manabo

On 3 March 2000 the glove making business and assets of Manabo were sold to Wells Lamont Limited, a member of the American based Marmon Group of Companies, for an initial consideration of £2.1 million in cash. The total consideration will include a further £600,000 which will be paid in two equal instalments over the next two years. In addition, a variable royalty payment, based on the volume of gloves sold, will be paid over the next five years up to a maximum of £475,000.

The remaining Manabo business, comprising the manufacture and sale of glove and knife cleaning machines, together with knife sharpening machines, is now non-trading. However, we are currently in discussion with interested parties regarding the sale of this remaining business,

The glove and knife cleaning machines and the knife sharpening machines, together with the associated spare parts stock, have been written off in full in these financial

statements, leaving no fixed assets or stock remaining in the business. The total write-off as a result of the write-down to net realisable value of the glove making fixed assets and stock, together with the total write-down of those assets remaining, amounted to £2.85 million and is reflected in the Group's profit and loss account as follows:

	£m
Stock reduction	1.87
Impairment of fixed assets	0.98
	2.85

Manabo also made an operating loss, before exceptional items, of £903,000 in 1999.

### Taxation

The effective tax charge for the year was 30.8% compared with 26.7% in the previous year. The low rate in 1998 was the result of the rollover of goodwill on the sale of the business and assets of Structural Metal Decks Ltd.

### Earnings per share

Basic earnings per share is 20.5p. This calculation is based on the profit after taxation of £4,103,000 and 20,013,133 ordinary shares, which is the weighted average of the number of shares in issue during the year.

This calculation, however, reflects the effect of the write-off of £2.85 million of fixed assets and stock as a result of the sale of the business of Manabo, which accounts for 10.3p per share. Adjusted earnings per share, based on the profit after taxation, excluding the effects of the write-off, of £6,169,000 is, therefore, 30.8p.

## Financial Review continued

### Dividend

The Board is recommending a final dividend of 7.0p per share (1998: 7.0p), bringing the total dividend for the year to 12.0p per share, the same as that paid in 1998. The total dividend is now covered 2.57 times by adjusted earnings, some 14% lower than the three times covered in 1998. The final dividend is payable on 1 June 2000 to shareholders on the register on 8 May 2000. The ex dividend date will be 2 May 2000.

### Acquisition

In January 1999, Severfield-Rowen Plc purchased a 25.1% stake in Kennedy Watts Partnership Ltd, a CAD/CAM steelwork design company. The total consideration, including costs, was £464,000 of which £408,000 was paid by the issue of £136,912 10p ordinary shares of Severfield-Rowen Plc and the balance in cash. This investment gives Severfield-Rowen access to Kennedy Watts' extensive expertise and infrastructure, providing a leading edge, reliable and flexible resource to respond to customers' needs, whilst avoiding expensive in-house overheads.

The cost of the investment is shown as an asset in the consolidated balance sheet under "Investments".

No provision has been made in the consolidated profit and loss account for the results of Kennedy Watts for the year ended 31 December 1999, as the company is not considered to be an associated company as noted in note 12 on page 40.

### Disposals

The comparative figures for 1998 reflect the sale of the business and assets of Structural Metal Decks Ltd in the July of that year. The consideration was £1.80 million and resulted in a profit on sale of £1.68 million which was included in the accounts as an exceptional item.

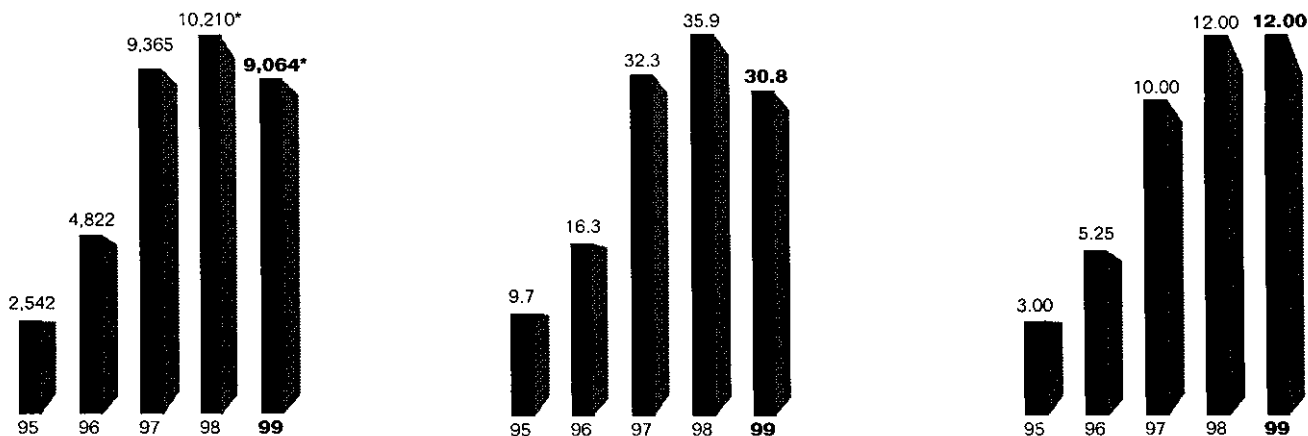
### Balance sheet

The balance sheet continues to strengthen with shareholders' funds increasing by £2.2 million in the year to £30.2 million which equates to a value per share at 31 December 1999 of 150.6p, compared with 140.7p at the end of 1998.

Although not as significant as in recent years we have continued to invest in our business, with capital expenditure in 1999 amounting to £2.8 million, primarily for the upgrading of plant and machinery at Dalton, together with equipment for use on sites. As highlighted in the Chairman's Statement and the Operational Review, towards the end of the year we commenced the building of the No. 5 production line at Dalton. This line is expected to commence production in May 2000 and will cost approximately £3 million. This will account for the majority of the Group's budgeted capital expenditure during 2000.

### Cash flow

Management of the Group's cash continues to be of prime importance and is tightly controlled. During the year £6.4 million was generated from operating activities. The cash balance at the year end reflected the significant increase in



\* Excluding exceptional items

the amount of cash tied up in working capital. This amounts to £3.1 million more than at the end of 1998.

In addition, dividends paid in the year amounted to £2.4 million, corporation tax to £2.9 million and the purchase of fixed assets, net of sale proceeds, to a further £2.3 million. Consequently, there was a cash decrease during 1999 of £2.6 million with the Group ending the year with a positive cash balance of £4.9 million.

Borrowings, primarily represented by amounts due on hire-purchase contracts, amounted to £3.3 million leaving a net funds surplus of £1.6 million and, therefore, no gearing.

### Treasury

Group treasury activities are managed and controlled centrally. Risks to assets and potential liabilities to customers, employees and the public continue to be insured with reputable insurers. The Group maintains its low risk financial management policy by insuring all significant trade debtors.

The borrowings taken out in relation to the assets bought under hire-purchase contracts were negotiated at favourable low fixed rates and, therefore, will not be repaid early unless it becomes commercially viable to do so.

The Group is committed to strong financial controls, cash management and prudent accounting and treasury policies.

### Summary

The Group has had, particularly in its core business, a successful year and is well positioned for future growth and cash generation.

**Peter Davison**

Finance Director  
28 April 2000

# Directors and Advisers

Peter M. Levine MA (Oxon)  
Non-Executive Chairman

John L. Severs  
Managing Director

Peter F. Ellison  
Deputy Managing Director

Peter J. Davison BA FCA  
Finance Director

Peter A. Emerson  
Commercial Director

John R. Featherstone FCA  
Non-Executive Director

J. Keith Elliott BSc MICH  
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

Ashurst Morris Crisp  
Broadwalk House  
5 Appold Street  
London EC2A 2HA

### **Stockbrokers**

Hoare Govett Ltd.  
250 Bishopsgate  
London EC2M 4AA

Bell Lawrie Wise Speke  
Commercial Union House  
39 Pilgrim Street  
Newcastle upon Tyne NE1 6RQ

### **Bankers**

Yorkshire Bank PLC  
2 Infirmary Street  
Leeds LS1 2UL

### **Registrars**

#### **and Transfer Office**

Computershare Services PLC  
Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR

### **Public Relations**

Financial Dynamics Ltd.  
Holborn Gate  
26 Southampton Buildings  
London WC2A 1PB

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

## 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 pages 5 to 7, the Operational Review on pages 8 to 13, and the Financial Review on pages 14 to 17.

## Results and Dividends

The profit for the year, after taxation and minority interest,

amounted to £4,103,000 (1998: £8,707,000), details of which are set out in the financial statements on page 27.

An interim dividend of 5.00p net per share (1998: 5.00p) was paid on 29 October 1999. The directors recommend a final dividend for the year of 7.00p net per share (1998: 7.00p), payable on 1 June 2000 to shareholders on the register on 8 May 2000. If the final dividend is approved, retained profits of £1,689,000 (1998: £6,323,000) will be transferred to reserves.

## Fixed Assets

Details of changes in fixed assets are given in notes 9, 10, 11 and 12 to the financial statements.

## Directors

The present membership of the Board is stated on page 18. All directors served throughout the year. In addition, J.R.A. Townsend served as a director throughout the year and resigned on 7 April 2000. The directors and their families had the following beneficial interests in the share capital of the Company:

	31 December 1999		1 January 1999	
	10p Ordinary Shares	Options	10p Ordinary Shares	Options
P.M. Levine	40,000	—	40,000	—
J.L. Severs	1,035,050	—	1,035,050	—
P.F. Ellison	5,000	15,000	5,000	15,000
P.J. Davison	7,500	125,000	10,000	125,000
P.A. Emerson	—	100,000	—	100,000
J.R. Featherstone	63,750	—	63,750	—
J.R.A. Townsend	210,000	—	210,000	—
J.K. Elliott	3,690	—	3,690	—

P.M. Levine purchased 6,000 ordinary shares on 6 January 2000 at 248p per share, and 4,000 ordinary shares on 5 April 2000 at 225p per share.

J.L. Severs purchased 20,000 ordinary shares on 6 January 2000 at 248p per share, and 9,000 ordinary shares on 5 April 2000 at 225p per share.

J.K. Elliott purchased 11,310 ordinary shares on 6 January 2000 at 260p per share, and 5,000 ordinary shares on 5 April 2000 at 225p per share.

Other than the above transactions, there have been no changes in the directors' interests between the year end and 17 April 2000.

P.M. Levine will retire at the Annual General Meeting in accordance with the Articles of Association and will offer himself for re-election.

In accordance with the Combined Code, issued by the London Stock Exchange in June 1998, P.F. Ellison and P.A. Emerson will also retire at the Annual General Meeting and offer themselves for re-election.

## Directors' Report continued

### Executive Directors

J.L. Severs, 46, is one of the original founders of the Group. He has spent all his working life in the structural steel industry and has a great understanding of all the disciplines within the business. As Group Managing Director he maintains a 'hands-on' approach to the running of the Group and was instrumental in establishing the efficient layout of the production facilities both at Dalton and at Nottingham. He continues to exert control over this important aspect of the Group's business. In addition, he is responsible for developing and maintaining close relationships with our key customers and suppliers.

P.F. Ellison, 46, joined the Group in 1993 as Managing Director of the Group's in-house erection company, Steelcraft Erection Services Ltd. He has spent his working life in the steel erection business and prior to joining the Group he ran his own erection company, based in the Midlands. Since joining Steelcraft he has built up a company with an unrivalled reputation for the efficient and safe erection of structural steelwork, as well as being an important company in the success of the Group. In 1997 he was appointed Group Deputy Managing Director.

P.J. Davison, 44, joined the Group in 1988. He graduated from Lancaster University in 1977 and qualified as a Chartered Accountant in 1980 with Peat, Marwick, Mitchell & Co. Prior to joining the Group he worked in the construction industry for the John E. Wiltshier Group, latterly as Chief Accountant and Company Secretary of their Scottish subsidiary. He was appointed Group Finance Director in 1990.

P.A. Emerson, 46, has worked for the past 27 years in the Specialist Contracting Industry, initially in the concrete contracting sector. He joined Rowens in 1984 as a quantity surveyor rising to Deputy Managing Director in 1996. He was appointed Group Commercial Director in 1998. He has the responsibility for creating and maintaining the Group's partnerships and alliances with its key clients. He has also broadened the Group's client and product base through a co-ordinated commercial approach emphasising the strengths of the Group.

### Non-Executive Directors

P.M. Levine, 44, was appointed a non-executive director and Deputy Chairman of the Company in 1993. On 22 April 1998 he was appointed Chairman. He is a corporate lawyer as well as a director of several private companies.

J.R. Featherstone, 67, 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.

J.K. Elliott, 57, was appointed a non-executive director of the Company on 21 October 1998. He retired in July 1998 from the Bechtel Corporation, the international contracting organisation, where he was Senior Vice-President in charge of its petroleum and chemical business in Europe, Africa, the Middle East and Asia. He worked at Bechtel for 32 years and continues to act as a consultant to the corporation.

### 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 19, the Company has been notified of the following interests in excess of 3% of the issued share capital.

	10p Ordinary shares	%
NatWest Group	2,191,421	11.0
Standard Life Group	1,508,177	7.6
Clerical Medical Investment Group	1,080,700	5.4
Britannic Asset Management	932,568	4.7
M.J. Reeve	824,137	4.1
Friends Provident	690,000	3.4
The Wellcome Trust	644,126	3.2
Framlington Investment Management	625,000	3.1

### Share capital

The directors' power to allot equity securities conferred by Special Resolution of the Company passed on 28 May 1999 will expire at the conclusion of the Annual General Meeting to be held on 30 May 2000, unless otherwise varied, revoked or renewed. Your directors consider it desirable that this authority should be renewed at the forthcoming Annual General Meeting. The aggregate nominal value of new shares for which authority is being sought is £99,797 representing 5% of the Company's current issued share capital. The directors have no present intention of exercising this authority.

The directors are requesting that at the forthcoming Annual General Meeting they are given the authority to buy, by way of market purchases, up to 10% of the issued share capital of the Company. Since the year end the Company has purchased for cancellation the following shares:

3 April 2000	24,510 ordinary shares at 217p per share
4 April 2000	25,000 ordinary shares at 220p per share
5 April 2000	14,000 ordinary shares at 225p per share

The directors have no present intention of exercising this authority further and will only do so at price levels which they consider to be in the interests of the shareholders, after taking account of the Group's overall financial position, and which would lead to a beneficial impact on the earnings per share of the Company.

The two authorities to be proposed will expire either on the date falling 15 months following the passing of the Resolutions or the date of the next Annual General Meeting to be held after 30 May 2000, whichever is the earlier.

### Name Change

The name of the Company was changed from Severfield-Reeve Plc on 1 July 1999.

### 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. At 31 December 1999 trade creditors of the Group represented 57 days of purchases (Company: Nil).

### 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.

### Year 2000

Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the Year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities of the business; however, the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not anticipated to be significant.

### 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 2000

Dalton Airfield Industrial Estate,

Dalton, Thirsk, North Yorkshire, YO7 3JN

# Corporate Governance

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance.

In June 1998 the Combined Code was issued by the London Stock Exchange. This Code is based on the report of the Hampel Committee and sets out Principles of Good Corporate Governance and Code provisions which consolidate the work of the earlier Cadbury and Greenbury Committees. Section 1 of the Code is applicable to companies.

This statement describes how the principles of corporate governance are applied to the Company and the Company's compliance with the Code provisions.

## 1. Directors

The Company is controlled through the Board of Directors which comprises four executive and, since the resignation of J.R.A. Townsend on 7 April 2000, three independent non-executive directors. As the Chairman is mainly responsible for the running of the Board, he has to ensure that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Managing Director's responsibilities focus on co-ordinating the Company's business and implementing Group strategy. J.R. Featherstone has the role of senior independent non-executive director. All directors are able to take independent professional advice in furtherance of their duties if necessary.

The Board has a formal schedule of matters reserved for it and meets monthly. It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks including environmental and health and safety issues. It reviews the strategic direction of individual trading subsidiaries, their codes of conduct, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes. The Board also

considers employee issues and key appointments. It also ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. All directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has established three standing committees, all of which operate within defined terms of reference. The committees established are the Audit Committee, the Remuneration Committee and the Health and Safety Committee. Trading companies are managed by separate boards of directors. Any matters of a material nature concerning the trading companies are reported to the Group Board of Directors on a monthly basis.

## 2. Directors' Remuneration Remuneration Policy

The Remuneration Committee 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 under the Chairmanship of P.M. Levine and is responsible for determining the emoluments of the executive directors. The Committee comprises the non-executive directors only.

The remuneration of the non-executive directors is considered by the executive directors and reflects the time which they commit to the Company.

No director plays a part in any discussion about his own remuneration.

The Report of the Board to the Shareholders on Directors' Remuneration is set out on page 25 of the financial statements.

## 3. Relations with Shareholders

The Company encourages two-way communication with both its institutional and private investors and attempts to respond quickly to all queries received verbally or in writing.

P.M. Levine, J.L. Severs and P.J. Davison attended several meetings with analysts, institutional shareholders and retail investors in the year ended 31 December 1999, either at the time of the announcements of the Company's interim or final results or during visits to the Company's offices in North Yorkshire.

#### **4. Accountability and Audit**

##### **Financial Reporting**

The performance and financial position of the Company are provided in the Operational Review on pages 8 to 13 and the Financial Review on pages 14 to 17, together with the Chairman's Statement on pages 5 to 7 and the Directors' Report on pages 19 to 21. These enable the Board to present a balanced and understandable assessment of the Company's position and prospects. The directors' responsibilities for the financial statements are described on page 25.

##### **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 financial control from the audit committee. Where lapses are detected, action is taken to prevent further breaches of the Group's procedures.

The Board has conducted, for 1999, an annual review of the effectiveness of the system of internal financial control and has taken account of material developments which have taken place since 31 December 1999.

## Corporate Governance continued

### **Audit Committee**

The Audit Committee comprises the non-executive directors and is chaired by J.R. Featherstone. 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.

### **Compliance Statement**

The Company has been in full compliance with the provisions set out in Section 1 of the code throughout the accounting period ended 31 December 1999, save for the exception outlined below.

The exception to the Code is as follows:

1. J.R. Featherstone was appointed Senior Independent Director in May 1999. Prior to this date the Group had not formally appointed a director to this position as it was not considered to be appropriate.

The Group has adopted the transitional approach for the Combined Code set out in the letter from the London Stock Exchange to listed companies at the end of September 1999 and reports as follows:

1. The Board confirms that it will have established the procedures necessary to implement the guidance 'Internal Control: Guidance for Directors on the Combined Code' such that they can fully comply with it from 31 December 2000.
2. This takes account of the time needed to put in place the procedures which the Board has agreed should be established.
3. The Board has recently appointed a firm of risk management consultants to assist it in identifying and evaluating the Group's key areas of risk.
4. Risk management and internal control will be considered by the Board on a regular basis during the year and there will be a full risk and control assessment before reporting on the year ending 31 December 2000.

# Report to Shareholders on Directors' Remuneration

## 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 under the Chairmanship of P.M. Levine and is responsible for determining the emoluments of the executive directors. The Committee is composed of the non-executive directors only.

The remuneration of the non-executive directors is considered by the executive directors and reflects the time which they commit to the Company.

No director plays a part in any discussion about his own remuneration.

## Executive Directors' Salaries

The level of basic annual salary and benefits is determined by the Committee taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs in comparable companies. The companies used for comparison are chosen having regard to size, type of industry and the relative scale and complexity of the business.

## Performance Related Bonuses

Bonuses for the executive directors are calculated with reference to the profit before tax as disclosed in the audited financial statements of the Group, together with

relative market performance. The bonus payments are not pensionable.

## Pensions

The Group contributes to each executive director's money purchase pension fund.

## 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 three share option schemes and options are granted to executives periodically at the discretion of the Remuneration Committee.

## Deferred Bonus Scheme

During 1999 a new Annual Deferred Bonus Scheme was introduced. The level of bonus granted to the executive directors under this scheme is 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, including pension fund payments, and information on share options are provided in Note 3 to the financial statements.

P.M. Levine  
Chairman  
28 April 2000



## 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.

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-Rowen Plc

(formerly Severfield-Reeve Plc)

We have audited the financial statements on pages 27 to 50 which have been prepared under the accounting policies set out on pages 32 and 33.

## **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the Annual Report including, as described on page 25, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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 or the Listing Rules regarding directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement on page 24 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we

become aware of any apparent misstatements or material inconsistencies with the financial statements.

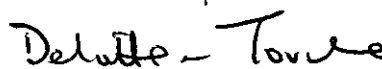
## **Basis of audit opinion**

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 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 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 of the Group as at 31 December 1999 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   
Chartered Accountants and Registered Auditors  
10-12 East Parade  
Leeds LS1 2AJ  
28 April 2000

# Consolidated Profit and Loss Account

For the year ended 31 December 1999

	Note	Continuing	Discontinued Operations			1999	1998
		Operations	Normal	Exceptional	Total	Total	Continuing
		£000	£000	£000	£000	£000	Operations
							Total
							£000
<b>Turnover</b>	1	111,155	839	—	839	<b>111,994</b>	129,805
Cost of sales		(98,845)	(1,002)	(1,872)	(2,874)	<b>(101,719)</b>	(116,258)
Gross profit		12,310	(163)	(1,872)	(2,035)	<b>10,275</b>	13,547
Distribution costs		(360)	(457)	—	(457)	<b>(817)</b>	(952)
Administration expenses		(2,042)	(315)	—	(315)	<b>(2,357)</b>	(2,452)
		9,908	(935)	(1,872)	(2,807)	<b>7,101</b>	10,143
Other operating income		59	32	—	32	<b>91</b>	67
<b>Operating profit</b>	2	9,967	(903)	(1,872)	(2,775)	<b>7,192</b>	10,210
Loss on disposal of assets in discontinued business		—	—	(980)	(980)	<b>(980)</b>	1,676
		9,967	(903)	(2,852)	(3,755)	<b>6,212</b>	11,886
Interest payable and similar charges	4	(192)	(95)	—	(95)	<b>(287)</b>	(4)
<b>Profit on ordinary activities before tax</b>		9,775	(998)	(2,852)	(3,850)	<b>5,925</b>	11,882
Tax on profit on ordinary activities	5	(2,908)	300	786	1,086	<b>(1,822)</b>	(3,175)
Profit on ordinary activities after tax for the financial year		6,867	(698)	(2,066)	(2,764)	<b>4,103</b>	8,707
Dividends payable to equity shareholders	6	(2,414)	—	—	—	<b>(2,414)</b>	(2,384)
<b>Profit retained, transferred to reserves</b>	22	4,453	(698)	(2,066)	(2,764)	<b>1,689</b>	6,323
<b>Basic earnings per share</b>	7					<b>20.50p</b>	43.88p
Adjustment for exceptional items						<b>10.32p</b>	(8.02p)
<b>Adjusted earnings per share, excluding exceptional items</b>	7					<b>30.82p</b>	35.86p
<b>Diluted earnings per share</b>						<b>20.32p</b>	43.28p
<b>Dividends per share</b>							
Paid						<b>5.00p</b>	5.00p
Proposed						<b>7.00p</b>	7.00p
<b>Total</b>						<b>12.00p</b>	12.00p

# Consolidated Balance Sheet

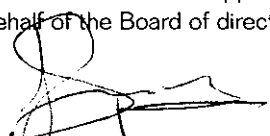
31 December 1999

	Note	1999 £000	1998 £000
<b>Fixed assets</b>			
Intangible assets	9	—	396
Tangible assets	10	24,558	24,620
Investment properties	11	330	233
Investments	12	464	—
		<b>25,352</b>	25,249
<b>Current assets</b>			
Stocks	13	5,236	4,491
Debtors	14	25,312	23,881
Cash at bank and in hand		4,938	7,492
		<b>35,486</b>	35,864
<b>Creditors</b> — amounts falling due within one year	15	<b>(27,404)</b>	(28,354)
		<b>8,082</b>	7,510
<b>Net current assets</b>		<b>8,082</b>	7,510
<b>Total assets less current liabilities</b>		<b>33,434</b>	32,759
<b>Creditors</b> — amounts falling due after more than one year	16	<b>(1,885)</b>	(3,370)
<b>Provisions for liabilities and charges</b>	17	<b>(1,399)</b>	(1,433)
		<b>30,150</b>	27,956
<b>Capital and reserves</b>			
Called up share capital	18	2,002	1,987
Share premium account	19	8,526	8,121
Revaluation reserve	20	1,609	1,536
Merger reserve	21	114	114
Profit and loss account	22	17,899	16,198
<b>Equity and total shareholders' funds</b>		<b>30,150</b>	27,956

These financial statements were approved by the Board of directors on 28 April 2000.

Signed on behalf of the Board of directors

J.L. Severs



Director

P.J. Davison



Director

# Company Balance Sheet

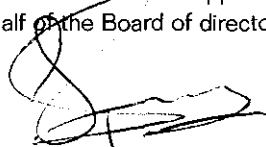
31 December 1999

	Note	1999 £000	1998 £000
<b>Fixed assets</b>			
Tangible assets	10	12,667	11,900
Investment properties	11	330	233
Investments	12	624	160
		<b>13,621</b>	12,293
<b>Current assets</b>			
Debtors	14	11,091	9,527
Cash at bank and in hand		—	502
		<b>11,091</b>	10,029
<b>Creditors</b> — amounts falling due within one year	15	<b>(7,763)</b>	(6,758)
<b>Net current assets</b>		<b>3,328</b>	3,271
		<b>16,949</b>	15,564
<b>Capital and reserves</b>			
Called up share capital	18	2,002	1,987
Share premium account	19	8,526	8,121
Revaluation reserve	20	1,609	1,536
Profit and loss account	22	4,812	3,920
<b>Equity and total shareholders' funds</b>		<b>16,949</b>	15,564

These financial statements were approved by the Board of directors on 28 April 2000.

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 1999

	Note	1999 £000	1998 £000
<b>Net cash flow from operating activities</b>	23	<b>6,387</b>	8,362
<b>Returns on investments and servicing of finance</b>	24	<b>(197)</b>	7
<b>Taxation</b>		<b>(2,944)</b>	(2,802)
<b>Capital expenditure and financial investment</b>	24	<b>(2,269)</b>	(5,137)
<b>Acquisitions and disposals</b>	24	<b>344</b>	784
<b>Equity dividends paid</b>		<b>(2,403)</b>	(2,230)
<b>Cash outflow before use of liquid resources and financing</b>		<b>(1,082)</b>	(1,016)
<b>Financing</b>	24	<b>(1,472)</b>	(1,310)
<b>Decrease in cash in the year</b>		<b>(2,554)</b>	(2,326)

## Reconciliation of net cash flow to movement in net funds

	1999 £000	1998 £000
Decrease in cash in the year	<b>(2,554)</b>	(2,326)
Cash flow from movement in loans and hire-purchase contracts	<b>1,484</b>	1,362
Change in net funds from cash flows	<b>(1,070)</b>	(964)
Loan acquired with subsidiary	—	(188)
New hire-purchase contracts	—	(1,310)
Movement in net funds in the year	<b>(1,070)</b>	(2,462)
Net funds at 1 January	<b>2,651</b>	5,113
Net funds at 31 December	25 <b>1,581</b>	2,651

# Supplementary Statements

For the year ended 31 December 1999

## Statement of Total Recognised Gains and Losses

	1999	1998
	£000	£000
Profit attributable to members of the Group	<b>4,103</b>	8,707
Unrealised surplus on revaluation of properties	<b>73</b>	109
Foreign currency translation gain/(loss)	<b>12</b>	(10)
Total recognised gains and losses for the year	<b>4,188</b>	8,806

## Reconciliation of Movements in Shareholders' Funds

	1999	1998
	£000	£000
Profit for the financial year	<b>4,103</b>	8,707
Dividends	<b>(2,414)</b>	(2,384)
Issue of shares — net	<b>420</b>	52
Foreign currency translation gain/(loss)	<b>12</b>	(10)
Revaluation adjustment	<b>73</b>	109
Net addition to shareholders' funds	<b>2,194</b>	6,474
Opening shareholders' funds	<b>27,956</b>	21,482
Closing shareholders' funds	<b>30,150</b>	27,956

# 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 1999.

## 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.

## Goodwill

Goodwill arising upon the acquisition of subsidiaries and the trade and assets of businesses was previously written off directly to reserves in the year in which it arose as a matter of accounting policy and will be charged or credited to the profit and loss account on subsequent disposal of the business to which it relates. Under accounting standard FRS10 "Goodwill and Intangible Assets" goodwill arising on acquisitions is now capitalised and amortised on a straight line basis over a period not exceeding 20 years. The directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill, since it is difficult to make projections exceeding this period.

## Intellectual Property Rights

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.

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.

**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 two 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.

**Financial Reporting Standards**

The Group has adopted FRS 12 and 13. There is no impact on current or prior year profits.

# Notes to the Financial Statements

## 1. Turnover and Segmental Analysis

Class of Business	Continuing Operations Structural Steelwork		Discontinued Operations Food Industry Equipment		Group	
	1999 £000	1998 £000	1999 £000	1998 £000	1999 £000	1998 £000
<b>Turnover by destination and class of business:</b>						
United Kingdom	<b>107,465</b>	119,423	<b>481</b>	367	<b>107,946</b>	119,790
Europe	—	997	<b>157</b>	203	<b>157</b>	1,200
Other countries	<b>3,690</b>	8,666	<b>201</b>	149	<b>3,891</b>	8,815
	<b>111,155</b>	129,086	<b>839</b>	719	<b>111,994</b>	129,805
<b>By class of business:</b>						
Profit/(loss) on ordinary activities before taxation	<b>9,775</b>	13,228	<b>(3,850)</b>	(1,346)	<b>5,925</b>	11,882
Net assets/(liabilities)	<b>35,706</b>	30,760	<b>(5,556)</b>	(2,804)	<b>30,150</b>	27,956

The method of apportionment on the face of the Consolidated Profit and Loss Account for interest payable and tax between Continuing and Discontinuing Operations has been calculated on the basis of the specific charges for the individual company concerned.

For the prior year distribution costs, administration expenses, other operating income and the exceptional item amounted to £363,000, £186,000, £Nil and £Nil respectively, in relation to the Discontinued Operations part of the business.

## 2. Operating Profit

	1999 £000	1998 £000
Operating profit is after crediting:		
Rents receivable	<b>60</b>	66
and after charging:		
Depreciation on owned assets	<b>1,024</b>	922
Depreciation on assets held under hire-purchase contracts	<b>660</b>	678
Impairment of tangible fixed assets	<b>609</b>	—
Amortisation of intangible fixed assets	<b>18</b>	—
Impairment of intangible fixed assets	<b>371</b>	—
Loss on sale of tangible fixed assets	<b>13</b>	28
Auditors' remuneration — audit	<b>62</b>	60
— other services	<b>54</b>	35
Vehicle operating lease costs	<b>495</b>	487
Hire of plant and machinery	<b>1,495</b>	991

### 3. Directors and Employees

	<b>1999</b>	1998
	<b>£000</b>	£000
Directors' emoluments — salaries, taxable benefits and pension contributions	<b>920</b>	695
— fees	<b>123</b>	89
Highest paid director, excluding pension contributions	<b>292</b>	231

The aggregate amount of gains made by directors on the exercise of share options during the year was £Nil (1998: £Nil).

Details of the directors' emoluments are as follows:

	Basic salary	Fees	Bonus	Taxable benefits	Pension	<b>1999</b>	1998
	£000	£000	£000	£000	£000	<b>Total</b>	Total
						<b>£000</b>	£000
<b>Executive</b>							
J.L. Severs	145		130	17	39	<b>331</b>	268
P.F. Ellison	97		60	7	24	<b>188</b>	170
P.J. Davison	95		60	14	36	<b>205</b>	160
P.A. Emerson	100		60	8	28	<b>196</b>	97
<b>Non-Executive</b>							
P.M. Levine		48				<b>48</b>	48
J.R. Featherstone		25				<b>25</b>	18
J.R.A. Townsend		25				<b>25</b>	19
J.K. Elliott		25				<b>25</b>	4
<b>Aggregate emoluments</b>	<b>437</b>	<b>123</b>	<b>310</b>	<b>46</b>	<b>127</b>	<b>1,043</b>	<b>784</b>

Aggregate emoluments disclosed in the table above do not include any amounts in relation to options to subscribe for ordinary shares in the Company exercised or granted to directors.

## Notes to the Financial Statements continued

### 3. Directors and Employees continued

Details of the options are as follows:

Name of director	1 January 1999	Exercised in year	31 December 1999	Exercise price	Market price at date of exercise	Date option granted
P.J. Davison	70,000	—	70,000	67p	—	19 May 1995
P.J. Davison	55,000	—	55,000	312p	—	18 Oct 1996
P.F. Ellison	15,000	—	15,000	67p	—	19 May 1995
P.A. Emerson	100,000	—	100,000	224p	—	18 Apr 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 1999 was 178p and the range during 1999 was 172.5p to 417.5p.

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

	1999 No.	1998 No.
Production	437	444
Site	113	104
Sales and administration	36	53
	<b>586</b>	601

The aggregate payroll costs of these persons were as follows:

	1999 £000	1998 £000
Wages and salaries	16,942	15,909
Social security costs	1,791	1,538
Other pension costs	390	472
	<b>19,123</b>	17,919

### 4. Net Interest Payable and Similar Charges

	1999 £000	1998 £000
Bank loan and overdraft repayable within five years	64	68
Hire-purchase contracts	295	368
	<b>359</b>	436
Less: Interest receivable	(72)	(432)
	<b>287</b>	4

## 5. Tax on Profit on Ordinary Activities

	1999 £000	1998 £000
United Kingdom corporation tax charge at 31% (1998: 31%) based on profit for the year	<b>1,870</b>	2,910
Deferred taxation	<b>(34)</b>	267
Adjustments to prior years' tax provision:		
Corporation tax	<b>(14)</b>	(80)
Deferred taxation	—	78
	<b>1,822</b>	3,175

The tax charge for 1998 was reduced by £440,000 due to rollover relief for the purposes of part of the exceptional gain in that year. The remaining tax charge on the exceptional gain was £85,000.

## 6. Dividends Payable to Equity Shareholders

	1999 £000	1998 £000
Underprovided final dividend from previous year	<b>12</b>	—
Interim paid — 5.00p per ordinary share (1998: 5.00p)	<b>1,001</b>	993
Final proposed — 7.00p per ordinary share (1998: 7.00p)	<b>1,401</b>	1,391
	<b>2,414</b>	2,384

## 7. Earnings per Share

The calculation of basic earnings per share is based on profit after taxation of £4,103,000 (1998: £8,707,000) and 20,013,133 (1998: 19,842,464) ordinary shares, being the weighted average of the number of shares in issue during the year.

The calculation of adjusted earnings per share is based on the profit after taxation, excluding the exceptional items, of £6,169,000 (1998: £7,116,000), and the same weighted average number of shares. This figure provides a more meaningful comparison with previous years.

The calculation of diluted earnings per share is based on the profit after taxation of £4,103,000 (1998: £8,707,000) and 20,196,463 (1998: 20,118,229) ordinary shares, being the weighted average of the number of shares in issue during the year, allowing for the full exercise of any outstanding share options.

## 8. 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 £3,306,000 (1998: £5,115,000).

## Notes to the Financial Statements continued

### 9. Intangible Assets

Cost	Development costs £000	Intellectual property rights £000	Patents £000	Goodwill £000	Total £000
At 1 January 1999	526	266	10	150	952
Foreign exchange translation differences	—	—	—	(7)	(7)
<b>At 31 December 1999</b>	<b>526</b>	<b>266</b>	<b>10</b>	<b>143</b>	<b>945</b>
Amortisation					
At 1 January 1999	526	20	10	—	556
Provided in year	—	18	—	—	18
Impairment of assets	—	228	—	143	371
<b>At 31 December 1999</b>	<b>526</b>	<b>266</b>	<b>10</b>	<b>143</b>	<b>945</b>
Net book value					
<b>At 31 December 1999</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
At 31 December 1998	—	246	—	150	396

The impairment of assets represents the write-down to net realisable value of all the assets of the Manabo Group.

### 10. 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 1999	12,053	14,788	1,268	1,360	29,469
Additions	801	1,353	104	462	2,720
Disposals	—	(510)	(32)	(258)	(800)
Foreign exchange translation differences	—	—	—	(1)	(1)
<b>At 31 December 1999</b>	<b>12,854</b>	<b>15,631</b>	<b>1,340</b>	<b>1,563</b>	<b>31,388</b>
Depreciation					
At 1 January 1999	153	3,839	392	465	4,849
Provided in year	97	1,123	195	269	1,684
Disposals	—	(121)	(10)	(118)	(249)
Revaluation adjustment	(63)	—	—	—	(63)
Impairment of assets	—	560	25	24	609
<b>At 31 December 1999</b>	<b>187</b>	<b>5,401</b>	<b>602</b>	<b>640</b>	<b>6,830</b>
Net book value					
<b>At 31 December 1999</b>	<b>12,667</b>	<b>10,230</b>	<b>738</b>	<b>923</b>	<b>24,558</b>
At 31 December 1998	11,900	10,949	876	895	24,620

The impairment of assets represents the write-down to net realisable value of all the assets of the Manabo Group.

## 10. Tangible Assets continued

Company	Freehold and long leasehold land and buildings £000
Cost or valuation	
At 1 January 1999	12,053
Additions	801
<b>At 31 December 1999</b>	<b>12,854</b>
Depreciation	
At 1 January 1999	153
Provided in year	97
Revaluation adjustment	(63)
<b>At 31 December 1999</b>	<b>187</b>
Net book value	
<b>At 31 December 1999</b>	<b>12,667</b>
At 31 December 1998	11,900

### 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:

	1999 £000	1998 £000
Cost	11,330	10,529
Accumulated depreciation	(250)	(153)
<b>Net book value at 31 December</b>	<b>11,080</b>	10,376

Freehold and long leasehold land and buildings at Dalton Airfield Industrial Estate were valued, as at 31 December 1999, on 16 February 2000 on the basis of depreciated replacement cost at £12,667,000 by Foster Bowden Limited, Chartered Surveyors. The surplus above net book value of £63,000 has been transferred to the Revaluation Reserve.

The net book value of the Group's plant and machinery includes £5,843,000 (1998: £6,575,000) in respect of assets held under hire-purchase contracts.

## Notes to the Financial Statements continued

### 11. Investment Properties

Group and Company	<b>1999</b> <b>£000</b>	1998 £000
At valuation at 1 January	<b>233</b>	156
Additions	<b>87</b>	77
Revaluation adjustment	<b>10</b>	—
At valuation at 31 December	<b>330</b>	233

The investment properties represent freehold let units at Dalton Airfield Industrial Estate, a property near Thirsk, a property in Ripon and land at Thirsk Industrial Park. The freehold let units were valued, as at 31 December 1999, on 16 February 2000 at open market value on the basis of existing occupation at £120,000 by Foster Bowden Limited, Chartered Surveyors. This valuation resulted in a surplus over the previous valuation of £10,000 which has been transferred to the Revaluation Reserve. The addition of the land in Thirsk during 1999 is at cost. The two properties and the land at Thirsk are included at cost which, in the opinion of the directors, equates to market value.

The historical cost of the investment properties is £308,000 (1998: £221,000).

### 12. Investments held as Fixed Assets

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 90%. 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
TGIS Limited (formerly Manabo (UK) Limited)	— suppliers of equipment to the food industry
Surreal Limited	— non-trading

During the year the Company acquired 25.1% of the issued share capital of Kennedy Watts Partnership Limited, a company registered in England, involved in CAD/CAM steelwork design. Despite being 25.1% owned by the Company, Kennedy Watts Partnership Limited is not considered to be an associated company. Although a director of Severfield-Reeve Structures Limited is a director his role is that of observer. Severfield-Rowen Plc does not significantly influence the day-to-day running or decision making of Kennedy Watts Partnership Limited.

	Group		Company	
	<b>1999</b> <b>£000</b>	1998 £000	<b>1999</b> <b>£000</b>	1998 £000
Shares in subsidiary undertakings at cost	—	—	<b>160</b>	160
Shares in investment at cost	<b>464</b>	—	<b>464</b>	—
	<b>464</b>	—	<b>624</b>	160

### 13. Stocks

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Work in progress	<b>3,735</b>	1,573	—	—
Raw materials and consumables	<b>1,079</b>	1,875	—	—
Finished goods and goods for resale	<b>422</b>	1,043	—	—
	<b>5,236</b>	4,491	—	—

### 14. Debtors

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Trade debtors	<b>19,984</b>	13,115	—	28
Other debtors	<b>450</b>	898	<b>400</b>	816
Prepayments and accrued income	<b>804</b>	469	<b>400</b>	—
Amounts recoverable on contracts	<b>4,074</b>	9,399	—	—
Amounts owed by subsidiary undertakings	—	—	<b>10,291</b>	8,683
	<b>25,312</b>	23,881	<b>11,091</b>	9,527

### 15. Creditors — Amounts Falling Due Within One Year

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank overdraft (see note 16)	—	—	<b>869</b>	—
Bank loan (see note 16)	<b>28</b>	31	—	—
Obligations under hire-purchase contracts (see note 16)	<b>1,444</b>	1,440	—	—
Trade creditors	<b>13,932</b>	18,328	—	—
Corporation tax	<b>1,513</b>	2,353	<b>2</b>	5
Advance corporation tax	—	248	—	248
Other taxation and social security	<b>3,042</b>	1,474	—	28
Other creditors and accruals	<b>6,044</b>	3,089	<b>2</b>	2
Proposed dividend	<b>1,401</b>	1,391	<b>1,401</b>	1,391
Amounts owed to subsidiary undertakings	—	—	<b>5,489</b>	5,084
	<b>27,404</b>	28,354	<b>7,763</b>	6,758

## Notes to the Financial Statements continued

### 16. Borrowings

	Group		Company	
	1999 £000	1998 £000	1999 £000	1998 £000
Bank overdraft	—	—	<b>869</b>	—
Bank loan	<b>106</b>	151	—	—
Obligations under hire-purchase contracts	<b>3,251</b>	4,690	—	—
	<b>3,357</b>	4,841	<b>869</b>	—
Due within one year	<b>1,472</b>	1,471	<b>869</b>	—
Due after more than one year	<b>1,885</b>	3,370	—	—
	<b>3,357</b>	4,841	<b>869</b>	—
Analysis of loan repayments:				
Bank loan and overdraft				
Within one year or on demand	<b>28</b>	31	<b>869</b>	—
Between one and two years	<b>28</b>	32	—	—
Between two and five years	<b>50</b>	88	—	—
Obligations under hire-purchase contracts:				
Within one year	<b>1,444</b>	1,440	—	—
Between one and two years	<b>1,239</b>	1,443	—	—
Between two and five years	<b>568</b>	1,807	—	—
	<b>3,357</b>	4,841	<b>869</b>	—

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

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

## 17. 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	
	1999 £000	1998 £000	1999 £000	1998 £000
Excess capital allowances	<b>1,409</b>	1,621	<b>574</b>	436
Surplus on revaluation	—	—	<b>149</b>	1,052
Gain deferred by roll-over relief	—	—	<b>456</b>	456
Other timing differences	<b>(10)</b>	(188)	<b>(1)</b>	—
	<b>1,399</b>	1,433	<b>1,178</b>	1,944

Deferred Taxation — Movement for the year	£000
At 1 January 1999	1,433
Current year credit	(34)
At 31 December 1999	1,399

Company	Amount provided		Amount unprovided	
	1999 £000	1998 £000	1999 £000	1998 £000
Excess capital allowances	—	—	<b>576</b>	436
Surplus on revaluation	—	—	<b>149</b>	1,052
Gain deferred by roll-over relief	—	—	<b>456</b>	456
	—	—	<b>1,181</b>	1,944

## Notes to the Financial Statements continued

### 18. Called Up Share Capital

	1999 £000	1998 £000
Authorised: 27,000,000 ordinary shares of 10p each	<b>2,700</b>	2,700
Allotted, called up and fully paid: 20,022,979 ordinary shares of 10p each	<b>2,002</b>	
19,868,567 ordinary shares of 10p each		1,987

On 19 January 1999 136,912 10p ordinary shares were issued in relation to the purchase of a 25.1% shareholding in Kennedy Watts Partnership Limited.

During the year 1 executive of the Company exercised his option over a total of 17,500 ordinary shares in the Company at a price of 67p per share.

#### Share Options:

At 31 December 1999 share options remained outstanding as follows:

#### Severfield-Reeve Plc 1996 Executive Share Option Scheme

Date option granted	Number of ordinary shares	Option price
18 April 1996	300,000	224p
18 October 1996	55,000	312p
	<b>355,000</b>	

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

#### Severfield-Reeve Plc Executive Share Option Scheme

Date option granted	Number of ordinary shares	Option price
16 May 1994	4,000	61p
19 May 1995	141,000	67p
	<b>145,000</b>	

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

### 19. Share Premium Account

	£000
Group and Company	
At 1 January 1999	<b>8,121</b>
Premium on shares issued	<b>405</b>
At 31 December 1999	<b>8,526</b>

## 20. Revaluation Reserve

	Investment properties revaluation reserve £000	Revaluation reserve £000	Total £000
Group and Company			
At 1 January 1999	<b>12</b>	<b>1,524</b>	<b>1,536</b>
Revaluation adjustment	<b>10</b>	<b>63</b>	<b>73</b>
At 31 December 1999	<b>22</b>	<b>1,587</b>	<b>1,609</b>

## 21. Merger Reserve

	£000
Group	
At 1 January 1999 and 31 December 1999	<b>114</b>

## 22. Profit and Loss Account

	Group £000	Company £000
At 1 January 1999	16,198	3,920
Retained profit for the year	1,689	892
Foreign currency translation gain	12	—
At 31 December 1999	<b>17,899</b>	<b>4,812</b>

The cumulative amount of goodwill written off to reserves is £1,122,000 (1998: £1,122,000).

## 23. Reconciliation of Operating Profit to Operating Cash Flow

	1999 £000	1998 £000
Operating profit	<b>7,192</b>	10,210
Depreciation charges	<b>1,684</b>	1,600
Amortisation charges	<b>18</b>	—
Loss on sale of tangible fixed assets	<b>13</b>	28
Increase in Stocks	<b>(745)</b>	(1,547)
(Increase)/decrease in Debtors	<b>(1,898)</b>	2,803
Increase/(decrease) in Creditors	<b>123</b>	(4,732)
Net cash inflow from operating activities	<b>6,387</b>	8,362

## Notes to the Financial Statements continued

### 24. Analysis of Cash Flows

	1999 £000	1998 £000
<b>Returns on investments and servicing of finance</b>		
Interest received	139	443
Interest paid	(41)	(68)
Interest element of hire-purchase payments	(295)	(368)
	<b>(197)</b>	7
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(2,807)	(5,324)
Purchase of intangible fixed assets	—	(90)
Receipts from sales of tangible fixed assets	538	277
	<b>(2,269)</b>	(5,137)
<b>Acquisitions and disposals</b>		
Net receipts from sale of subsidiary business	400	969
Net overdraft acquired with subsidiary	—	(113)
Costs of purchase of subsidiary undertakings	—	(72)
Costs of purchase of investment	(56)	—
	<b>344</b>	784
<b>Financing</b>		
Issue of ordinary share capital (net of costs)	12	52
Capital element of bank loan payments	(45)	(37)
Capital element of hire-purchase payments	(1,439)	(1,325)
	<b>(1,472)</b>	(1,310)

### 25. Analysis of Net Funds

	At 1 January 1999 £000	Cash flow £000	At 31 December 1999 £000
Cash at bank and in hand	7,492	(2,554)	4,938
Bank loan	(151)	45	(106)
Hire-purchase contracts	(4,690)	1,439	(3,251)
Net funds	2,651	(1,070)	1,581

### 26. Capital Commitments

	Group 1999 £000	1998 £000	Company 1999 £000	1998 £000
Contracted for but not provided in the financial statements	1,050	285	—	88

## 27. Contingent Liabilities

The Company and its subsidiaries have provided unlimited multilateral guarantees to secure the bank 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 1999 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	152	101
Between one and two years	—	556
Between two and five years	161	118
After five years	50	—
	363	775

## 29. Related Party Transactions

Under FRS8 the Group made the following transactions with related parties during the year:

Related Party	Relationship	Transaction	Value £000
P.M. Levine.	Non-executive Chairman	Fees for general advice and negotiations regarding sale of Manabo	32
P.M. Levine.	Non-executive Chairman	Fees for general and specific strategic advice	53
P.M. Levine.	Non-executive Chairman	Fees for advice on Executive Share Option Scheme and Deferred Annual Bonus Scheme	4
P.M. Levine.	Non-executive Chairman	Advice on contractual dispute	9
P.M. Levine.	Non-executive Chairman	Sundry advice on employee matters	1

None of the above was outstanding at 31 December 1999.

Related party transactions during the year ended 31 December 1998 with P.M. Levine, in connection with sundry advice, amounted in total to £49,000.

## Notes to the Financial Statements continued

### 30. Financial Instruments

The Group's financial instruments comprise borrowings, cash at bank and liquid resources and various net working capital items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to transact and to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk (if floating), liquidity risk and foreign currency translation risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

With the exception of foreign currency matters, short-term debtors and creditors are excluded from these disclosures.

#### Liquidity risk

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs while investing cash assets safely and profitably.

#### Undrawn facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December 1999 in respect of which all conditions precedent had been met at that date were as follows:

	1999 £000
Expiring in one year or less — bank overdraft	<b>4,000</b>

#### Currency Risk

The Group has minimal currency exposure, since the vast majority of transactions are transacted in Sterling. A substantial amount of the Group's activities are located in the UK. As a result, the Group has not hedged its transactional exposure to foreign currency risk. The liabilities and assets designated in foreign currencies as at 31 December 1999 are shown below, in the Interest Rate Risk table.

#### Interest Rate Risk

At 31 December 1999, the interest rate profile of the financial liabilities and assets of the Group was as follows:

	Floating rate £000	Fixed rate £000	Total £000	Fixed Rate Borrowings Weighted average fixed interest rate %	Weighted average period for which rate is fixed Years
Financial liabilities:					
Sterling	(799)	(2,452)	(3,251)	4.03	5
Loan of NLG 375,000	(106)	—	(106)	—	—
	<b>(905)</b>	<b>(2,452)</b>	<b>(3,357)</b>	<b>4.03</b>	<b>5</b>
Financial assets:					
Sterling	4,907	—	4,907	—	—
Dutch Guilder (NLG)	31	—	31	—	—
	<b>4,938</b>	<b>—</b>	<b>4,938</b>	<b>—</b>	<b>—</b>

### 30. Financial Instruments *continued*

The interest rates on floating borrowings are determined by reference to the Lloyds TSB Bank base rate (Sterling £654,000), the Dutch national bank base rate (£106,000 in Dutch Guilders) and Yorkshire Bank base rate (Sterling £145,000).

Interest bearing financial liabilities comprise net obligations under finance leases and bank loans.

Interest bearing financial assets comprise cash at bank and in hand. Cash at bank yields interest based on the prevailing base rate.

Fair value of financial assets and liabilities

There is no material difference between the fair value and book value of the Company's financial instruments.

### 31. Purchase of Shares in Subsidiary Company in Previous Year

On 11 September 1998 Manabo (UK) Ltd acquired the whole of the issued share capital of Txell BV, a company registered in Holland, for a cash consideration, including costs, of £72,000.

The acquisition consideration was made up as follows:

	£000
Intangible fixed assets — Intellectual Property Rights	156
Tangible fixed assets	269
Stocks	59
Debtors	102
Creditors	(363)
Bank loan	(188)
Bank overdraft	(113)
	(78)
Costs of acquisition	(72)
Goodwill purchased	150

The useful life of the goodwill purchased was considered to be 20 years.

## Notes to the Financial Statements continued

### 32. Sale of Assets of Subsidiary Company in Previous Year

On 1 July 1998 the business and assets of Structural Metal Decks Ltd were sold for a cash consideration of £1.8 million. The sale also included the Company name, Structural Metal Decks Ltd, and, as a result the name of the Company was changed to Surreal Ltd.

The sale consideration was made up as follows:

	£000
Tangible fixed assets	93
Costs of disposal	31
	124
Profit on disposal	1,676
Sale proceeds	1,800
Satisfied by:	
Cash	1,000
Deferred consideration	800
	1,800

On 1 July 1999 £400,000 of the deferred consideration was received in cash. The balance of £400,000 is receivable on 1 July 2000.

### 33. Post-Balance Sheet Event

On 3 March 2000 the glove making business and assets of Manabo (UK) Limited were sold for an initial consideration of £2.1 million in cash. The total consideration will include a further £600,000 which will be paid in two equal instalments over the next two years. In addition, a variable royalty payment, based on the volume of gloves sold, will be paid over the next five years up to a maximum of £475,000.

The remaining Manabo business, comprising the manufacture and sale of glove and knife cleaning machines, together with knife sharpening machines, is now non-trading.

All assets and stock were written down to either net realisable value or nil in the accounts to 31 December 1999 resulting in a total write-down of £2.85 million.

The sale also included the company name and, as a result, the name of Manabo (UK) Limited was changed to TGIS Limited on 25 April 2000.

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Severfield-Rowen Plc will be held at The Angel Inn, Long Street, Topcliffe, Thirsk, North Yorkshire, YO7 3RW on Tuesday 30 May 2000 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 1999 together with the Auditors' Report.
2. To declare a final dividend for the year ended 31 December 1999 of 7.00p net per share, payable on 1 June 2000 to shareholders on the register on 8 May 2000.
3. To re-elect P.M. Levine as a director.
4. To re-elect P.F. Ellison as a director.
5. To re-elect P.A. Emerson as a director.
6. To reappoint Deloitte & Touche as auditors of the Group and to authorise the directors to fix their remuneration.

## Special Business

To consider and, if thought fit, to pass the following resolutions as Special Resolutions:

7. 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 £99,797;

and shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution or on 29 August 2001 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.

## Notice of Annual General Meeting continued

8. That the Company be and is hereby unconditionally and generally authorised to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 10p each in its capital subject to the following:

- (i) The maximum number of shares which may be so acquired is 1,995,947 which represents 10% of the issued ordinary share capital as at 28 April 2000;
- (ii) The minimum price which may be so paid is 10p per share (exclusive of expenses);
- (iii) The maximum price which may be so paid for each share shall not exceed an amount (exclusive of expenses) equal to 5 per cent over the average of the middle market quotations of the ordinary share according to the Daily Official List of The London Stock Exchange for the five business days immediately preceding the date on which the Company agrees to buy the shares concerned;
- (iv) This authority shall continue in force until the conclusion of the next Annual General Meeting of the Company but will terminate on 29 August 2001 if the next Annual General Meeting has not been held by that date;
- (v) The Company may agree before the authority terminates under (iv) above to purchase ordinary shares where the purchase will or may be executed after the authority terminates (either wholly or in part). The Company may complete such a purchase even though the authority has terminated.

By order of the Board

P.J. Davison

Secretary

28 April 2000

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, (f) Rules of The Severfield-Reeve Plc 1998 Executive Share Option Scheme. (g) Rules of The Severfield-Rowen Plc 1999 Annual Deferred Bonus Scheme.

## **Severfield–Rowen Plc**

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