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H. W. FISHER & COMPANY

LOCHINVAR LIMITED  
(Formerly Acre 164 Limited)

DIRECTORS' REPORT AND ACCOUNTS  
FOR THE PERIOD ENDED 31 DECEMBER 1998

CHARTERED  
ACCOUNTANTS

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Company Registration Number: 3453820

**LOCHINVAR LIMITED**  
**(FORMERLY ACRE 164 LIMITED)**  
**COMPANY INFORMATION**

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<b>Directors</b>	W.L. Vallett T.A. Vallett J.W. Vallett M Glass
<b>Secretary</b>	T.A. Vallett
<b>Company number</b>	3453820
<b>Registered office</b>	Acre House 11-15 William Road London NW1 3ER
<b>Business address</b>	Unit D-F Acorn Way Wildmere Industrial Estate Banbury Oxfordshire
<b>Auditors</b>	H.W. Fisher & Company Acre House 11-15 William Road London NW1 3ER
<b>Bankers</b>	First Union National Bank 3 Bishopgate London EC2N 3AB

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LOCHINVAR LIMITED  
(FORMERLY ACRE 164 LIMITED)  
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**LOCHINVAR LIMITED**  
**(FORMERLY ACRE 164 LIMITED)**  
**DIRECTORS' REPORT**  
**FOR THE PERIOD ENDED 31 DECEMBER 1998**

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The directors present their report and accounts for the period ended 31 December 1998.

**Incorporation**

The company was incorporated on 22nd October 1997 under the name of Acre 164 Limited. The company changed its name to Lochinvar Limited on 10th March 1998.

**Principal activities**

The company was dormant until 27 February 1998 when it acquired the trade and assets of Lochinvar Limited (Company number 2066640). Lochinvar Limited subsequently changed its name to Mateunas One Limited on 10 March 1998 on the same date. Acre 164 then changed its name to Lochinvar Limited.

The principal activity of the company is that of installation and retail of high efficiency water heaters and boilers.

**Results and dividends**

The profit for the period after taxation amounted to £41,698.

**Year 2000 compliance**

The directors have considered whether the company's operations could be adversely affected by malfunctions in computer or other equipment arising from errors in processing dates in the year 2000 and beyond. No part of the company's current operations are critically dependent on computer or other equipment which could be affected by year 2000 problems.

**Directors and their interests**

The directors at 31 December 1998 and their beneficial interests in the shares of the company were:

	Ordinary shares of £1 each	
	31 December 1998	22 October 1997
W.L. Vallett	1	-
T.A. Vallett	1	-
J.W. Vallett	1	-
M Glass	-	-

In addition, I Marten and D.L Noel served as directors until 24 February 1998 and 22 October 1997 respectively, when they resigned.

**Auditors**

H.W. Fisher & Company were appointed first auditors to the company and a resolution proposing that they be reappointed will be put to the members at the next Annual General Meeting.

On behalf of the Board



W.L. Vallett

Director  
Dated: 5/5/99

**LOCHINVAR LIMITED**  
**(FORMERLY ACRE 164 LIMITED)**  
**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

**LOCHINVAR LIMITED  
(FORMERLY ACRE 164 LIMITED)  
AUDITORS' REPORT  
TO THE SHAREHOLDERS**

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We have audited the accounts on pages 4 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

**Respective responsibilities of directors and auditors**

As described on page 2 the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

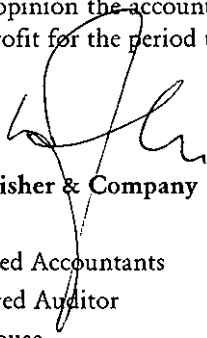
**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 1998 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



**H.W. Fisher & Company**

Chartered Accountants  
Registered Auditor  
Acre House  
11-15 William Road  
London  
NW1 3ER

Dated: 10/5/99

**LOCHINVAR LIMITED**  
**(FORMERLY ACRE 164 LIMITED)**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE PERIOD ENDED 31 DECEMBER 1998**

	Notes	Period ended 31 December 1998 £
Turnover	2	2,157,509
Cost of sales		(1,260,627)
Gross profit		896,882
Administrative expenses		(777,058)
Operating profit	3	119,824
Other income	5	1,922
Interest payable and similar charges	6	(57,253)
Profit on ordinary activities before taxation		64,493
Tax on profit on ordinary activities	7	(22,795)
Profit on ordinary activities after taxation		41,698
Accumulated loss brought forward		-
Retained profit carried forward		41,698

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

**LOCHINVAR LIMITED**  
**(FORMERLY ACRE 164 LIMITED)**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 1998**

	Notes	1998 £	£
<b>Fixed assets</b>			
Intangible assets	8		532,000
Tangible assets	9		83,292
			<u>615,292</u>
<b>Current assets</b>			
Stocks	10	614,398	
Debtors	11	388,014	
Cash at bank and in hand		333,632	
		<u>1,336,044</u>	
<b>Creditors: amounts falling due within one year</b>	12	(1,909,635)	
		<u></u>	
<b>Net current liabilities</b>			<u>(573,591)</u>
<b>Total assets less current liabilities</b>			<u><u>41,701</u></u>
<b>Capital and reserves</b>			
Called up share capital	13		3
Profit and loss account			41,698
			<u>41,701</u>
<b>Shareholders' funds - all equity interests</b>	14		<u><u>41,701</u></u>

The accounts were approved by the Board on 5/5/99



W.L. Vallett  
 Director



**LOCHINVAR LIMITED**  
(FORMERLY ACRE 164 LIMITED)  
**NOTES TO THE ACCOUNTS**  
*FOR THE PERIOD ENDED 31 DECEMBER 1998*

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**1 Accounting policies**

**1.1 Basis of preparation**

The accounts have been prepared under the historical cost convention.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cash flow statement on the grounds that it is a small company.

**1.2 Turnover**

Turnover represents the invoiced value of goods sold and services provided net of VAT.

**1.3 Goodwill**

Acquired goodwill is amortised over a period of 20 years.

**1.4 Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computer equipment	25% Reducing balance
Plant and machinery	25% Reducing balance
Fixtures, fittings & equipment	25% Reducing balance
Motor vehicles	25% Reducing balance

**1.5 Leasing**

Rental payments under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

**1.6 Stock**

Stock is stated at the lower of cost and net realisable value. Cost includes all direct costs incurred in bringing the stocks to their present location and condition.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

**1.7 Deferred taxation**

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

**1.8 Foreign currency translation**

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. All differences are taken to profit and loss account.

**2 Turnover**

The total turnover of the company for the period has been derived from its principal activity wholly undertaken in the United Kingdom.

**LOCHINVAR LIMITED**  
(FORMERLY ACRE 164 LIMITED)  
**NOTES TO THE ACCOUNTS**  
*FOR THE PERIOD ENDED 31 DECEMBER 1998*

<b>3</b>	<b>Operating profit</b>	<b>1998</b>
		<b>£</b>
	Operating profit is stated after charging:	
	Amortisation of intangible fixed assets	28,000
	Depreciation of owned tangible fixed assets	19,240
	Operating lease rentals	
	- Plant and machinery	15,073
	Auditors' remuneration	6,060
		<u><u>          </u></u>
<b>4</b>	<b>Employees</b>	
	<b>Number of employees</b>	
	The average monthly number of employees during the period was:	
		<b>1998</b>
		<b>Number</b>
	Selling and administration	18
		<u><u>          </u></u>
	<b>Employment costs</b>	
		<b>£</b>
	Wages and salaries	368,243
	Social security costs	32,627
		<u><u>          </u></u>
		400,870
		<u><u>          </u></u>
<b>5</b>	<b>Other income</b>	<b>1998</b>
		<b>£</b>
	Interest receivable and similar income	1,922
		<u><u>          </u></u>
<b>6</b>	<b>Interest payable and similar charges</b>	<b>1998</b>
		<b>£</b>
	Interest payable on:	
	Bank loans and overdrafts	10,160
	Other loans	47,093
		<u><u>          </u></u>
		57,253
		<u><u>          </u></u>

**LOCHINVAR LIMITED**  
**(FORMERLY ACRE 164 LIMITED)**  
**NOTES TO THE ACCOUNTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 1998**

<b>7</b>	<b>Tax on profit on ordinary activities</b>	<b>1998</b>
		<b>£</b>
	U.K. Current year taxation	
	U.K. Corporation tax at 21%	<b>22,795</b>
<b>8</b>	<b>Intangible fixed assets</b>	
		<b>Goodwill</b>
		<b>£</b>
	<b>Cost</b>	
	At 22 October 1997	-
	Additions	560,000
	<b>At 31 December 1998</b>	<b>560,000</b>
	<b>Amortisation</b>	
	At 22 October 1997	-
	Charge for period	28,000
	<b>At 31 December 1998</b>	<b>28,000</b>
	<b>Net book value</b>	
	<b>At 31 December 1998</b>	<b>532,000</b>

**LOCHINVAR LIMITED**  
(FORMERLY ACRE 164 LIMITED)  
**NOTES TO THE ACCOUNTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 1998**

**9 Tangible fixed assets**

	Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
<b>Cost</b>					
At 22 October 1997	-	-	-	-	-
Additions	20,116	5,344	18,390	89,185	133,035
Disposals	-	-	-	(30,503)	(30,503)
<b>At 31 December 1998</b>	<b>20,116</b>	<b>5,344</b>	<b>18,390</b>	<b>58,682</b>	<b>102,532</b>
<b>Depreciation</b>					
At 22 October 1997	-	-	-	-	-
Charge for the period	1,515	1,024	2,061	14,640	19,240
<b>At 31 December 1998</b>	<b>1,515</b>	<b>1,024</b>	<b>2,061</b>	<b>14,640</b>	<b>19,240</b>
<b>Net book value</b>					
<b>At 31 December 1998</b>	<b>18,601</b>	<b>4,320</b>	<b>16,329</b>	<b>44,042</b>	<b>83,292</b>

**10 Stocks**

	<b>1998</b>
	£
Finished goods and goods for resale	<b>614,398</b>

**11 Debtors**

	<b>1998</b>
	£
Trade debtors	380,316
Prepayments and accrued income	7,698
	<b>388,014</b>

**LOCHINVAR LIMITED**  
**(FORMERLY ACRE 164 LIMITED)**  
**NOTES TO THE ACCOUNTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 1998**

<b>12 Creditors: amounts falling due within one year</b>	<b>1998</b>
	<b>£</b>
Trade creditors	880,867
Corporation tax	22,795
Other taxes and social security costs	42,300
Loans from shareholders	903,334
Accruals and deferred income	60,339
	<u>1,909,635</u>

The loans are repayable on demand and carry interest at a rate of 6% per annum.

<b>13 Share capital</b>	<b>1998</b>
	<b>£</b>
<b>Authorised</b>	
100 Ordinary shares of £1 each	100
	<u>100</u>
<b>Allotted, called up and fully paid</b>	
3 Ordinary shares of £1 each	3
	<u>3</u>

<b>14 Reconciliation of movements in shareholders' funds</b>	<b>1998</b>
	<b>£</b>
Profit for the financial period	41,698
New share capital subscribed	3
	<u>41,701</u>
Net addition to shareholders' funds	41,701
Opening shareholders' funds	-
	<u>41,701</u>
Closing shareholders' funds	<u>41,701</u>

**LOCHINVAR LIMITED**  
**(FORMERLY ACRE 164 LIMITED)**  
**NOTES TO THE ACCOUNTS**  
**FOR THE PERIOD ENDED 31 DECEMBER 1998**

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**15 Commitments under operating leases**

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

	Land and buildings	Other
	1998	1998
	£	£
Expiry date:		
Between two and five years	-	32,846
In over five years	46,000	-
	<hr/>	<hr/>
	46,000	32,846
	<hr/>	<hr/>

**16 Related party transactions**

Included in trade creditors is an amount owed to the Lochinvar Corporation of £735,813, a company which is controlled by W.L Vallett, T.A Vallett and J.W Vallett.

**17 Controlling parties**

The ultimate controlling party is W.L Vallett, T.A Vallett and J.W Vallett.

**18 Post balance sheet events**

On 20 April 1999 the authorised share capital was increased to £400,002 and a further issue of fully paid £1 ordinary shares was completed.