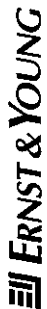


# Rolls Laval Heat Exchangers Limited

## Report and Accounts

31 December 1995

*Registered Number: 2902683*

 ERNST & YOUNG



# Rolls Laval Heat Exchangers Limited

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## DIRECTORS' REPORT

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

### PRINCIPAL ACTIVITY

The principal activity of the company is the design, development and manufacture of heat exchangers.

### REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company made a loss after tax of £1,130,540. The directors do not recommend the payment of a dividend, leaving £1,130,540 to be debited against reserves.

Whilst the targeted market has been slower to respond to the new product than originally anticipated, the directors are confident that order intake will gradually increase throughout 1996.

### DIRECTORS

The directors who served during the year were as follows:

A R M Roulstone

G Gould

U Granstrand

N Bosrup

### DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

None of the directors had any beneficial interest in the share capital of the company, at any time during the year.

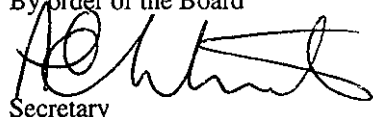
### FIXED ASSETS

Details of movements in fixed assets are given in note 7 to the accounts.

### AUDITORS

During the year Ernst & Young served as auditors of the company. A resolution to re-appoint Ernst & Young as auditors will be proposed at the Annual General Meeting.

By order of the Board



Secretary

14 February 1996

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE  
ACCOUNTS

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; and,
- 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. 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.

## **REPORT OF THE AUDITORS**

to the members of Rolls Laval Heat Exchangers Limited

We have audited the accounts on pages 4 to 11 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 6 and 7

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

As described on page 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

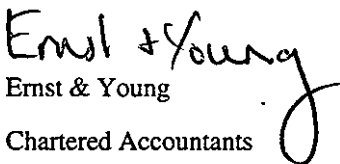
### **Basis of opinion**

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 1995 and of its loss for the year to 31 December 1995 and have been properly prepared in accordance with the Companies Act 1985.

  
Ernst & Young

Chartered Accountants

Registered Auditor

Birmingham

14 February 1996

# Rolls Laval Heat Exchangers Limited

## PROFIT AND LOSS ACCOUNT

for the year to 31 December 1995

		<i>10 months ended</i>	
		<i>31 December</i>	
	<i>Notes</i>	<i>1995</i>	<i>1994</i>
		<i>£</i>	<i>£</i>
<b>TURNOVER</b> - continuing operations	2	-	-
Cost of sales		430,129	536,243
<b>GROSS LOSS</b>		430,129	536,243
Administrative costs		1,285,259	737,865
<b>OPERATING LOSS</b> - continuing operations	3	1,715,388	1,274,108
Interest payable		179,173	10,325
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		1,894,561	1,284,433
Taxation credit	6	(764,021)	(278,167)
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		1,130,540	1,006,266
Dividend		-	-
<b>TRANSFERRED FROM RESERVES</b>	14	1,130,540	1,006,266

A statement of movements on reserves is given in note 14 to the accounts.

There are no recognised gains or losses attributable to the shareholders other than the loss of £1,130,540 in the year to 31 December 1995, and the loss of £1,006,266 in the period to 31 December 1994.

# Rolls Laval Heat Exchangers Limited

## BALANCE SHEET

at 31 December 1995

	Notes	1995 £	1994 £
<b>FIXED ASSETS</b>			
Tangible fixed assets	7	2,315,615	846,643
<b>CURRENT ASSETS</b>			
Stocks and raw materials	8	79,427	-
Debtors	9	1,443,278	391,260
Called up share capital not paid	13	-	5,000
Cash at bank and in hand		1,377	237
		<u>1,524,082</u>	<u>396,497</u>
<b>CREDITORS: amounts falling due within one year</b>	10	<u>(811,362)</u>	<u>(1,703,163)</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>712,720</u>	<u>(1,306,666)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,028,335</u>	<u>(460,023)</u>
<b>CREDITORS: amounts falling due after more than one year</b>	11	<u>(5,000,000)</u>	<u>-</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	12	<u>(155,141)</u>	<u>(536,243)</u>
		<u>(2,126,806)</u>	<u>(996,266)</u>
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	13	10,000	10,000
Profit and loss account - deficit	14	<u>(2,136,806)</u>	<u>(1,006,266)</u>
		<u>(2,126,806)</u>	<u>(996,266)</u>

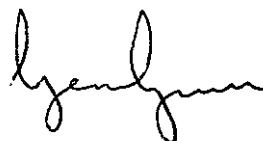
There are no shareholders' funds attributable to non-equity interests.

Approved by the board on 14 February 1996 and signed on its behalf by:

Chairman



Director



## NOTES TO THE ACCOUNTS

at 31 December 1995

### 1. ACCOUNTING POLICIES

#### *Fundamental accounting concept*

The company is dependent on continuing finance being made available by its bankers to enable it to continue operating and to meet its liabilities as they fall due.

The joint venture parties have together guaranteed bank loan facilities of £5,500,000 and bank overdraft facilities of £500,000, drawings under which amount to £5,000,000 and £106,694 respectively at 31 December 1995. The directors believe that it is therefore appropriate to prepare the accounts on a going concern basis.

#### *Basis of preparation*

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### *Tangible fixed assets*

Depreciation has been calculated to write off the cost of the assets over their estimated useful lives on a straight line basis at the following rates:

Improvements to leasehold property	10 years
Fixtures and fittings	10 years
Computer equipment	3 years
Office equipment	5 years
Tooling	5 years
Plant and machinery	10 years

#### *Stocks*

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition, and net realisable value as follows:

Raw materials, consumables and goods for resale	- purchase cost on a first-in, first out basis.
Work in progress	- cost of direct materials and labour plus attributable overheads on a normal level of activity.

#### *Long-term contracts*

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs (as defined in Stocks above) as contract activity progress. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

#### *Foreign currencies*

All foreign currency balances are translated at the rates ruling at the balance sheet date and the resulting exchange differences are dealt with in the profit and loss account.

#### *Taxation*

Provision is made at the rate for the year for United Kingdom corporation tax and for deferred tax on all timing differences, where a liability is expected to arise in the foreseeable future.

# Rolls Laval Heat Exchangers Limited

## NOTES TO THE ACCOUNTS

at 31 December 1995

### *Deferred taxation*

Deferred taxation is provided using the liability method on timing differences arising from the treatment of certain items for tax purposes and their treatment for financial statement purposes.

Provision is made where in the opinion of the directors a liability will arise in the foreseeable future.

### *Operating leases*

Rentals paid under operating leases are charged to income as incurred.

### *Research and development*

Research and development expenditure is written off as incurred.

## 2. TURNOVER

There has been no turnover for the year ended to 31 December 1995.

## 3. OPERATING LOSS

a) This is stated after charging

	1995	1994
	£	£
Development costs	371,263	129,950
Depreciation charge	95,984	11,344
Auditors' remuneration	3,500	4,000
Operating lease rentals - plant and machinery	4,445	3,459
- other	26,000	20,000
	<u>445,337</u>	<u>174,817</u>

b) Directors remuneration

None of the directors received any emoluments for their services to the company.

## 4. EMPLOYEES

	1995	1994
	£	£
Wages and salaries	391,784	166,253
Social security costs	36,218	6,695
Other pension costs	17,335	1,869
	<u>445,337</u>	<u>174,817</u>

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

	1995	1994
	No.	No.
Technical/Production	6	2
Sales and distribution	1	1
Administration	10	8
	<u>17</u>	<u>11</u>



# Rolls Laval Heat Exchangers Limited

## NOTES TO THE ACCOUNTS

at 31 December 1995

### 5. INTEREST PAYABLE

	1995 £	1994 £
Bank loans wholly repayable in more than one year	179,173	10,325

### 6. TAXATION CREDIT

	1995 £	1994 £
United Kingdom corporation tax credit on loss on ordinary activities:		
Consortium Relief receivable at 33%	919,162	278,167
Deferred taxation	(155,141)	-
	764,021	278,167

### 7. TANGIBLE FIXED ASSETS

	<i>Leasehold improvements</i> £	<i>Fixtures and fittings</i> £	<i>Plant &amp; machinery</i> £	<i>Assets under construction</i> £	<i>Total</i> £
Cost:					
At 1 January 1995	206,654	28,197	3,250	619,886	857,987
Additions	84,778	155,340	1,324,837	-	1,564,955
Inter-category transfers	-	-	579,287	(579,287)	-
At 31 December 1995	291,432	183,537	1,907,374	40,599	2,422,942
Depreciation:					
At 1 January 1995	6,359	1,735	3,250	-	11,344
Charge for period	23,009	11,096	61,878	-	95,983
At 31 December 1995	29,368	12,831	65,128	-	107,327
Net book value:					
At 31 December 1995	262,064	170,706	1,842,246	40,599	2,315,615
Net book value:					
At 1 January 1995	200,295	26,462	-	619,886	846,643

# Rolls Laval Heat Exchangers Limited

## NOTES TO THE ACCOUNTS

at 31 December 1995

### 8. STOCKS

	1995	1994
	£	£
Raw materials	79,427	-

The difference between purchase price and replacement cost of stocks is not material.

Long-term contract balances comprise:

	1995	1994
	£	£
Cost to date	1,256,030	-
Provision for losses	(966,372)	-
Applicable payments on account	(289,658)	-
	-	-

### 9. DEBTORS

	1995	1994
	£	£
Other taxation and social security receivable	143,221	112,805
Other debtors	107,650	288
Amounts receivable on long term contracts	273,245	-
Amounts owed by joint venture parties	919,162	278,167
	1,443,278	391,260

### 10. CREDITORS: amounts falling due within one year

	1995	1994
	£	£
Trade creditors	178,655	356,594
Bank overdraft	106,694	220,551
Bank loan	-	500,000
Amounts owed to joint venture parties	337,546	580,488
Accruals	126,810	45,530
Payments on account of long term contracts	61,657	-
	811,362	1,703,163

The bank loan is secured by guarantees from Rolls Royce plc and Alfa Laval Limited.

# Rolls Laval Heat Exchangers Limited

## NOTES TO THE ACCOUNTS

at 31 December 1995

### 11. CREDITORS: amounts falling due in more than one year

	1995	1994
	£	£
Bank loan	5,000,000	-

The bank loan is guaranteed jointly by the joint venture parties, and is repayable in August 1997.

### 12. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £	Future contract losses £	Total £
At 1 January 1995	-	536,243	536,243
Charge for the year	155,141	430,129	585,270
Set against long term contracts	-	(966,372)	(966,372)
At 31 December 1995	155,141	-	155,141

### 13. CALLED-UP SHARE CAPITAL

	1995	1994
	£	£
Authorised and allotted and fully paid:		
5000 "A" ordinary shares of £1 each	5,000	5,000
5000 "B" ordinary shares of £1 each	5,000	5,000
	10,000	10,000

The voting and other rights of the 'A' and 'B' ordinary shares are the same.

### 14. STATEMENT OF MOVEMENTS ON RESERVES AND RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS

	Share Capital £	Profit & Loss Account deficit £	Total Shareholders' Funds £
On incorporation	100	-	100
Share capital issued	9,900	-	9,900
Loss for the period	-	(1,006,266)	(1,006,266)
At 31 December 1994	10,000	(1,006,266)	(996,266)
Loss for the period	-	(1,130,540)	(1,130,540)
At 31 December 1995	10,000	(2,136,806)	(2,126,806)

# Rolls Laval Heat Exchangers Limited

## NOTES TO THE ACCOUNTS

at 31 December 1995

### 15. CAPITAL COMMITMENTS

	1995	1994
	£	£
Contracted	42,213	909,300
Authorised by the directors but not contracted	-	-

### 16. FINANCIAL COMMITMENTS

At 31 December 1995 the company had annual commitments under non-cancellable operating leases as follows:

	<i>Land and buildings</i>	
	1995	1994
	£	£
Expiring after more than five years	26,000	26,000

### 17. JOINT VENTURE PARTIES

The company is a joint venture undertaking between Rolls Royce plc, which holds 50% of the issued share capital, and Alfa Laval Limited, which also holds 50% of the issued share capital, neither party having overall control. Both of the joint venture parties are registered in England and Wales.