

COMPANY NUMBER 2658963

ROLLS-ROYCE OVERSEAS HOLDINGS LIMITED

Annual Report
for the Year Ended 31 December 1998

Directors on
3 March 1999 :

J R Ashfield
M M Sufrin
J Warren

Secretary :

J R Ashfield



Registered Office : Moor Lane, Derby DE24 8BJ

ROLLS-ROYCE OVERSEAS HOLDINGS LIMITED

REPORT OF THE DIRECTORS

The directors present their Annual Report for the year ended 31 December 1998.

DIRECTORS RESPONSIBILITY FOR FINANCIAL STATEMENTS

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for maintaining 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. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

PRINCIPAL ACTIVITY

The principal activity of the Company during the year was that of a holding company.

YEAR 2000

The Company is participating in the Year 2000 project being undertaken by its parent company, Rolls-Royce plc.

The Company may, of course, be impacted in this matter by the actions or inaction of suppliers, partners and customers, and work to ensure that they are prepared or are taking the appropriate actions is also underway.

No absolute guarantee that the problem has been eliminated can be given, but we believe that the majority of our businesses and of our principal commercial relationships are well advanced in this area.

RESULTS

The results for the year are given on page 5 of the financial statements. The directors do not recommend payment of a dividend.

DIRECTORATE

The directors of the Company during the year were as follows.

J R Ashfield	
M M Sufrin	
J Warren	- appointed 17 April 1998
A E West	- resigned 30 April 1998

ROLLS-ROYCE OVERSEAS HOLDINGS LIMITED

DIRECTORS' SHARE INTERESTS

None of the directors, or their immediate family, had any beneficial interest in the shares of the Company during the year.

The beneficial interests of directors holding office at 31 December 1998, including immediate family, in the ordinary share capital of Rolls-Royce plc are as follows.

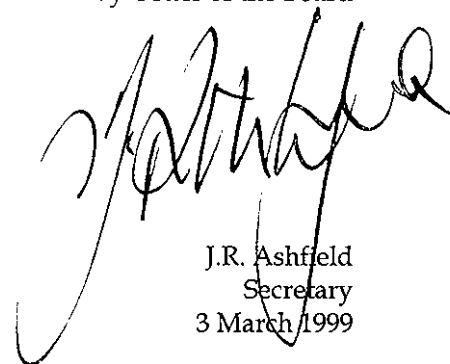
	<u>HOLDINGS</u>		<u>OPTIONS</u>			
	<u>* 1. 1. 98</u>	<u>31. 12. 98</u>	<u>* 1. 1. 98</u>	<u>Granted</u>	<u>Exercised</u>	<u>31.12.98</u>
J R Ashfield	403	421	3,386	-	-	3,386
M M Sufrin	665	665	61,284	-	-	61,284
J Warren	-	750	9,905	-	750	9,155

* or date of appointment if later

AUDITORS

Elective Resolutions are in force to dispense with the obligation of laying the Annual Report before the Company in general meeting, appointing auditors annually, and holding Annual General Meetings.

By Order of the Board



J.R. Ashfield
Secretary
3 March 1999

ROLLS-ROYCE OVERSEAS HOLDINGS LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF

ROLLS-ROYCE OVERSEAS HOLDINGS LIMITED

We have audited the financial statements on pages 5 to 10.

Respective responsibilities of directors and auditors

As described on page 2 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 as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

**KPMG Audit Plc
Chartered Accountants,
Registered Auditor**

London

~~3 March~~ 1999

16 April

ROLLS-ROYCE OVERSEAS HOLDINGS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	<u>1998</u> £000	<u>1997</u> £000
Profit on sale of businesses	5	999	-
		<hr/>	<hr/>
Profit on ordinary activities before taxation		999	-
		<hr/>	<hr/>
Taxation on profit on ordinary activities	3	-	511
		<hr/>	<hr/>
Profit on ordinary activities after taxation		999	511
		<hr/>	<hr/>
Dividends paid and proposed		-	-
		<hr/>	<hr/>
Transfer to reserves		999	511
		<hr/>	<hr/>

1998 results are derived from discontinued operations and 1997 results from continuing operations.

There are no recognised gains or losses other than those disclosed in the profit and loss account above.

The results for the year have been derived on an unmodified historical cost basis.

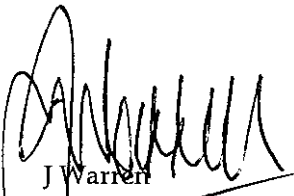
The notes on pages 8 to 10 form part of these financial statements.

ROLLS-ROYCE OVERSEAS HOLDINGS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1998

	Notes	<u>1998</u> £000	<u>1997</u> £000
Fixed assets			
Investments - subsidiary undertakings	5	114,177	66,032
- joint ventures	5	17,106	15,457
		<u>131,283</u>	<u>81,489</u>
Current assets			
Debtors	6	1,504	505
Creditors - amounts falling due within one year	7	(10)	(135)
		<u>1,494</u>	<u>370</u>
Net current assets			
		<u>1,494</u>	<u>370</u>
Total assets less current liabilities		132,777	81,859
Provisions for liabilities and charges - deferred taxation		-	-
		<u>132,777</u>	<u>81,859</u>
Net assets			
		<u>132,777</u>	<u>81,859</u>
Capital and reserves			
Called up share capital	9	17	10
Share premium account	10	131,250	81,338
Profit and Loss account		1,510	511
		<u>132,777</u>	<u>81,859</u>
Equity shareholders' funds			
		<u>132,777</u>	<u>81,859</u>

These financial statements were approved by the Board of Directors on 3 March 1999, and are signed on its behalf by :


 J Warren
 Director

The notes on pages 8 to 10 form part of these financial statements.

ROLLS-ROYCE OVERSEAS HOLDINGS LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 31 DECEMBER 1998

	<u>1998</u> £000	<u>1997</u> £000
Profit for the financial year	999	511
New share capital subscribed	49,919	2,419
	<hr/>	<hr/>
Net addition to shareholders' funds	50,918	2,930
Opening shareholders' funds	81,859	78,929
	<hr/>	<hr/>
Closing shareholders' funds	132,777	81,859
	<hr/>	<hr/>

ROLLS-ROYCE OVERSEAS HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

1. Principal Accounting Policies

a) Basis of accounting

The financial statements have been prepared on the historical cost basis, and in accordance with applicable accounting standards.

b) Cash Flow Statement

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking.

c) Related Party Transactions

Under Financial Reporting Standard 8, the Company is exempt from the requirement to disclose related party transactions with the Rolls-Royce group and its associates on the grounds that it is a wholly owned subsidiary undertaking.

d) Taxation

Provision is made at the rate for the year for United Kingdom Corporation Tax, for overseas taxation on profits of overseas branches and for deferred taxation at the projected rate on all timing differences, where a liability is expected to arise in the foreseeable future.

e) Group accounts exemption

The Company is exempted from preparing group accounts under Section 228, Companies Act 1985, as it is a wholly-owned subsidiary of Rolls-Royce plc.

2. Employee Information

The Company had no employees during the year ended 31 December 1998 (1997: NIL). All necessary services are provided by Rolls-Royce plc.

3. Taxation on Profit on Ordinary Activities

	<u>1998</u> <u>£000</u>	<u>1997</u> <u>£000</u>
In respect of the year:		
Group Relief @ 31.49%	300	480
Group Relief not paid for	(300)	(480)
Deferred Taxation - Transfer (from)/to	-	(511)
	<u>-</u>	<u>(511)</u>

4. Directors' Emoluments

No emoluments were paid to the directors by the company in respect of their services.

ROLLS-ROYCE OVERSEAS HOLDINGS LIMITED

5. Fixed Asset Investments

	Shares in Subsidiary Undertakings	Shares in Joint Ventures	Total
<u>Cost</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
At beginning of year	66,032	15,457	81,489
Additions	48,145	1,850	49,995
Disposals	-	(201)	(201)
At end of year	<u>114,177</u>	<u>17,106</u>	<u>131,283</u>

During the year the Company acquired/disposed of shares in the subsidiary undertakings and joint ventures listed below:

<u>Subsidiary Undertakings</u>	<u>Number of Shares acquired/(disposed)</u>	<u>Class</u>	<u>Cost of Investment £000</u>
Rolls-Royce North America Inc	500	Ordinary	48,145
<u>Joint Ventures</u>			
International Engine Component Overhaul Pte. Ltd	2,750,000	Ordinary	1,774
PT Dwipangga Reyrolle Indonesia (acquired and disposed of within the year)	10,000 (10,000)	Ordinary Ordinary	76 (76)
EPE Reyrolle (Malaysia) Sdn Bhd	(150,000)	Ordinary	(40)
Jordan Electrical Switchgear Ltd	(200,000)	Ordinary	(85)
			<u>49,794</u>

The proceeds from the above disposal is £1,200,000, hence the profit on disposal is £999,000.

A full list of the Company's interest in subsidiary undertakings and joint ventures is contained in the attached Group Hierarchy.

6. Debtors

	<u>1998 £000</u>	<u>1997 £000</u>
Amounts owed by group undertakings:		
Fellow subsidiary undertakings	999	-
Parent undertaking	505	505
	<u>1,504</u>	<u>505</u>

ROLLS-ROYCE OVERSEAS HOLDINGS LIMITED

7.	<u>Creditors: Amounts falling due within one year</u>	1998 £000	1997 £000
	Trade creditors	10	-
	Amounts owed to group undertakings:		
	Parent Company	-	-
	Fellow subsidiary undertakings	-	135
		10	135

8. Auditors' Remuneration

Auditors' remuneration is borne by the company's parent undertaking Rolls-Royce plc.

9. Share Capital

	1998 £000	1997 £000
Authorised	10,000	10,000
Issued	17	10

Ordinary shares of £1 each

All issued shares are fully paid with the exception of 1233 shares issued at a premium of £11,353.42 per share of which £1,621.03 per share is paid up.

10.	<u>Share Premium</u>	£000
	At January 1, 1998	81,338
	Arising on share issues	49,912
	At December 31, 1998	131,250

11. Group Treasurership Agreement

The Company participates in the Rolls-Royce Group banking agreement under which cleared sterling funds are borrowed from or deposited with the Parent Company via a daily transfer. Under the agreement the Company bears or earns interest at the National Westminster Bank plc base rate.

12. Deferred Taxation

No potential deferred taxation liability existed as at 31 December 1998 or 31 December 1997.

13. Ultimate Parent Company

The Company's ultimate parent company is Rolls-Royce plc, registered in England and Wales. Copies of Rolls-Royce plc's accounts are available from Rolls-Royce plc, PO Box 31, Derby, DE24 8BJ.

Group Hierarchy

ROLLS-ROYCE OVERSEAS HOLDINGS LIMITED

Company Name	Trading Status	(%) Held		Ultimate Parent	Country Description
		Holding Company	(%) Held		
1 > HONG KONG AERO ENGINE SERVICES LIMITED	Trading- JV	50.00	50.00	Hong Kong	
1 > INTERNATIONAL ENGINE COMPONENT OVERHAUL PTE LTD	Trading - JV	50.00	50.00	Singapore	
1 > NIGHTINGALE INSURANCE LIMITED	Trading	100.00	100.00	Guernsey	
1 > ROLLS-ROYCE (EUROPEAN INVESTMENTS) LIMITED	Holding Company	100.00	100.00	England	
1 > LYLKA ROLLS-ROYCE LIMITED	JV- in process of	50.00	50.00	Russia	
1 > ROLLS-ROYCE (INTERNATIONAL INVESTMENTS) LIMITED	Holding Company	100.00	100.00	England	
1 > ROLLS-ROYCE INVESTMENTS INC.	Non Trading	100.00	100.00	United States of America	
1 > ROLLS-ROYCE NORTH AMERICA INC.	Active	100.00	100.00	United States of America	
2 > ALLISON ENGINE COMPANY, INC	Active	100.00	100.00	United States of America	
3 > ALLISON ADVANCED DEVELOPMENT COMPANY, INC	Trading	100.00	100.00	United States of America	
3 > LIGHT HELICOPTER TURBINE ENGINE COMPANY	Trading - Joint V	50.00	50.00	United States of America	
2 > DATA SYSTEMS & SOLUTIONS, LLC	Trading - Joint V	50.00	50.00	United States of America	
3 > DATA SYSTEMS & SOLUTIONS LIMITED	Trading - Joint V	100.00	100.00	England	
2 > GEAR SYSTEMS INC	Active	100.00	100.00	United States of America	
2 > PEBBLES ELECTRIC LLC	Dormant - to be d	100.00	100.00	United States of America	
2 > ROLLS-ROYCE ASSET MANAGEMENT INC	Active	100.00	100.00	United States of America	
2 > ROLLS-ROYCE CAPITAL INC	Active	100.00	100.00	United States of America	
2 > ROLLS-ROYCE CREDIT CORPORATION	Active	100.00	100.00	United States of America	
3 > ROLLS-ROYCE INC	Active	100.00	100.00	United States of America	
3 > R-H COMPONENT TECHNOLOGIES, L.C.	Dormant (JV)	50.00	50.00	United States of America	
3 > ROLLS-ROYCE INDUSTRIAL POWER INC	Dormant - to be d	100.00	100.00	United States of America	
4 > THAILAND INVESTMENT COMPANY	Investment Compan	100.00	100.00	Thailand	
5 > NEI (THAILAND) LIMITED	Dormant	51.00	100.00	Thailand	
3 > ROLLS-ROYCE PRODUCT SUPPORT CANADA INC	Dormant - to be d	100.00	100.00	Canada	
3 > PRD CORP	Dormant	100.00	100.00	United States of America	
4 > SOUTH FLORIDA COGENERATION ASSOCIATES	Trading - JV	50.00	50.00	United States of America	
3 > TEXAS AERO ENGINE SERVICES LIMITED	Trading - JV	50.00	50.00	United States of America	
2 > ROLLS-ROYCE INDUSTRIAL & MARINE POWER INC	Active	100.00	100.00	United States of America	
2 > ROLLS-ROYCE POWER VENTURES INC	Active	100.00	100.00	United States of America	
2 > SYNCROLIFT INC	Active	100.00	100.00	United States of America	
1 > ROLLS-ROYCE PTE LIMITED	Active	100.00	100.00	Singapore	
1 > ROLLS-ROYCE TECHNICAL SUPPORT SARL	Trading	100.00	100.00	France	