

Company Registration No. 2908945

**ROYSTON ENGINEERING GROUP  
LIMITED**

**Report and Financial Statements**

**28 February 2005**



# ROYSTON ENGINEERING GROUP LIMITED

## REPORT AND FINANCIAL STATEMENTS 2005

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**ROYSTON ENGINEERING GROUP LIMITED**

**REPORT AND FINANCIAL STATEMENTS 2005**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

T Wilkinson  
L J Brown  
S R Harrison  
S Wade

**SECRETARY**

S Wade

**REGISTERED OFFICE**

Unit 3  
Walker Riverside  
Wincomblee Road  
Newcastle upon Tyne  
NE6 3PF

**BANKERS**

Bank of Scotland  
41/51 Grey Street  
Newcastle upon Tyne  
NE1 6EE

**SOLICITORS**

Hay & Kilner  
30 Cloth Market  
Newcastle upon Tyne  
NE1 1EE

**AUDITORS**

Deloitte & Touche LLP  
Newcastle upon Tyne

# ROYSTON ENGINEERING GROUP LIMITED

## DIRECTORS' REPORT

The directors present their annual report together with the financial statements and auditors' report for the year ended 28 February 2005.

### ACTIVITIES

The principal activity of the company is the holding of investments and the provision of management services.

### RESULTS, DIVIDENDS AND TRANSFERS TO RESERVES

No preference dividends have been approved by the directors (2004 - £nil). The retained loss for the financial year of £394,193 has been transferred from reserves (2004 - £25,391).

### REVIEW OF THE BUSINESS AND FUTURE PROSPECTS

A refinancing of the company was carried out on 30 July 2004. The company's subsidiary, Royston Limited (formerly Royston Marine Limited), had an improved trading year, and on 22 October 2004 it acquired certain of the net assets of Lincoln Diesels Plc (in administration) in order to strengthen its national coverage.

### DIRECTORS AND THEIR INTERESTS

The directors who held office during the year, and their beneficial interests in the ordinary shares of the company were as follows:

	Ordinary £1 shares	
	28 February 2005 Number of shares	1 March 2004 Number of shares
T Wilkinson	25,000	54,167
L J Brown	75,000	29,167
S R Harrison	-	-
S Wade (appointed 1 June 2005)	-	-

The directors had no interests in the company's preferred ordinary shares or cumulative redeemable preference shares.

### CONTRIBUTIONS

Contributions for charitable purposes in the year amounted to £20 (2004 - £50).

No contributions were made for political purposes.

### AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors  
and signed on behalf of the Board

S Wade

Secretary *S. Wade*

Date: 17 June 2005

## ROYSTON ENGINEERING GROUP LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year and of the profit or loss of the company 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; and
- 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 Companies Act 1985. They are also responsible for the company's system of internal financial control and for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors  
and signed on behalf of the Board

S Wade

*S. Wade*

Secretary

Date: 17 June 2005

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROYSTON ENGINEERING GROUP LIMITED

We have audited the financial statements of Royston Engineering Group Limited for the year ended 28 February 2005 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements, or material inconsistencies with the financial statements.

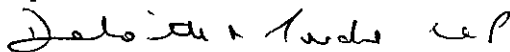
### Basis of opinion

We conducted our audit in accordance with United Kingdom 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 circumstances of the company, 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 28 February 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

Date: 24 June 2005

# ROYSTON ENGINEERING GROUP LIMITED

## **PROFIT AND LOSS ACCOUNT** **Year ended 28 February 2005**

	Note	2005 £	2004 £
<b>TURNOVER</b>	1	61,079	94,384
Cost of sales		-	-
Gross profit		61,079	94,384
Administrative expenses		(124,004)	(150,774)
<b>OPERATING LOSS</b>	2	(62,925)	(56,390)
Investment provision and loss on sale	9	-	(174,500)
Waiver of loan receivable		(210,266)	-
Costs of restructuring of continuing operations		-	(53,844)
Interest payable and similar charges	5	(90,304)	(31,568)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(363,495)	(316,302)
Tax on loss on ordinary activities	6	33,474	6,153
<b>LOSS FOR THE FINANCIAL YEAR</b>		(330,021)	(310,149)
Accrued dividends waived	7	-	267,329
Other finance charges in respect of non-equity shares	12	(64,172)	17,429
<b>RETAINED LOSS FOR THE YEAR TRANSFERRED FROM RESERVES</b>	12	(394,193)	(25,391)

All activities derive from continuing activities.

There are no recognised gains and losses other than the loss for the financial year and the preceding financial year. Accordingly, no statement of total recognised gains and losses is given.

# ROYSTON ENGINEERING GROUP LIMITED

## BALANCE SHEET 28 February 2005

	Note	2005 £	2004 £
<b>FIXED ASSETS</b>			
Tangible assets	8	1,753	2,177
Investments	9	1,423,797	1,424,047
		<u>1,425,550</u>	<u>1,426,224</u>
<b>CURRENT ASSETS</b>			
Loan account with Royston Components Limited		209,424	419,690
Amounts owed by subsidiary undertakings		314,511	188,443
Other debtors		3,820	2,425
		<u>527,755</u>	<u>610,558</u>
<b>CREDITORS: amounts falling due within one year</b>	10	<u>(945,170)</u>	<u>(698,626)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(417,415)</u>	<u>(88,068)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,008,135</u>	<u>1,338,156</u>
<b>NET ASSETS</b>		<u>1,008,135</u>	<u>1,338,156</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	11	800,000	800,000
Profit and loss account	12	(189,112)	205,081
Capital redemption reserve	12	300,000	300,000
Reserve for the redemption of non equity shares	12	97,247	33,075
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<u>1,008,135</u>	<u>1,338,156</u>
<b>Shareholders' funds are attributable to:</b>			
Equity shareholders' funds		277,888	672,081
Non equity shareholders' funds		730,247	666,075
		<u>1,008,135</u>	<u>1,338,156</u>

These financial statements were approved by the Board of Directors on 17 June 2005

Signed on behalf of the Board of Directors

L J Brown  
Director





# ROYSTON ENGINEERING GROUP LIMITED

## **CASH FLOW STATEMENT** **Year ended 28 February 2005**

	<b>Note</b>	<b>2005</b> <b>£</b>	<b>2004</b> <b>£</b>
<b>Net cash outflow from operating activities</b>	<b>14</b>	<b>(203,072)</b>	<b>(161,566)</b>
<b>Returns on investments and servicing of finance</b>	<b>15</b>	<b>(71,137)</b>	<b>(32,249)</b>
<b>Taxation</b>	<b>15</b>	<b>-</b>	<b>-</b>
<b>Capital expenditure &amp; financial investment</b>	<b>15</b>	<b>250,250</b>	<b>250</b>
<b>Cash outflow before financing</b>		<b>(23,959)</b>	<b>(193,565)</b>
<b>Financing</b>	<b>15</b>	<b>-</b>	<b>-</b>
<b>Decrease in cash in the year</b>	<b>16, 17</b>	<b>(23,959)</b>	<b>(193,565)</b>

**NOTES TO THE ACCOUNTS**  
**Year ended 28 February 2005**

**1. ACCOUNTING POLICIES**

The particular accounting policies adopted are described below.

**Accounting convention**

The financial statements have been prepared under the historical cost convention.

**Consolidation**

The company and its subsidiaries comprise a medium sized group. The company has taken advantage of the exemption granted under Section 248 of the Companies Act 1985 not to prepare group financial statements.

The financial statements present information about the individual undertaking.

**Turnover**

Turnover represents the value of services rendered within the United Kingdom excluding value added tax.

**Fixed assets**

Depreciation is calculated to write off the cost of the fixed assets over their expected useful lives. The rate of depreciation on fixtures and fittings is between 15% and 25% per annum on a reducing balance basis.

**Leases**

Rentals applicable to operating leases where substantially all of the benefits and risk of ownership remain with the lessor are charged to the profit and loss account as they are incurred.

**Investments**

Investments held as fixed assets are stated at cost less a provision for permanent diminution in value where this is appropriate.

**Deferred taxation**

Deferred taxation is provided in full on timing differences which result in an obligation of the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be covered. Deferred tax assets and liabilities are not discounted.

**Pensions**

The company operates defined contribution pension schemes. The charge to the profit and loss account represents the contributions payable by the company under the rules of the schemes.

**2. OPERATING LOSS**

	2005 £	2004 £
Operating loss is after charging:		
Depreciation	424	538
Auditors' remuneration	1,750	1,500
	<u>          </u>	<u>          </u>

# ROYSTON ENGINEERING GROUP LIMITED

## NOTES TO THE ACCOUNTS Year ended 28 February 2005

### 3. DIRECTORS' REMUNERATION

	2005 £	2004 £
Emoluments (excluding pension contributions)	101,714	96,625

One director is a member of the company pension scheme (2004: one).

### 4. STAFF COSTS

The average weekly number of employees during the year was made up as follows:

	2005 No.	2004 No.
Administrative staff	-	-

Staff costs, including directors, during the year amounted to:

	£	£
Wages and salaries	101,714	96,265
Social security costs	11,569	11,140
Pension costs	2,613	2,186
	115,896	109,591

### 5. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £	2004 £
Other interest	90,304	31,568

**NOTES TO THE ACCOUNTS**  
**Year ended 28 February 2005**

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

i) Analysis of tax credit on ordinary activities

	2005 £	2004 £
Contribution received from another group company in respect of losses surrendered.	(33,932)	(6,152)
Adjustment in respect of prior years	458	(1)
	<u>(33,474)</u>	<u>(6,153)</u>

ii) Factors affecting tax credit for the year

The tax assessed for the year is higher than that resulting from applying the standard rate of corporation tax in the UK – 30%. The differences are explained below:

	2005 £	2004 £
Loss on ordinary activities before tax	(363,495)	(316,302)
Tax at 30% thereon	(109,049)	(94,891)
Expenses not deductible for tax purposes	888	56,070
Depreciation in excess of capital allowances	26	26
Group relief at Small Company's rate	19,645	3,562
Losses not utilised	54,558	29,081
Prior period adjustments	458	(1)
	<u>(33,474)</u>	<u>(6,153)</u>

At 28 February 2005 the company had losses carried forward to set against future profits of approximately £270,000. (2004: £97,000). A deferred tax asset has not been recognised in respect of timing differences relating to the losses carried forward as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £81,000 (2004: £29,000).

**7. WAIVED DIVIDENDS**

As part of the re-organisation of the company last year, the holders of the preference shares waived their right to receive any past accrued dividends. As a result, the previously accrued and unpaid dividends (£267,329) were credited to the profit and loss account.

# ROYSTON ENGINEERING GROUP LIMITED

## NOTES TO THE ACCOUNTS Year ended 28 February 2005

### 8. TANGIBLE FIXED ASSETS

	Fixtures and fittings £
<b>Cost</b>	
At 1 March 2004	8,686
Additions	-
At 28 February 2005	8,686
<b>Accumulated depreciation</b>	
At 1 March 2004	6,509
Charge for the year	424
At 28 February 2005	6,933
<b>Net book value</b>	
At 28 February 2005	1,753
At 29 February 2004	2,177

### 9. INVESTMENTS

	Royston Limited £	Royston Components Limited Ordinary shares £	Royston Components Limited Preference shares £	2005 £	2004 £
Shares in subsidiary undertakings:					
Cost less provisions	1,298,797	250	125,000	1,424,047	1,348,797
Addition	-	-	-	-	250,000
Disposal	-	(250)	-	(250)	(25,050)
Provision	-	-	-	-	(149,700)
	1,298,797	-	125,000	1,423,797	1,424,047

On 17 July 2003, the amount owed from Royston Components Limited was converted into 250,000 £1 redeemable preference shares and an unsecured loan.

# **ROYSTON ENGINEERING GROUP LIMITED**

## **NOTES TO THE ACCOUNTS** **Year ended 28 February 2005**

### **9. INVESTMENTS (continued)**

The company owns more than 10% of the share capital of the following subsidiary companies:

Name	Nature of Business	Country of Registration	Shares held	
			Class	Percentage
Royston Limited (formerly Royston Marine Limited)	Sale and servicing of diesel engines	England	Ordinary	100%
Royston Marine Engineering Limited*	Dormant	England	Ordinary	100%
Royston Marine Sales Limited*	Dormant	England	Ordinary	100%
Royston Marine Limited (formerly Royston (N.V.C. Limited)*	Dormant	England	Ordinary	100%

\*shares held by subsidiary undertaking.

The net assets of Royston Limited (formerly Royston Marine Limited) at 28 February 2005 were £557,349 (2004 - £408,725) and its profit for the year then ended after taxation and dividends was £149,074 (2004 - £4,439).

### **10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2005	2004
	£	£
Unsecured loan	250,000	-
Bank overdraft	651,278	627,319
Trade creditors	52	842
Other creditors	3,803	2,029
Accruals and deferred income	40,037	68,436
	<u>945,170</u>	<u>698,626</u>

The bank overdraft is secured by fixed and floating charges over the company's assets.

# ROYSTON ENGINEERING GROUP LIMITED

## NOTES TO THE ACCOUNTS Year ended 28 February 2005

### 11. CALLED UP SHARE CAPITAL

	Number of shares	2005 £	2004 £
<b>Authorised</b>			
Ordinary shares of £1 each	100,000	100,000	100,000
Preferred ordinary shares of £1 each	67,000	67,000	67,000
Cumulative redeemable preference shares of £1 each	933,000	933,000	933,000
		<u>1,100,000</u>	<u>1,100,000</u>
<b>Called up, allotted and fully paid</b>			
Ordinary shares of £1 each	100,000	100,000	100,000
Preferred ordinary shares of £1 each	67,000	67,000	67,000
Cumulative redeemable preference shares of £1 each	633,000	633,000	633,000
		<u>800,000</u>	<u>800,000</u>

On 17 July 2003, the accrued redeemable preference dividends were waived by the holder, and new terms were agreed going forward.

A redemption premium of 10% of the nominal value is payable.

Non equity shares have no voting rights unless certain conditions attached to the shares, in the company's Articles of Association, are not met.

The rights to dividends are as follows:

Share	Dividend Rights	Priority
Cumulative redeemable preference shares	Fixed cumulative dividend of 14% per annum from 23 September 2005.	1
Preferred ordinary shares	Annual dividends based upon fixed agreement.	2
Ordinary shares	No fixed dividend right.	3

The priority and amounts on winding up are as follows:

Share	Amounts receivable on winding up	Priority
Cumulative redeemable preference shares	£1 per share plus dividends in arrears.	1
Preferred ordinary shares	£1 per share plus dividends in arrears and in addition the right to surplus on winding up on an equal basis to the ordinary shareholders.	2
Ordinary shares	Rights to surplus on winding up, after distribution to cumulative redeemable preference and preferred ordinary shareholders, are unlimited and shared equally with preferred ordinary shares.	3

# ROYSTON ENGINEERING GROUP LIMITED

## NOTES TO THE ACCOUNTS Year ended 28 February 2005

### 12. STATEMENT OF MOVEMENTS ON SHAREHOLDERS' FUNDS

	Share Capital £	Profit and loss account £	Capital redemption reserve £	Non equity redemption reserve £	Shareholders' funds Total 2005 £	Shareholders' funds Total 2004 £
At 1 March	800,000	205,081	300,000	33,075	1,338,156	1,380,976
Retained loss for the year	-	(330,021)	-	-	(330,021)	(42,820)
Transfer from reserve for redemption of non equity shares	-	(64,172)	-	64,172	-	-
At 28 February	<u>800,000</u>	<u>(189,112)</u>	<u>300,000</u>	<u>97,247</u>	<u>1,008,135</u>	<u>1,338,156</u>

### 13. OPERATING LEASE COMMITMENTS

At 28 February 2005 the company had no annual commitments under non-cancellable operating leases (2004 : none).

### 14. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2005 £	2004 £
Operating loss	(62,925)	(56,390)
Depreciation charges	424	538
Decrease/(increase) in debtors	116,277	126,123
Decrease in creditors	(256,848)	(231,837)
<b>Net cash outflow from operating activities</b>	<u>(203,072)</u>	<u>(161,566)</u>

### 15. GROSS CASH FLOWS

	2005 £	2004 £
<b>Returns on investments and servicing of finance</b>		
Interest paid	<u>(71,137)</u>	<u>(32,249)</u>
<b>Taxation</b>		
Corporation tax paid	<u>-</u>	<u>-</u>
<b>Capital expenditure &amp; financial investment</b>		
Income from sale of investment	250	250
Income from loan	<u>250,000</u>	<u>-</u>
	<u>250,250</u>	<u>250</u>



# ROYSTON ENGINEERING GROUP LIMITED

## NOTES TO THE ACCOUNTS

Year ended 28 February 2005

### 16. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2005 £
Change in net debt resulting from cash flows	(23,959)
Net debt at 1 March 2004	<u>(627,319)</u>
Net debt at 28 February 2005	<u><u>(651,278)</u></u>

### 17. ANALYSIS OF CHANGES IN NET DEBT

	At 1 March 2004 £	Cash flow £	At 28 February 2005
Overdrafts	<u>(627,319)</u>	<u>(23,959)</u>	<u>(651,278)</u>
Debt due within one year	<u><u>(627,319)</u></u>	<u><u>(23,959)</u></u>	<u><u>(651,278)</u></u>

### 18. RELATED PARTY TRANSACTIONS

A summary of the aggregate transactions which have been undertaken by the Company with related parties are as follows:

	2005 £	2004 £
Amounts included within debtors:		
Royston Limited	314,511	188,443
Amounts included within turnover:		
Royston Limited management fee	61,079	94,384
Amounts included within the tax credit:		
Royston Limited:		
Contributions received in respect of losses surrendered	33,474	6,153

Royston Limited (formerly Royston Marine Limited) is a subsidiary company.

The directors do not believe that there is an ultimate controlling party.

### 19. CONTINGENT LIABILITIES

The company has entered into a cross guarantee covering the bank borrowings, which amount to group credit facilities of up to £1,030,000, with Royston Limited.