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H. W. FISHER & COMPANY

LOCHINVAR LIMITED

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1999

CHARTERED
ACCOUNTANTS

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Company Registration Number: 3453820



LD4
COMPANIES HOUSE

0289
10/03/00

LOCHINVAR LIMITED

COMPANY INFORMATION

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

LOCHINVAR LIMITED

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LOCHINVAR LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1999

The directors present their report and accounts for the year ended 31 December 1999.

Principal activities

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

Results and dividends

The profit for the year after taxation amounted to £232,718.

Year 2000 compliance

The company's operations have not been significantly affected by malfunctions in computer or other equipment arising from errors in processing dates in the year 2000. The directors have considered whether there remains a risk that such problems may still arise. 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 1999 and their beneficial interests in the shares of the company were:

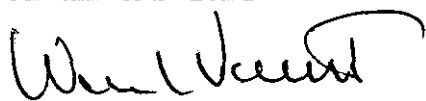
| | Ordinary shares of £1 each | |
|--------------|----------------------------|----------------|
| | 31 December 1999 | 1 January 1999 |
| W.L. Vallett | 133,334 | 1 |
| T.A. Vallett | 133,334 | 1 |
| J.W. Vallett | 133,334 | 1 |
| M Glass | - | - |

During the year, the company increased its authorised share capital to 400,002 £1 ordinary shares. The company also allotted 399,999 £1 ordinary shares, split equally between W.L. Vallett, T.A. Vallett and J.W. Vallett.

Auditors

A resolution proposing the reappointment of H.W. Fisher & Company as auditors will be put to the members at the next Annual General Meeting.

On behalf of the Board



W.L. Vallett

Director

Dated: 1 March 2000

LOCHINVAR LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

AUDITORS' REPORT TO THE SHAREHOLDERS

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 1999 and of its profit for the year 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: 3/3/00

LOCHINVAR LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999

| | | 1999 | Period ended 31 December 1998 |
|--|-------|-------------|--|
| | Notes | £ | £ |
| Turnover | 2 | 3,164,513 | 2,157,509 |
| Cost of sales | | (1,865,551) | (1,260,627) |
| Gross profit | | 1,298,962 | 896,882 |
| Administrative expenses | | (935,648) | (777,058) |
| Operating profit | 3 | 363,314 | 119,824 |
| Other income | 5 | 2,054 | 1,922 |
| Interest payable and similar charges | 6 | (47,126) | (57,253) |
| Profit on ordinary activities before taxation | | 318,242 | 64,493 |
| Tax on profit on ordinary activities | 7 | (85,524) | (22,795) |
| Profit on ordinary activities after taxation | | 232,718 | 41,698 |
| Retained profit brought forward | | 41,698 | - |
| Retained profit carried forward | | 274,416 | 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.

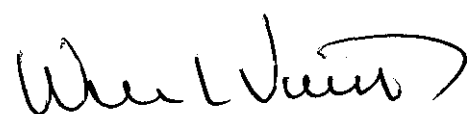
LOCHINVAR LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 1999

| | Notes | 1999 £ | £ | 1998 £ | £ |
|---|-------|--------------------|----------------|--------------------|------------------|
| Fixed assets | | | | | |
| Intangible assets | 8 | | 468,000 | | 532,000 |
| Tangible assets | 9 | | 87,742 | | 83,292 |
| | | | <u>555,742</u> | | <u>615,292</u> |
| Current assets | | | | | |
| Stocks | 10 | 664,896 | | 614,398 | |
| Debtors | 11 | 581,008 | | 388,014 | |
| Cash at bank and in hand | | 375,277 | | 333,632 | |
| | | <u>1,621,181</u> | | <u>1,336,044</u> | |
| Creditors: amounts falling due within one year | 12 | <u>(1,502,505)</u> | | <u>(1,909,635)</u> | |
| Net current assets/(liabilities) | | | <u>118,676</u> | | <u>(573,591)</u> |
| Total assets less current liabilities | | | <u>674,418</u> | | <u>41,701</u> |
| Capital and reserves | | | | | |
| Called up share capital | 13 | 400,002 | | | 3 |
| Profit and loss account | | 274,416 | | | 41,698 |
| Shareholders' funds - all equity interests | 14 | <u>674,418</u> | | | <u>41,701</u> |

The accounts were approved by the Board on 1 March, 2000



W.L. Vallett

Director

LOCHINVAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1999

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 |
| Leasehold property | over the term of the lease |
| 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.

1.9 Comparatives

Comparative figures represent the 14 month period from incorporation on 22 October 1997 to 31 December 1998. However the company did not commence trading until 27 February 1998.

LOCHINVAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1999

2 Turnover

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

| 3 Operating profit | 1999 | 1998 |
|---|--------|--------|
| | £ | £ |
| Operating profit is stated after charging: | | |
| Amortisation of intangible fixed assets | 24,000 | 28,000 |
| Depreciation of owned tangible fixed assets | 28,437 | 19,240 |
| Depreciation of tangible fixed assets held under finance leases and hire purchase contracts | 1,536 | - |
| Operating lease rentals | | |
| - Plant and machinery | 54,053 | 15,073 |
| Auditors' remuneration | 7,520 | 6,060 |

4 Employees

Number of employees

The average monthly number of employees during the year was:

| | 1999 Number | 1998 Number |
|----------------------------|----------------|----------------|
| Selling and administration | 19 | 18 |

Employment costs

| | £ | £ |
|-----------------------|---------|---------|
| Wages and salaries | 488,152 | 368,243 |
| Social security costs | 44,673 | 32,627 |
| Other pension costs | 11,877 | - |
| | 544,702 | 400,870 |

5 Other income

| | 1999 | 1998 |
|--|-------|-------|
| | £ | £ |
| Interest receivable and similar income | 2,054 | 1,922 |

LOCHINVAR LIMITED

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1999

| | | | |
|----------|---|---------------|-----------------|
| 6 | Interest payable and similar charges | 1999 | 1998 |
| | | £ | £ |
| | Interest payable on: | | |
| | Bank loans and overdrafts | 126 | 10,160 |
| | Other loans | 47,000 | 47,093 |
| | | <u>47,126</u> | <u>57,253</u> |
| 7 | Tax on profit on ordinary activities | 1999 | 1998 |
| | | £ | £ |
| | U.K. Current year taxation | | |
| | U.K. Corporation tax at 24% (1998 - 21%) | 91,773 | 22,795 |
| | Prior years | | |
| | U.K. Corporation tax | (6,249) | - |
| | | <u>85,524</u> | <u>22,795</u> |
| 8 | Intangible fixed assets | | Goodwill |
| | | | £ |
| | Cost | | |
| | At 1 January 1999 | | 560,000 |
| | Exchange differences | | (40,000) |
| | At 31 December 1999 | | 520,000 |
| | Amortisation | | |
| | At 1 January 1999 | | 28,000 |
| | Charge for year | | 24,000 |
| | At 31 December 1999 | | 52,000 |
| | Net book value | | |
| | At 31 December 1999 | | 468,000 |
| | At 31 December 1998 | | 532,000 |

LOCHINVAR LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1999

9 Tangible fixed assets

| | Computer equipment | Leasehold improve- ments | Plant and machinery | Fixtures, fittings & equipment | Motor vehicles | Total |
|----------------------------|-----------------------|--------------------------------|------------------------|--------------------------------------|-------------------|----------------|
| | £ | £ | £ | £ | £ | £ |
| Cost | | | | | | |
| At 1 January 1999 | 20,116 | - | 5,344 | 18,390 | 58,682 | 102,532 |
| Transfers | - | 40,000 | - | - | - | 40,000 |
| Additions | 3,363 | - | 1,273 | 5,770 | 9,218 | 19,624 |
| Disposals | - | - | - | - | (35,827) | (35,827) |
| At 31 December 1999 | 23,479 | 40,000 | 6,617 | 24,160 | 32,073 | 126,329 |
| Depreciation | | | | | | |
| At 1 January 1999 | 1,515 | - | 1,025 | 2,061 | 14,640 | 19,241 |
| On disposals | - | - | - | - | (10,627) | (10,627) |
| | 5,726 | 10,000 | 1,394 | 6,091 | 6,762 | 29,973 |
| At 31 December 1999 | 7,241 | 10,000 | 2,419 | 8,152 | 10,775 | 38,587 |
| Net book value | | | | | | |
| | 16,238 | 30,000 | 4,198 | 16,008 | 21,298 | 87,742 |
| At 31 December 1998 | 18,601 | - | 4,320 | 16,329 | 44,042 | 83,292 |

During the period ended 31 December 1998 the company purchased a trade. At that time goodwill was calculated with reference to the value of the assets acquired; however, no account was taken of the value of leasehold improvements which, at the date of acquisition, were worth £40,000. An adjustment has been made in these accounts to transfer this value from goodwill to tangible fixed assets.

Finance leases and hire purchase contracts

The net book value of tangible fixed assets includes an amount of £7,682 (1998 - £Nil) in respect of assets held under finance leases or hire purchase contracts.

10 Stocks

| | 1999 | 1998 |
|-------------------------------------|----------------|----------------|
| | £ | £ |
| Finished goods and goods for resale | 664,896 | 614,398 |

LOCHINVAR LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1999

| 11 Debtors | 1999 | 1998 |
|--------------------------------|----------------|----------------|
| | £ | £ |
| Trade debtors | 558,650 | 380,316 |
| Prepayments and accrued income | 22,358 | 7,698 |
| | <u>581,008</u> | <u>388,014</u> |

| 12 Creditors: amounts falling due within one year | 1999 | 1998 |
|---|------------------|------------------|
| | £ | £ |
| Net obligations under finance lease and hire purchase contracts | 1,920 | - |
| Trade creditors | 752,280 | 880,867 |
| Corporation tax | 91,773 | 22,795 |
| Other taxes and social security costs | 53,072 | 42,300 |
| Loans from shareholders | 456,242 | 903,334 |
| Other creditors | 47,000 | - |
| Accruals and deferred income | 100,218 | 60,339 |
| | <u>1,502,505</u> | <u>1,909,635</u> |

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

| 13 Share capital | 1999 | 1998 |
|---|----------------|------------|
| | £ | £ |
| Authorised | | |
| 400,002 Ordinary shares of £1 each | <u>400,002</u> | <u>100</u> |
| Allotted, called up and fully paid | | |
| 400,002 Ordinary shares of £1 each | <u>400,002</u> | <u>3</u> |

| 14 Reconciliation of movements in shareholders' funds | 1999 | 1998 |
|---|----------------|---------------|
| | £ | £ |
| Profit for the financial year | 232,718 | 41,698 |
| New share capital subscribed | 399,999 | 3 |
| Net addition to shareholders' funds | <u>632,717</u> | <u>41,701</u> |
| Opening shareholders' funds | 41,701 | - |
| Closing shareholders' funds | <u>674,418</u> | <u>41,701</u> |

LOCHINVAR LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 1999

15 Commitments under operating leases

At 31 December 1999 the company had annual commitments under non-cancellable operating leases as follows:

| | Land and buildings | | Other | |
|----------------------------|--------------------|---------------|---------------|---------------|
| | 1999 | 1998 | 1999 | 1998 |
| | £ | £ | £ | £ |
| Expiry date: | | | | |
| Between two and five years | - | - | 47,779 | 32,846 |
| In over five years | 46,000 | 46,000 | - | - |
| | <u>46,000</u> | <u>46,000</u> | <u>47,779</u> | <u>32,846</u> |

16 Related party transactions

Included in trade creditors is an amount owed to the Lochinvar Corporation of £553,899, a company which is controlled by W.L Vallett, T.A Vallett and J.W Vallett.

17 Controlling parties

The ultimate controlling parties are W.L Vallett, T.A Vallett and J.W Vallett.