

# Lovat Europe Limited

## FINANCIAL STATEMENTS

for the year ended

28 February 2007



Company Registration No 2594307

# Lovat Europe Limited

## DIRECTORS AND ADVISORS

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### DIRECTORS

R P Lovat  
S Duncombe

### SECRETARY

Clifford Chance Secretaries Limited (resigned 21 March 2007)  
S Duncombe (appointed 22 March 2007)

### COMPANY NUMBER

2594307 (England and Wales)

### REGISTERED OFFICE

Until 21 March 2007

10 Upper Bank Street  
London  
E14 5JJ

From 22 March 2007

7 Newlands Court  
Burntwood Business Park  
Burntwood  
Staffordshire  
WS7 3GF

### AUDITORS

Baker Tilly UK Audit LLP  
Chartered Accountants  
City Plaza  
Temple Row  
Birmingham  
B2 5AF

# Lovat Europe Limited

## DIRECTORS' REPORT

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The directors submit their report and the financial statements of Lovat Europe Limited for the year ended 28 February 2007

### PRINCIPAL ACTIVITIES

The principal activities of the company during the year were that of the provision of consultancy services on tunnelling and supply of machines and spare parts for tunnelling machinery

### REVIEW OF THE BUSINESS

With four machines running on the Murphy Lower Lea Valley Project and one on Amec's Dockland Light Rail Extension from King George V Station to Woolwich Arsenal, spare parts and support service sales have been good in the last year

### PRINCIPAL RISKS AND UNCERTAINTIES

The key business risks are from a very limited number of European competitors although we remain extremely strong in the UK market with a very high success rate on any new machine opportunities

### FUTURE OUTLOOK

Sales of a new machine to Morgan for the Croydon Cable Tunnel and anticipated sale of an additional machine for the Thames Water Honor Oak to Brixton LWRM extension together with spare parts and support service will provide solid income for the coming year

### KEY PERFORMANCE INDICATORS ("KPIs")

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the company

### RESULTS AND DIVIDENDS

The trading profit for the year after taxation was £74,660 (2006 loss £7,731)

The directors do not recommend the payment of a dividend

### DIRECTORS

The following directors have held office since 1 March 2006 -

R P Lovat (Canadian)  
S Duncombe (appointed 28 February 2007)

### DIRECTOR'S INTERESTS IN SHARES

The directors have no interest in the share capital of the company at 28 February 2007

The directors have no right to acquire shares in the company

None of the directors has any interest in the shares of any group company that are required to be disclosed in accordance with the Companies Act 1985

# Lovat Europe Limited

## DIRECTORS' REPORT

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### AUDITORS

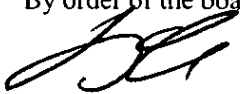
The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

### STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. They have confirmed that they have taken all the steps that they ought to have taken as directors in order to be aware of any relevant audit information and to establish that it has been communicated to the auditor.

The directors' report has been prepared in accordance with the special provision of Part VII of the Companies Act 1985 relating to small companies.

By order of the board



R P Lovat  
Director

29 May

2007

# Lovat Europe Limited

## DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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The directors are responsible for preparing the Annual Report and the Financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. 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 of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and estimates that are reasonable and prudent,
- c prepare the financial statements 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 financial statements comply with the requirements of the Companies Act 1985. The directors 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.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LOVAT EUROPE LIMITED

We have audited the financial statements on pages 6 to 14

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs at 28 February 2007 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

*Baker Tilly UK Audit LLP*

Registered Auditor  
Chartered Accountants  
City Plaza  
Temple Row  
Birmingham  
B2 5AF

*19 July 2007*

**Lovat Europe Limited**  
**PROFIT AND LOSS ACCOUNT**  
for the year ended 28 February 2007

	<i>Notes</i>	2007 £	2006 £
TURNOVER	1	443,342	310,700
Cost of sales		(246,971)	(222,442)
		<hr/>	<hr/>
GROSS PROFIT		196,371	88,258
Administration expenses		(107,496)	(96,336)
		<hr/>	<hr/>
OPERATING PROFIT/(LOSS)		88,875	(8,078)
Investment income	2	435	147
		<hr/>	<hr/>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	3	89,310	(7,931)
Taxation	5	(14,650)	200
		<hr/>	<hr/>
RETAINED PROFIT/(LOSS) FOR THE YEAR	11	74,660	(7,731)
		<hr/>	<hr/>

The operating profit for the year arises from the company's continuing operations

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the profit and loss account

# Lovat Europe Limited

## BALANCE SHEET

28 February 2007

	<i>Notes</i>	2007 £	2006 £
<b>FIXED ASSETS</b>			
Tangible assets	6	571	1,034
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Debtors	7	52,799	11,070
Cash at bank and in hand		64,585	16,330
		<hr/>	<hr/>
		117,384	27,400
<b>CREDITORS</b> Amounts falling due within one year	8	(35,706)	(20,845)
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		81,678	6,555
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		82,249	7,589
		<hr/> <hr/>	<hr/> <hr/>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	9	100	100
Profit and loss account	10	82,149	7,489
		<hr/>	<hr/>
<b>SHAREHOLDERS' FUNDS</b>	11	82,249	7,589
		<hr/> <hr/>	<hr/> <hr/>

These financial statements are prepared in accordance with the special provision of Part VII of the Companies Act 1985 relating to small companies

The financial statements on pages 6 to 14 were approved by the board of directors and authorised for issue on 29 May 2007 and are signed on its behalf by



R P Lovat  
Director



# Lovat Europe Limited

## ACCOUNTING POLICIES

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### BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention

### GOING CONCERN

The financial statements are prepared on a going concern basis which the directors believe to be appropriate as the ultimate parent undertaking of the company has confirmed its willingness to provide funding to enable the company to meet its day to day expenditure for at least twelve months from the date of approval of these financial statements

As with any group company placing reliance on other group undertakings for financial support, the directors acknowledges that there can be no certainty that this support will continue although, at the date of approval of these financial statements, the directors have no reason to believe that it will not do so

### TANGIBLE FIXED ASSETS

Fixed assets are stated at historical cost

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows -

Equipment	over 5 years
Fixtures and fittings	over 10 years

### FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account

### LEASED ASSETS

All leases are "operating leases" and the annual rentals are charged to the profit and loss account on a straight line basis over the lease term

### TURNOVER

Turnover represents the invoiced value, net of Value Added Tax, of goods sold and services provided to customers

### DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

Deferred tax assets are recognised to the extent that they are regarded as recoverable. They are regarded as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

# Lovat Europe Limited

## ACCOUNTING POLICIES (continued)

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### PENSION CONTRIBUTIONS

The company contributes to the personal pension scheme of each employee. The pension cost charge represents contributions paid by the company to the schemes.

# Lovat Europe Limited

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2007

### 1 TURNOVER AND PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

The company's turnover and profit before taxation were all derived from its principal activities  
Sales were made in the following geographical markets

	2007 £	2006 £
United Kingdom	30,610	7,591
Canada	412,732	303,109
	<u>443,342</u>	<u>310,700</u>

### 2 INVESTMENT INCOME

	2007 £	2006 £
Interest receivable	<u>435</u>	<u>147</u>

### 3 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

	2007 £	2006 £
Profit/(loss) on ordinary activities before taxation is stated after charging		
Depreciation and amounts written off tangible fixed assets		
Charge for the year		
owned assets	463	593
Operating lease rentals		
Plant and machinery	9,148	11,134
Land and buildings	7,667	6,125
Auditors' remuneration	6,375	6,200
	<u></u>	<u></u>

### 4 EMPLOYEES

	2007 £	2006 £
The average weekly number of persons (including directors) employed by the company during the year was		
Management	<u>5</u>	<u>5</u>

# Lovat Europe Limited

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2007

4	EMPLOYEES ( <i>continued</i> )	2007 £	2006 £
	Staff costs for the above persons		
	Wages and salaries	193,485	189,025
	Social security costs	22,278	21,783
	Pension costs	5,962	-
		<hr/>	<hr/>
		221,725	210,808
		<hr/>	<hr/>
	The directors did not receive any remuneration during the year		
5	TAXATION	2007 £	2006 £
	Current tax		
	UK corporation tax on profits/(losses) of the period at 19% (2006 30%)	14,650	-
	Adjustments in respect of previous periods	-	-
		<hr/>	<hr/>
	Total current tax	14,650	-
		<hr/>	<hr/>
	Deferred tax		
	Origination and reversal of timing differences	-	(200)
		<hr/>	<hr/>
	Tax on profit/(loss) on ordinary activities	14,650	(200)
		<hr/>	<hr/>

**Lovat Europe Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 28 February 2007**

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**5 TAXATION (continued)**

Factors affecting tax charge for the period

The tax assessed for the period is lower (2006 lower) than the standard rate of corporation tax in the UK (19%) (2006 30%) as explained below

	2007 £	2006 £
Profit/(loss) on ordinary activities before tax	89,310	(7,931)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK (19%) (2006 30%)	16,969	(2,379)
Effects of		
Expenses not deductible for tax purposes	1,002	2,153
Capital allowances in excess of depreciation	21	111
Adjustment to tax charge in respect of previous period	-	160
Small companies rate	-	(45)
Utilised losses	(3,383)	-
Rounding	41	-
Current tax charge for the period	14,650	-

**6 TANGIBLE FIXED ASSETS**

	<i>Equipment</i> £	<i>Fixtures and fittings</i> £	<i>Total</i> £
Cost			
At 1 March 2006 and 28 February 2007	7,465	554	8,019
Depreciation			
At 1 March 2006	6,431	554	6,985
Charged in the year	463	-	463
At 28 February 2007	6,894	554	7,448
Net book value			
At 28 February 2007	571	-	571
At 28 February 2006	1,034	-	1,034

**Lovat Europe Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 28 February 2007**

7	DEBTORS	2007 £	2006 £
	Due within one year		
	Trade debtors	27,166	6,815
	Other debtors	7,354	3,205
	Prepayments and accrued income	1,803	1,050
	Amounts due from group undertakings	16,476	-
		<u>52,799</u>	<u>11,070</u>
8	CREDITORS Amounts falling due within one year	2007 £	2006 £
	Bank overdraft	4,881	-
	Trade creditors	2,799	3,781
	Amounts owed to group undertaking	-	2,815
	Corporation tax	14,650	-
	Other taxation and social security costs	5,813	5,671
	Accruals and deferred income	7,563	8,578
		<u>35,706</u>	<u>20,845</u>
9	SHARE CAPITAL	2007 £	2006 £
	Authorised 100 ordinary shares of £1 each	100	100
	Allotted, issued and fully paid 100 ordinary shares of £1 each	100	100
	Share capital consists entirely of equity interests		
10	PROFIT AND LOSS ACCOUNT	2007 £	2006 £
	1 March 2006	7,489	15,220
	Retained profit/(loss) for the year	74,660	(7,731)
	28 February 2007	<u>82,149</u>	<u>7,489</u>

# Lovat Europe Limited

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 28 February 2007

11	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2007 £	2006 £
	Profit/(loss) for the financial year	74,660	(7,731)
	Net addition/(reduction) in shareholders' funds	74,660	(7,731)
	Opening shareholders' funds	7,589	15,320
	Closing shareholders' funds	82,249	7,589

## 12 COMMITMENTS UNDER OPERATING LEASES

At 28 February 2007 the company had annual commitments under non-cancellable operating leases as follows

	2007 £	2006 £
Land and buildings expiring within 1 year	2,000	7,667
Motor vehicles expiring within 1 year	2,800	4,625
expiring between 1 and 2 years	6,089	4,800

## 13 RELATED PARTY TRANSACTIONS

During the year the company traded with its parent undertaking, Lovat Inc. The aggregate sales to this company for the year ended 28 February 2007 amounted to £412,732 (2006 £303,109) and purchases amounted to £Nil (2006 £Nil). At 28 February 2007, the net amount owed by the parent company was £16,476 which comprises of £16,476 net and £Nil VAT (2006 creditor £2,815).

## 14 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The ultimate holding company and controlling party is Lovat Inc, a company incorporated in Canada.

## 15 PENSION COMMITMENTS

The company contributes to the personal pension scheme of each employee. The scheme assets are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable by the company and amounted to £5,962 (2006 £Nil). There were no prepaid contributions at the balance sheet date.