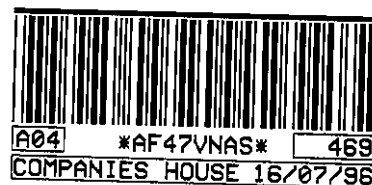


HEATSAVE LIMITED

Annual report for the year ended 31 December 1995

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
Sales director	P A Thompson
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 1995**

The directors present their report and the audited financial statements for the year ended 31 December 1995.

Principal activity

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

Review of business and future developments

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

In 1995 profit before taxation increased by 32% from £739,000 to £979,000. This was achieved on a turnover of £13.5 million compared to £10.8 million in 1994, an increase of 25%. In percentage terms the increase in turnover and profitability since 1992 has been as follows:

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Percentage increase in turnover %	6	7	12	25
Percentage increase in profit %	9	61	47	32

Over the four-year period an increase in turnover of 60% has given rise to an increase in profit of 350%. This is a most satisfactory achievement.

It is gratifying that 97 members of staff (90 in 1994) eligible for the company's profit-related pay scheme will see an increase in the profit-related pay they receive.

In August a new London operational centre was opened at Mastmaker Court in Docklands. The centre houses the City and West End Zones and the company's recently-formed Installation Department. The Centre was officially opened by Michael Pickard, Chairman of the London Docklands Development Corporation. Despite extensive damage caused by the IRA bomb at South Quay, the staff rose to the occasion and ensured that operations were able to continue without interruption.

The Installation Department acquired the trade of Heatsave's former subsidiary, Derry London Ltd. With strengthened management, it performed well in 1995 and generated a turnover of £1.6 million, compared to £686,000 for Derry London in 1994.

Dividends and transfers to reserves

The directors have declared an ordinary dividend of £354,224 in respect of the year ended 31 December 1995 (1994: £286,946). In addition the directors have paid a special dividend of £500,000 (1994: Nil) during the year. After the payment of these dividends, the retained loss for the financial year will be transferred to the company's reserves.

Directors

The directors of the company at 31 December 1995, all of whom have been directors for the whole of the year ended on that date, are listed on page 1.

Changes in fixed assets

The movements in fixed assets during the year are set out in notes 12 and 13 to the financial statements.

Charitable donations

The donations made by the company during the year for charitable purposes were £5,307 (1994: £1,199).

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 the 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 1995. 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.

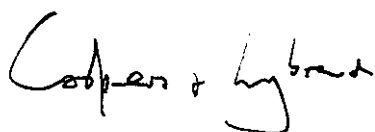
Basis of opinion

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 affairs of the company at 31 December 1995 and of its result 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 21 March 1996

Profit and loss account for the year ended 31 December 1995

	Notes	1995 £'000	1994 £'000
Turnover	2	13,554	10,830
Cost of sales		(10,598)	(8,412)
Gross profit		2,956	2,418
Net operating expenses	3	(2,012)	(1,765)
Operating profit		944	653
Income from interests in subsidiary undertakings		-	43
Interest receivable and similar income	7	44	49
Interest payable and similar charges	8	(9)	(6)
Profit on ordinary activities before taxation	9	979	739
Tax on profit on ordinary activities	10	(334)	(257)
Profit on ordinary activities after taxation		645	482
Dividends	11		
Paid interim special		(500)	-
Final proposed		(354)	(287)
Retained (loss)/profit for the year	21	(209)	195

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 loss for the year as stated above, and their historical cost equivalents.

Balance sheet at 31 December 1995

	Notes	1995 £'000	1994 £'000
Fixed assets			
Tangible assets	12	1,387	1,072
Investments	13	-	20
		<u>1,387</u>	<u>1,092</u>
Current assets			
Stocks and work in progress	14	674	518
Debtors	15	3,193	2,564
Cash at bank and in hand		73	1,044
		<u>3,940</u>	<u>4,126</u>
Creditors: amounts falling due within one year	16	<u>(4,144)</u>	<u>(3,877)</u>
Net current (liabilities)/assets		<u>(204)</u>	<u>249</u>
Total assets less current liabilities		<u>1,183</u>	<u>1,341</u>
Creditors: amounts falling due after more than one year	17	<u>(237)</u>	<u>(191)</u>
Provisions for liabilities and charges	18	<u>(36)</u>	<u>(31)</u>
Net assets		<u><u>910</u></u>	<u><u>1,119</u></u>
Capital and reserves			
Called up share capital	19	81	81
Profit and loss account	21	829	1,038
Equity shareholders' funds	22	<u><u>910</u></u>	<u><u>1,119</u></u>

The financial statements on pages 5 to 19 were approved by the board of directors on 20 MAR 1996 and were signed on its behalf by:

R C C Sandys
Director



Cash flow statement for the year ended 31 December 1995

	Notes	1995 £'000	1994 £'000
Net cash inflow from continuing operating activities			
(reconciliation to operating profit on page 8)		823	951
		—	—
Returns on investments and servicing of finance			
Interest received		44	49
Interest paid on finance leases		(51)	(44)
Dividends paid		(787)	(192)
Dividends received from subsidiary undertaking		-	43
		—	—
Net cash outflow from returns on investments and servicing of finance		(794)	(144)
		—	—
Taxation			
United Kingdom corporation tax paid		(403)	(176)
		—	—
Investment activities			
Purchase of tangible fixed assets		(390)	(373)
Sale of tangible fixed assets		153	85
Purchase of fixed asset investment		-	(10)
		—	—
Net cash outflow from investing activities		(237)	(298)
		—	—
Net cash (outflow)/inflow before financing		(611)	333
		—	—
Financing			
Payment of principal under finance leases		(360)	(309)
		—	—
Net cash outflow from financing	23	(360)	(309)
		—	—
(Decrease)/increase in cash and cash equivalents	24	(971)	24
		==	==

Reconciliation of operating profit to net cash inflow from operating activities

	1995	1994
	£'000	£'000
Continuing operating activities		
Operating profit	944	653
Depreciation on tangible fixed assets	441	367
Profit on sale of tangible fixed assets	(39)	(19)
Replacement guarantee provision	5	-
Interest on finance leases and hire purchase contracts included in cost of sales	42	38
(Increase) in stocks and work in progress	(156)	(316)
(Increase) in trade debtors	(557)	(371)
Decrease in amounts owed by subsidiary undertakings	-	34
(Increase) in other debtors	(5)	(10)
(Increase)/decrease in prepayments and accrued income	(50)	16
Increase in trade creditors	210	416
Increase in amounts owed to subsidiary undertakings	-	20
Increase in other taxation and social security	33	21
(Decrease)/increase in other creditors	(37)	15
Increase in accruals	129	82
(Decrease)/increase in deferred income	(137)	5
	—	—
Net cash inflow from continuing operating activities	823	951
	==	==

Notes to the financial statements for the year ended 31 December 1995

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

	1995 £'000	1994 £'000
Continuing operations		
Administrative expenses	1,794	1,570
Selling expenses	218	195
	<u>2,012</u>	<u>1,765</u>

4 Directors' emoluments

	1995 £'000	1994 £'000
Fees	23	22
Other emoluments (including pension contributions and benefits in kind)	441	443
	<u>464</u>	<u>465</u>

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

	1995 £'000	1994 £'000
The chairman, being the highest paid director	108	105

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:

	1995 Number	1994 Number
£10,001 to £15,000	2	2
£15,001 to £20,000	2	1
£20,001 to £25,000	2	3
£25,001 to £30,000	1	1
£30,001 to £35,000	1	1

5 Employee information

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

	1995 Number	1994 Number
By activity		
Operations	174	160
Selling	9	7
Administration	29	25
	212	192

	1995 £'000	1994 £'000
Staff costs - all employees including executive directors		
Wages and salaries	4,691	4,108
Social security costs	472	416
Other pension costs (see note 6)	101	92
	5,264	4,616

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 £100,626 (1994: £92,101).

7 Interest receivable and similar income

	1995 £'000	1994 £'000
Bank interest receivable	44 =	49 =

8 Interest payable and similar charges

	1995 £'000	1994 £'000
On finance leases and hire purchase contracts	9 =	6 =

In addition, included within cost of sales is interest on finance leases and hire purchase contracts of £41,896 (1994: £38,215).

9 Profit on ordinary activities before taxation

	1995 £'000	1994 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets	441	367
Auditors' remuneration for audit services	13	9
Hire of other assets - operating leases	84	83
Profit on disposal of tangible fixed assets	(39) =	(19) =

The auditors received remuneration of £8,155 (1994: £8,895) in respect of non-audit services during the year.

10 Tax on profit on ordinary activities

	1995 £'000	1994 £'000
United Kingdom corporation tax at 33% (1994: 33%):		
Current	338	257
Over provision in respect of prior years:		
Current	(4) =	- =
	334 =	257 =

The company does not have a deferred tax liability.

11 Dividends

	1995 £'000	1994 £'000
Paid interim special dividend of £6.17 per share (1994: Nil)	500	-
Declared final dividend of £4.37 per share (1994: £3.54 per share)	354	287
	<u>854</u>	<u>287</u>

12 Tangible fixed assets

	Freehold land and buildings £'000	Leasehold premises £'000	Plant and equipment £'000	Motor vehicles £'000	Office equipment £'000	Total £'000
Cost						
At 1 January 1995	127	151	217	1,256	425	2,176
Additions	9	109	19	625	108	870
Disposals	-	-	-	(386)	(7)	(393)
At 31 December 1995	<u>136</u>	<u>260</u>	<u>236</u>	<u>1,495</u>	<u>526</u>	<u>2,653</u>
Depreciation						
At 1 January 1995	3	115	161	544	281	1,104
Charge for year	7	17	22	338	57	441
Disposals	-	-	-	(274)	(5)	(279)
At 31 December 1995	<u>10</u>	<u>132</u>	<u>183</u>	<u>608</u>	<u>333</u>	<u>1,266</u>
Net book value						
At 31 December 1995	<u>126</u>	<u>128</u>	<u>53</u>	<u>887</u>	<u>193</u>	<u>1,387</u>
At 31 December 1994	<u>124</u>	<u>36</u>	<u>56</u>	<u>712</u>	<u>144</u>	<u>1,072</u>

The net book value of tangible fixed assets includes an amount of £879,862 (1994: £691,453) in respect of assets held under finance leases and hire purchase contracts. Depreciation charged on these assets during the year was £314,350 (1994: £251,943).

13 Fixed asset investment

	1995 £'000	1994 £'000
Investment in Derry London Limited	-	20
	<u> </u>	<u> </u>

Heatsave Limited own 100% of the issued share capital of Derry London Limited, a company registered in England and Wales which has remained dormant throughout the year. The company is in the process of being struck off. Consolidated financial statements have not been prepared, as in the opinion of the directors, the results of its dormant subsidiary would not materially impact upon the financial statements shown.

14 Stocks and work in progress

	1995 £'000	1994 £'000
Stock of oil	18	18
Work in progress	637	487
Consumables	19	13
	<u> </u>	<u> </u>
	674	518
	<u> </u>	<u> </u>

15 Debtors

	1995 £'000	1994 £'000
Amounts falling due within one year		
Trade debtors	2,755	2,198
Other debtors	25	20
Prepayments and accrued income	324	274
	<u> </u>	<u> </u>
	3,104	2,492
Amounts falling due after one year		
Advance Corporation Tax recoverable	89	72
	<u> </u>	<u> </u>
	3,193	2,564
	<u> </u>	<u> </u>

16 Creditors: amounts falling due within one year

	1995 £'000	1994 £'000
Trade creditors	1,384	1,174
Amounts owed to subsidiary undertakings	-	20
Taxation and social security (see (a) below)	410	429
Obligations under finance leases	325	251
Other creditors	252	289
Dividends payable	354	287
Accruals	613	484
Deferred income	806	943
	<u>4,144</u>	<u>3,877</u>

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

	1995 £'000	1994 £'000
United Kingdom		
Corporation Tax payable	141	210
PAYE and social security	180	147
Advance Corporation Tax payable	89	72
	<u>410</u>	<u>429</u>

17 Creditors: amounts falling due after more than one year

	1995 £'000	1994 £'000
Finance lease and hire purchase contracts	<u>237</u>	<u>191</u>

18 Provisions for liabilities and charges

	Replacement guarantee provision £'000
At 1 January 1995	31
Transferred from profit and loss account in year	5
Released in year	-
	<u>—</u>
At 31 December 1995	<u>36</u>

19 Called up share capital

	Ordinary shares of £1 each		Convertible cumulative preferred ordinary shares of £1 each	
	1995	1994	1995	1994
Authorised				
- value	<u>£62,000</u>	<u>£62,000</u>	<u>£27,000</u>	<u>£27,000</u>
- number	<u>62,000</u>	<u>62,000</u>	<u>27,000</u>	<u>27,000</u>
Allotted, called up and fully paid				
- value	<u>£54,000</u>	<u>£54,000</u>	<u>£27,000</u>	<u>£27,000</u>
- number	<u>54,000</u>	<u>54,000</u>	<u>27,000</u>	<u>27,000</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.

20 Directors' interests in shares of Heatsave Limited

The interests of the directors in the shares of the company at 31 December 1995, together with their interests at 1 January 1995 and movements in their share options in the year were:

	Shares		Share options			
	1 January 1995	31 December 1995	1 January 1995	Granted	Exercised	31 December 1995
(£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.

21 Profit and loss account

The movements in retained profits were as follows:

	£'000
At 1 January 1995	1,038
Retained loss for the year	(209)
At 31 December 1995	829

22 Reconciliation of movements in equity shareholders' funds

	1995 £'000	1994 £'000
Profit for the financial year	645	482
Dividends	(854)	(287)
	(209)	195
Opening equity shareholders' funds	1,119	924
Closing equity shareholders' funds	910	1,119

23 Analysis of changes in financing during the year

	Loans and finance lease obligations 1995 £'000	Loans and finance lease obligations 1994 £'000
At 1 January	442	401
Inception of finance lease contracts	480	350
Repayments of principal on finance leases	(360)	(309)
At 31 December	<u>562</u>	<u>442</u>

24 Cash and cash equivalents

	1995 £'000	1994 £'000
Changes during the year		
At 1 January	1,044	1,020
Net cash (outflow)/inflow	(971)	24
At 31 December	<u>73</u>	<u>1,044</u>

	1995 £'000	1995 Change in year £'000	1994 £'000	1994 Change in year £'000	1993 £'000
Analysis of balances at 31 December					
Cash at bank and in hand	<u>73</u>	<u>(971)</u>	<u>1,044</u>	<u>24</u>	<u>1,020</u>

25 Contingent liabilities and financial commitments

(a)	1995 £'000	1994 £'000
Commitments under finance leases entered into after 31 December 1995	38	136
	<u> </u>	<u> </u>

b) At 31 December 1995 the company had annual commitments in respect of leasehold buildings, under non-cancellable operating leases as follows:

	1995 £'000	1994 £'000
Expiring within one year	-	24
Expiring between one and five years	59	50
Expiring in over five years	35	12
	<u> </u>	<u> </u>
	94	86
	<u> </u>	<u> </u>