

# HEATSAVE LIMITED

## Annual report for the year ended 31 December 1996

Registered no: 1382270

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**Directors and advisers****Executive directors**

Chairman and managing director	R C C Sandys
Deputy chairman	R M Warner
Operations	R I Derry
Finance and administration	N L Gavin
Technical director	T A Wright

**Non-executive directors**

A B Strong  
M J Walker

**Secretary and registered office**

N L Gavin  
32-34 Wellington Street  
LONDON  
WC2E 7QZ

**Registered auditors**

Coopers & Lybrand  
1 Embankment Place  
LONDON  
WC2N 6NN

**Bankers**

National Westminster Bank plc

**Directors' report  
for the year ended 31 December 1996**

The directors present their report and the audited financial statements for the year ended 31 December 1996.

**Principal activity**

The principal activity of the company is the provision of energy management services.

**Review of business**

The profit and loss account for the year is set out on page 5.

Turnover increased from £13.5 million in 1995 to £14.3 million in 1996, but this was accompanied by a decline in profit before taxation from £979,000 to £600,000. Some decline had been anticipated as a result of the termination of five high-value government contracts at the end of March 1996, which took place following a reorganisation of the government's property-holding portfolio. Although the attendant loss of revenue was compensated by the gain of new contracts, heavy start-up costs on these contracts did not permit the loss of profit to be made up. It is disappointing that, as a consequence, no payments will be made under the company's profit-related pay scheme in respect of 1996.

One highlight of the year has been the performance of the Installation Department, both in terms of the high quality of the work performed and an increase in turnover to £2.1 million (£1.6 million in 1995). This growth is expected to continue in 1997.

New maintenance contracts to a value of over £1 million have been obtained in the first months of 1997. This, in conjunction with a restructuring exercise designed to reduce costs, should lead to a substantial improvement in profits in 1997.

**Dividends and transfers to reserves**

The directors have declared an ordinary dividend of £211,185 in respect of the year ended 31 December 1996 (1995: £354,224). In 1995 the directors paid an additional special dividend of £500,000. After payment of the dividend, the retained profit for the financial year will be transferred to the company's reserves.

**Directors**

The directors of the company at 31 December 1996, all of whom have been directors for the whole of the year ended on that date, are listed on page 1. In addition, Mr P A Thompson, who was a director throughout 1996, resigned on 8 April 1997.

**Changes in fixed assets**

The movements in fixed assets during the year are set out in note 12 to the financial statements.

**Charitable donations**

The donations made by the company during the year for charitable purposes were £5,760 (1995: £5,307).

**Directors' responsibilities**

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1996. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Auditors**

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

**By order of the board**

N L Gavin   
Company secretary

## **Report of the auditors to the members of HEATSAVE LIMITED**

We have audited the financial statements on pages 5 to 19.

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

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### **Basis of opinion**

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

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

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1996 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Coopers & Lybrand**  
**Chartered Accountants and Registered Auditors**  
London  
18 April 1997

# Profit and loss account for the year ended 31 December 1996

	Notes	1996 £'000	1995 £'000
Turnover	2	14,348	13,554
Cost of sales		(11,421)	(10,598)
Gross profit		2,927	2,956
Net operating expenses	3	(2,339)	(2,012)
Operating profit		588	944
Interest receivable and similar income	7	20	44
Interest payable and similar charges	8	(8)	(9)
Profit on ordinary activities before taxation	9	600	979
Tax on profit on ordinary activities	10	(200)	(334)
Profit on ordinary activities after taxation		400	645
Dividends			
Paid interim special		-	(500)
Final proposed	11	(211)	(354)
Retained profit/(loss) for the year		189	(209)

The above figures all derive from continuing operations.

The company has no recognised gains or losses other than those included in the profits above, and therefore no separate statement of total recognised gains and losses has been presented.

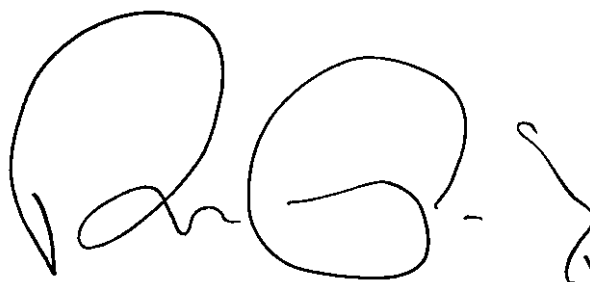
There is no difference between the profit on ordinary activities before taxation and the retained profit for the year as stated above, and their historical cost equivalents.

# Balance sheet at 31 December 1996

	Notes	1996 £'000	1995 £'000
<b>Fixed assets</b>			
Tangible assets	12	<u>1,385</u>	<u>1,387</u>
<b>Current assets</b>			
Stocks and work in progress	13	454	674
Debtors	14	3,119	3,193
Cash at bank and in hand		<u>213</u>	<u>73</u>
		<u>3,786</u>	<u>3,940</u>
<b>Creditors: amounts falling due within one year</b>	15	<u>(3,726)</u>	<u>(4,144)</u>
<b>Net current assets/(liabilities)</b>		<u>60</u>	<u>(204)</u>
<b>Total assets less current liabilities</b>		<u>1,445</u>	<u>1,183</u>
<b>Creditors: amounts falling due after more than one year</b>	16	(305)	(237)
<b>Provisions for liabilities and charges</b>	17	<u>(41)</u>	<u>(36)</u>
<b>Net assets</b>		<u><u>1,099</u></u>	<u><u>910</u></u>
<b>Capital and reserves</b>			
Called up share capital	18	81	81
Profit and loss account	20	<u>1,018</u>	<u>829</u>
<b>Equity shareholders' funds</b>	21	<u><u>1,099</u></u>	<u><u>910</u></u>

The financial statements on pages 5 to 19 were approved by the board of directors on 17 April 1997 and were signed on its behalf by:

**R C C Sandys**  
Director



# Cash flow statement for the year ended 31 December 1996

	Notes	1996 £'000	1995 £'000
<b>Net cash inflow from continuing operating activities</b> (reconciliation to operating profit on page 8)		<b>1,156</b>	<b>823</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		20	44
Interest paid on finance leases		(57)	(51)
Dividends paid		(354)	(787)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(391)</b>	<b>(794)</b>
<b>Taxation</b>			
United Kingdom corporation tax paid		(219)	(403)
<b>Investment activities</b>			
Purchase of tangible fixed assets		(134)	(390)
Sale of tangible fixed assets		104	153
<b>Net cash outflow from investing activities</b>		<b>(30)</b>	<b>(237)</b>
<b>Net cash inflow/(outflow) before financing</b>		<b>516</b>	<b>(611)</b>
<b>Financing</b>			
Payment of principal under finance leases		(376)	(360)
<b>Net cash outflow from financing</b>	22	<b>(376)</b>	<b>(360)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	23	<b>140</b>	<b>(971)</b>



# Reconciliation of operating profit to net cash inflow from operating activities

	1996	1995
	£'000	£'000
<b>Continuing operating activities</b>		
Operating profit	588	944
Depreciation on tangible fixed assets	490	441
Profit on sale of tangible fixed assets	(48)	(39)
Replacement guarantee provision	5	5
Interest on finance leases and hire purchase contracts included in cost of sales	49	42
Decrease/(increase) in stocks and work in progress	220	(156)
Decrease/(increase) in trade debtors	228	(557)
Decrease/(increase) in other debtors	1	(5)
(Increase) in prepayments and accrued income	(191)	(50)
(Decrease)/increase in trade creditors	(47)	210
(Decrease)/increase in other taxation and social security	(2)	33
Increase/(decrease) in other creditors	5	(37)
(Decrease)/increase in accruals	(118)	129
(Decrease) in deferred income	(24)	(137)
	<hr/>	<hr/>
<b>Net cash inflow from continuing operating activities</b>	<b>1,156</b>	<b>823</b>
	<hr/>	<hr/>

## Notes to the financial statements for the year ended 31 December 1996

### 1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

#### Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

#### Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Freehold buildings	2
Plant and equipment	20
Motor vehicles	25
Office equipment	20

Leasehold improvements are written off over the length of the lease.

#### Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit on a straight line basis. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

**Stocks and work in progress**

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis. Provision is made, where necessary, for obsolete and defective stocks.

**Turnover**

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

**Pension scheme arrangements**

The company operates a defined contribution pension scheme. Pension costs are charged to the profit and loss account in the period in which they fall due. The pension benefit arising from these contributions is not specified or guaranteed by the company.

The company provides no other post retirement benefits to its employees.

**2 Turnover**

Turnover consists entirely of sales made in the United Kingdom.

**3 Net operating expenses**

	1996 £'000	1995 £'000
Administrative expenses	2,035	1,794
Selling expenses	304	218
	<u>2,339</u>	<u>2,012</u>

**4 Directors' emoluments**

	1996 £'000	1995 £'000
Fees	25	23
Other emoluments (including pension contributions and benefits in kind)	453	441
	<u>478</u>	<u>464</u>

Fees and other emoluments (excluding pension contributions) include amounts payable to:

	1996 £'000	1995 £'000
The chairman, being the highest paid director	<u>110</u>	<u>108</u>

The number of directors (including the chairman and the highest paid director) who received fees and other emoluments (excluding pension contributions) within the following ranges was:

	1996 Number	1995 Number
£10,001 to £15,000	2	2
£15,001 to £20,000	1	2
£20,001 to £25,000	3	2
£25,001 to £30,000	1	1
£30,001 to £35,000	-	1
£35,001 to £40,000	1	-
	<u>      </u>	<u>      </u>

## 5 Employee information

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

	1996 Number	1995 Number
By activity		
Operations	175	174
Selling	10	9
Administration	31	29
	<u>      </u>	<u>      </u>
	<u>216</u>	<u>212</u>

	1996 £'000	1995 £'000
Staff costs - all employees including executive directors		
Wages and salaries	4,948	4,691
Social security costs	499	472
Other pension costs (see note 6)	128	101
	<u>      </u>	<u>      </u>
	<u>5,575</u>	<u>5,264</u>

**6 Pensions**

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Pension costs, representing contributions payable by the company to this scheme, amounted to £127,524 (1995: £100,626).

**7 Interest receivable and similar income**

	1996 £'000	1995 £'000
Bank interest receivable	20	44
	<u>      </u>	<u>      </u>

**8 Interest payable and similar charges**

	1996 £'000	1995 £'000
On finance leases and hire purchase contracts	8	9
	<u>      </u>	<u>      </u>

In addition, included within cost of sales is interest on finance leases and hire purchase contracts of £49,563 (1995: £41,896).

**9 Profit on ordinary activities before taxation**

	1996 £'000	1995 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
Owned assets	172	127
Leased assets	318	314
Auditors' remuneration for audit services	13	13
Hire of other assets - operating leases	99	84
Profit on disposal of tangible fixed assets	(48)	(39)
	<u>      </u>	<u>      </u>

The auditors received remuneration of £9,850 (1995: £8,155) in respect of non-audit services during the year.

**10 Tax on profit on ordinary activities**

	1996 £'000	1995 £'000
United Kingdom corporation tax at 33% (1995: 33%):		
Current	211	338
Over provision in respect of prior years:		
Current	(11)	(4)
	<u>      </u>	<u>      </u>
	200	334
	<u>      </u>	<u>      </u>

The company does not have a deferred tax liability.

## 11 Dividends

	1996 £'000	1995 £'000
Paid interim special dividend of £Nil per share (1995: £6.17)	-	500
Declared final dividend of £2.47 per share (1995: £4.37 per share)	211	354
	<u>211</u>	<u>854</u>

In addition to the 81,000 shares in issue at 31 December 1996, 4,500 shares arising from share options exercised after the year end are also eligible for dividends.

## 12 Tangible fixed assets

	Freehold land and buildings £'000	Leasehold premises £'000	Plant and equipment £'000	Motor vehicles £'000	Office equipment £'000	Total £'000
<b>Cost</b>						
At 1 January 1996	136	260	236	1,495	526	2,653
Additions	1	14	21	458	50	544
Disposals	-	-	-	(341)	-	(341)
<b>At 31 December 1996</b>	<u>137</u>	<u>274</u>	<u>257</u>	<u>1,612</u>	<u>576</u>	<u>2,856</u>
<b>Depreciation</b>						
At 1 January 1996	10	132	183	608	333	1,266
Charge for year	1	24	24	376	65	490
Disposals	-	-	-	(285)	-	(285)
<b>At 31 December 1996</b>	<u>11</u>	<u>156</u>	<u>207</u>	<u>699</u>	<u>398</u>	<u>1,471</u>
<b>Net book value</b>						
<b>At 31 December 1996</b>	<u>126</u>	<u>118</u>	<u>50</u>	<u>913</u>	<u>178</u>	<u>1,385</u>
At 31 December 1995	<u>126</u>	<u>128</u>	<u>53</u>	<u>887</u>	<u>193</u>	<u>1,387</u>

The net book value of tangible fixed assets includes an amount of £867,973 (1995: £879,862) in respect of assets held under finance leases and hire purchase contracts. Depreciation charged on these assets during the year was £317,716 (1995: £314,350).

**13 Stocks and work in progress**

	<b>1996</b>	<b>1995</b>
	<b>£'000</b>	<b>£'000</b>
Stock of oil	24	18
Work in progress	408	637
Consumables	22	19
	<u>          </u>	<u>          </u>
	<b>454</b>	<b>674</b>
	<u>          </u>	<u>          </u>

**14 Debtors**

	<b>1996</b>	<b>1995</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year</b>		
Trade debtors	2,527	2,755
Other debtors	24	25
Prepayments and accrued income	515	324
	<u>          </u>	<u>          </u>
	<b>3,066</b>	<b>3,104</b>
<b>Amounts falling due after one year</b>		
Advance Corporation Tax recoverable	53	89
	<u>          </u>	<u>          </u>
	<b>3,119</b>	<b>3,193</b>
	<u>          </u>	<u>          </u>

**15 Creditors: amounts falling due within one year**

	1996 £'000	1995 £'000
Trade creditors	1,337	1,384
Taxation and social security (see (a) below)	353	410
Obligations under finance leases	291	325
Other creditors	257	252
Dividends payable	211	354
Accruals	495	613
Deferred income	782	806
	<u>3,726</u>	<u>4,144</u>

(a) Taxation and social security is made up as follows:

	1996 £'000	1995 £'000
United Kingdom		
Corporation Tax payable	122	141
PAYE and social security	178	180
Advance Corporation Tax payable	53	89
	<u>353</u>	<u>410</u>

**16 Creditors: amounts falling due after more than one year**

	1996 £'000	1995 £'000
Finance lease and hire purchase contracts	<u>305</u>	<u>237</u>



**17 Provisions for liabilities and charges**

	Replacement guarantee provision £'000
At 1 January 1996	36
Transferred from profit and loss account in year	5
Released in year	-
	<u>—</u>
At 31 December 1996	<b>41</b>
	<u>==</u>

**18 Called up share capital**

	Ordinary shares of £1 each		Convertible cumulative preferred ordinary shares of £1 each		Total	
	1996	1995	1996	1995	1996	1995
<b>Authorised</b>						
- value	<b>£62,000</b>	£62,000	<b>£27,000</b>	£27,000	<b>£89,000</b>	£89,000
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
- number	<b>62,000</b>	62,000	<b>27,000</b>	27,000	<b>89,000</b>	89,000
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
<b>Allotted, called up and fully paid</b>						
- value	<b>£54,000</b>	£54,000	<b>£27,000</b>	£27,000	<b>£81,000</b>	£81,000
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
- number	<b>54,000</b>	54,000	<b>27,000</b>	27,000	<b>81,000</b>	81,000
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

The convertible cumulative preferred ordinary shares have a right to a cumulative preferential dividend equal to one half of their share of the net profit of the company.

The ordinary shares and the preferred ordinary shares have equal voting rights per share, although the latter have a preferential right to return of capital on winding up.

## 19 Directors' interests in shares of Heatsave Limited

The interests of the directors in the shares of the company at 31 December 1996, together with their interests at 1 January 1996 and movements in their share options in the year were:

	Shares		Share options			
	1 January 1996	31 December 1996	1 January 1996	Granted	Exercised	31 December 1996
(£1 ordinary shares)						
R C C Sandys	18,000	18,000	-	-	-	-
R M Warner	18,000	18,000	-	-	-	-
A B Strong	4,000	4,000	-	-	-	-
R I Derry	-	-	2,250	-	-	2,250
N L Gavin	-	-	2,250	-	-	2,250
P A Thompson	-	-	2,250	-	-	2,250
T A Wright	-	-	1,000	-	-	1,000

Options were granted on 25 August 1993 for 7,750 £1 ordinary shares in total at a subscription price of £16 per share. The exercise period of the options is 3-10 years. Subsequent to the year end, 4,500 share options were exercised.

## 20 Profit and loss account

The movements in retained profits were as follows:

	£'000
At 1 January 1996	829
Retained profit for the year	189
	<hr/>
At 31 December 1996	1,018
	<hr/>

## 21 Reconciliation of movements in equity shareholders' funds

	1996 £'000	1995 £'000
Profit for the financial year	400	645
Dividends	(211)	(854)
	<hr/>	<hr/>
	189	(209)
Opening equity shareholders' funds	910	1,119
	<hr/>	<hr/>
Closing equity shareholders' funds	1,099	910
	<hr/>	<hr/>

**22 Analysis of changes in financing during the year**

	Loans and finance lease obligations 1996 £'000	Loans and finance lease obligations 1995 £'000
At 1 January	562	442
Inception of finance lease contracts	410	480
Repayments of principal on finance leases	(376)	(360)
	<u>      </u>	<u>      </u>
At 31 December	<u>596</u>	<u>562</u>

**23 Cash and cash equivalents**

	1996 £'000	1995 £'000
Changes during the year		
At 1 January	73	1,044
Net cash inflow/(outflow)	140	(971)
	<u>      </u>	<u>      </u>
At 31 December	<u>213</u>	<u>73</u>

	1996 £'000	1996 Change in year £'000	1995 £'000	1995 Change in year £'000	1994 £'000
Analysis of balances at 31 December					
Cash at bank and in hand	213	140	73	(971)	1,044
	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>

**24 Contingent liabilities and financial commitments**

	<b>1996</b>	<b>1995</b>
	<b>£'000</b>	<b>£'000</b>
(a) Commitments under finance leases entered into after 31 December 1996	<b>142</b>	<b>38</b>
	<u>      </u>	<u>      </u>

(b) At 31 December 1996 the company had annual commitments in respect of leasehold buildings, under non-cancellable operating leases as follows:

	<b>1996</b>	<b>1995</b>
	<b>£'000</b>	<b>£'000</b>
Expiring within one year	-	-
Expiring between one and five years	<b>85</b>	<b>59</b>
Expiring in over five years	<b>22</b>	<b>35</b>
	<u>      </u>	<u>      </u>
	<b>107</b>	<b>94</b>
	<u>      </u>	<u>      </u>