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COMPANY NUMBER  
3791808

## ROCK DEFORMATION RESEARCH LIMITED

### ACCOUNTS for the year ended 31 July 2006

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ROCK DEFORMATION RESEARCH LIMITED

**ACCOUNTS**

for the year ended 31 July 2006

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## ROCK DEFORMATION RESEARCH LIMITED

**REPORT OF THE DIRECTORS**

The directors present their report and financial statements for the year ended 31 July 2006

**PRINCIPAL ACTIVITIES**

The Company's principal activity is the production, sale and marketing of fault seal products and the provision of services to the oil industry. The activities include research and development of products.

**DIRECTORS**

The directors who served during the year and the beneficial interests of those serving at the end of the year in the ordinary share capital of the company were :

	A Shares of £0.10 each		Ordinary Shares of £1 each	
	31 July 2006	31 July 2005	31 July 2006	31 July 2005
P. Locke	-	-	-	-
Professor R. J. Knipe	1	1	-	-
Professor S. D. Mobbs (resigned 1 September 2005)	-	-	-	-
Professor B. W. Yardley	-	-	-	-
Professor P. Mackie (appointed 1 September 2005)	-	-	-	-

None of the directors had any interest in the share capital of other group companies during the year.

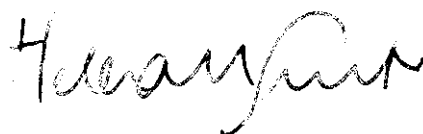
**AUDITORS**

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

**SMALL COMPANIES EXEMPTIONS**

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

APPROVED BY THE BOARD and signed on its behalf :



H. M. Smith  
Company Secretary  
31 October 2006

**DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS**

The directors are required to present for each accounting period financial statements which comply with the provisions of the Companies Act 1985 and give a true and fair view of the state of the affairs of the company as at the end of the accounting period and of the profit and loss for that period.

In preparing those financial statements, suitable accounting policies, framed by reference to reasonable and prudent judgements and estimates, have to be used and applied consistently. Applicable accounting standards also have to be followed subject to any material departures being disclosed and explained in the notes to the financial statements. The directors are required to 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 also responsible for maintaining adequate accounting records so as to enable them to ensure the safeguarding of assets of the company and to prevent and detect fraud and other irregularities.

## ROCK DEFORMATION RESEARCH LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROCK DEFORMATION RESEARCH LIMITED**

We have audited the financial statements of Rock Deformation Research Limited for the year ended 31 July 2006 which comprise the profit and loss account, the balance sheet, the accounting policies and the related notes 1 to 14. 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 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**

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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion, the directors' report is consistent with the financial statements. We also 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 the other information contained in the annual report for the above year as described in the contents section 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 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 as at 31 July 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the directors' report is consistent with the financial statements.

*Deloitte + Touche LLP*

DELOITTE & TOUCHE LLP  
Chartered Accountants and Registered Auditors,  
Leeds.

8 December 2006

**PROFIT AND LOSS ACCOUNT**

for the year ended 31 July 2006

	Note	2006	2005
TURNOVER		1,837,686	1,712,935
Cost of sales		( 877,024 )	( 988,604 )
GROSS PROFIT		960,662	724,331
Administrative expenses	1	( 782,772 )	( 614,516 )
OPERATING PROFIT		177,890	109,815
Interest receivable		11,325	18,134
Interest payable		( 940 )	( 1,113 )
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1	188,275	126,836
Tax on profit on ordinary activities	4	( 36,000 )	30,000
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION and FOR THE FINANCIAL YEAR		152,275	156,836
Balance brought forward		25,916	( 130,920 )
BALANCE CARRIED FORWARD		£ 178,191	£ 25,916

All amounts relate to continuing operations

*There are no recognised gains or losses other than as disclosed above and accordingly, no statement of total recognised gains and losses is shown.*

## ROCK DEFORMATION RESEARCH LIMITED

**BALANCE SHEET**

31 July 2006

	Note	2006	2005
<b>FIXED ASSETS</b>			
Tangible assets	5	<b>36,187</b>	36,103
Intangible assets	6	-	-
		<b>36,187</b>	<b>36,103</b>
<b>CURRENT ASSETS</b>			
Stocks		<b>9,506</b>	1,446
Debtors	7	<b>914,067</b>	728,826
Cash at bank and in hand		<b>443,432</b>	418,465
		<b>1,367,005</b>	<b>1,148,737</b>
<b>CREDITORS - amounts falling due within one year</b>			
Trade creditors		<b>28,041</b>	30,058
Payments received on account		<b>284,010</b>	330,011
Corporation tax		<b>26,000</b>	-
Amounts owed to ultimate holding company	10	<b>97,489</b>	88,386
Amount owed to subsidiary undertaking		<b>32,850</b>	-
Other taxation and social security		<b>34,157</b>	21,247
Other creditors		<b>11,114</b>	8,486
Accruals and deferred income		<b>411,340</b>	380,736
		<b>925,001</b>	<b>858,924</b>
<b>NET CURRENT ASSETS</b>		<b>442,004</b>	<b>289,813</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>478,191</b>	<b>325,916</b>
<b>CREDITORS - amounts falling due after more than one year</b>			
Amounts owed to ultimate holding company	10	-	-
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>£ 478,191</b>	<b>£ 325,916</b>
<b>Representing:</b>			
<b>CAPITAL AND RESERVES</b>			
Called up share capital	11	<b>300,000</b>	300,000
Profit and loss account		<b>178,191</b>	25,916
<b>SHAREHOLDERS' FUNDS - equity interests</b>	12	<b>£ 478,191</b>	<b>£ 325,916</b>

The financial statements were approved by the Board on 31 October 2006


P. Locke  
Director

## ROCK DEFORMATION RESEARCH LIMITED

**ACCOUNTING POLICIES**

for the year ended 31 July 2006

The following accounting policies have been applied consistently in the year and the preceding year.

**CONVENTION**

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and in accordance with the historical cost convention.

**TANGIBLE FIXED ASSETS AND DEPRECIATION**

For all tangible fixed assets depreciation is calculated to write off their cost by equal instalments over the period of their estimated economic lives as follows :-

Fixtures, fittings, tools and equipment - 3 to 4 years

**INTANGIBLE FIXED ASSETS AND AMORTISATION**

For all intangible assets amortisation is calculated to write off their cost by equal instalments over 20 years.

In compiling the annual financial statements regard is given generally as to whether there has been a likelihood of impairment due to particular market trends or other known circumstances.

**LEASE CONTRACTS**

Rentals paid under other leases (operating leases) are charged against income on a straight line basis over the lease term.

**FOREIGN CURRENCY**

Where supplies are obtained on terms denominated in foreign currency, the liability is initially recognised in the financial statements at the rate of exchange ruling at the date of the transaction. The liability is reflected in the financial statements at the rate of exchange ruling at the balance sheet date or at the amount to be paid where currency purchase arrangements have been made at the balance sheet date. Disparities between the amount reflected in the financial statements and the amount of sterling subsequently required to settle the liability are reflected in the reported results of the subsequent period.

**PENSION SCHEMES**

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge represents contributions payable by the company to the scheme.

**TAXATION**

Current tax, including UK corporation and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred taxation is provided in full on timing differences that result in an obligation at 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 financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

## ROCK DEFORMATION RESEARCH LIMITED

**ACCOUNTING POLICIES**

for the year ended 31 July 2006

**RESEARCH AND DEVELOPMENT**

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

**TURNOVER**

Turnover represents the income receivable, excluding value added tax, in the ordinary course of business for services provided.

Where arrangements are made for invoices to be raised in advance of the company fulfilling its obligations then an estimate of the invoiced amounts attributable to work undertaken by the company before the balance sheet date based on the progress of the projects is included. To the extent that the invoiced amounts exceed the amounts attributable to work undertaken then payments received on account are reflected in the balance sheet.

In respect of long term contracts, revenue is recognised based on the value of work carried out during the year with reference to the total sales value and stage of completion of these contracts.

**GROUP ACCOUNTS**

The financial statements present information about the company as an individual undertaking and not as a group. This is because the company has taken advantage of the exemption available within Section 228 of the Companies Act 1985 not to prepare consolidated group accounts on the basis that it is an intermediate holding company. As such the accounts present only information on the company.



**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 July 2006

1 PROFIT ON ORDINARY ACTIVITY BEFORE TAXATION is arrived at after charging :-	2006	2005
Depreciation	£ 26,224	£ 25,128
Operating Leases		
Rental costs of land and building	£ 33,853	£ 33,853
Equipment	£ 3,301	£ 3,503
Auditors remuneration	£ 4,825	£ 4,505
Research and development	£ 57,000	£ 50,427

In the opinion of the directors disclosure of geographical markets supplied would seriously prejudice the company and details are therefore not disclosed.

2 DIRECTORS AND RELATED PARTY TRANSACTIONS	2006	2005
Aggregate amount of emoluments	£ 27,210	22,500
Aggregate amount paid to third parties for directors' services	£ 140,889	£ 119,410

3 EMPLOYEES	2006	2005
The average number employed by the company (including directors) was:	23	20

The costs incurred were:

Wages and salaries	789,657	634,033
Social security costs	55,754	59,875
Other pension costs	95,962	75,705
	£ 941,373	£ 769,613

At the balance sheet date unpaid pension contributions amounted to £8,189, (2005: £Nil).

4 TAXATION	2006	2005
Based on the results of the year :-		
UK Corporation Tax		
On profits of the year	26,000	-
Total current tax	26,000	-
Deferred tax at an average rate of 30% (2005 - 19%)		
Timing differences/(Reversal)	10,000	( 30,000 )
Total deferred tax	10,000	( 30,000 )
Tax charge/(credit)	£ 36,000	£ ( 30,000 )
Factors affecting tax charge for year :-		
Profit on ordinary activities before taxation	£ 188,275	£ 126,836

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 July 2006

4 TAXATION (continued)	2006	2005
Profit on ordinary activities before taxation multiplied by 30% (2005: 19%)	<b>56,483</b>	24,099
Effects of :		
Permanent differences - expenses not deductible for tax purposes	-	9,125
Permanent differences - expenses enhanced for tax purposes	<b>( 3,782 )</b>	( 2,395 )
Depreciation for the period in excess of capital allowances	<b>( 2,138 )</b>	( 2,350 )
Losses (available) for relief in future period	<b>( 24,563 )</b>	( 21,339 )
Other deferred tax movements	-	( 7,140 )
Current tax charge for the year	<b>£ 26,000</b>	£ -

The company is a close company within the meaning of the Income and Corporation Taxes Act 1988.

5 TANGIBLE FIXED ASSETS	Fixtures, fittings, tools and equipment
COST	
At 1 August 2005	80,264
Additions	26,308
Disposals	-
At 31 July 2006	<u>106,572</u>
DEPRECIATION	
At 1 August 2005	44,161
Charge for the year	26,224
Disposals	-
At 31 July 2006	<u>70,385</u>
NET BOOK VALUE	
<b>At 31 July 2006</b>	<b>£ 36,187</b>
At 1 August 2005	<u>£ 36,103</u>
6 INTANGIBLE FIXED ASSETS	Intellectual property Rights
COST	
At 1 August 2005	200,000
Additions	-
Disposals	-
At 31 July 2006	<u>200,000</u>
AMORTISATION	
At 1 August 2005	200,000
Charge for the year	-
Impairment provision	-
Disposals	-
At 31 July 2006	<u>200,000</u>
NET BOOK VALUE	
<b>At 31 July 2006</b>	<b>£ -</b>
At 1 August 2005	<u>£ -</u>

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 July 2006

7 DEBTORS	2006	2005
Trade debtors	771,800	621,398
Other debtors	962	-
Deferred tax	20,000	30,000
Amount owed by subsidiary undertaking	-	2,670
Prepayments and accrued income	121,305	74,758
	<b>£ 914,067</b>	<b>£ 728,826</b>

8 DEFERRED TAX	2006	2005
ASSET		
Capital allowances	20,000	13,000
Losses available for relief against future profits	-	17,000
	<b>£ 20,000</b>	<b>£ 30,000</b>

At 1 August 2005	30,000	-
(Charge)/Credit to profit and loss account for the period	( 10,000 )	30,000
At 31 July 2006	<b>£ 20,000</b>	<b>£ 30,000</b>

In deriving these amounts the anticipated rate of Corporation Tax to be applicable is 30% (2005: 19%)  
No discounting for timing of future reversals is reflected in these figures.

**9 SUBSIDIARY UNDERTAKING**

The company owns all the shares of Rock Deformation Research USA Inc, a company incorporated in the USA which is a contractor for services to the oil industry.

The company has taken advantage of the exemption available within Section 228 of the Companies Act 1985 not to prepare consolidated group accounts on the basis that it is an intermediate holding company. As such, the accounts present only information on the company.

At 31 July 2006 the aggregate surplus of the share capital and reserves of Rock Deformation Research USA Inc amounted to £56,061 and its reported profit for the year ended 31 July 2006 was £54,602.

**10 ULTIMATE CONTROLLING PARTY**

In the opinion of the directors, the ultimate parent and controlling party is the University of Leeds. The company is a subsidiary of The University of Leeds which is registered in England and Wales.

The immediate controlling party is the University of Leeds.

Copies of the consolidated financial statements of the group into which the company is consolidated are available from University of Leeds, Leeds, LS2 9JT.

11 SHARE CAPITAL	2006	2005
Authorised		
3,000,000 ordinary shares of £0.10 each (2005 - 3,000,000)	300,000	300,000
1 "A" share of £0.10 (2005 - 1)	-	-
	<b>£ 300,000</b>	<b>£ 300,000</b>

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 July 2006

11 SHARE CAPITAL (continued)	2006	2005
Allotted, called up and fully paid		
3,000,000 ordinary shares of £0.10 each (2005 - 3,000,000)	300,000	300,000
1 "A" share of £0.10 (2005 - Nil)	-	-
	<u>£ 300,000</u>	<u>£ 300,000</u>

The ordinary shares and the "A" share rank equally for rights to dividends, their priority and the amount receivable on a winding up and voting rights. The holder of the "A" share is entitled to appoint one person as a director to the Board.

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2006	2005
Profit for the financial year and net addition to shareholders' funds	152,275	156,836
Opening shareholders' funds	325,916	169,080
CLOSING SHAREHOLDERS' FUNDS	<u>£ 478,191</u>	<u>£ 325,916</u>

**13 CASH FLOW**

The company qualifies as a small company under the terms of S247 of the Companies Act 1985. As a consequence it is exempt from the requirement to publish a cash flow statement.

**14 FINANCIAL COMMITMENTS**

The company is required to make payments during the twelve months following the Balance Sheet date as a consequence of operating leases:

	2006		2005	
	Land and Buildings	Other	Land and Buildings	Other
Expiring in less than one year	£ 3,050	£ -	£ 3,050	£ -
Expiring in two to five years	£ -	£ 3,340	£ -	£ 3,340
Expiring after five years	£ 30,800	£ -	£ 30,800	£ -

ROCK DEFORMATION RESEARCH LIMITED

**ADDITIONAL INFORMATION REPORT**

for the year ended 31 July 2006

The additional information on pages 12 to 15 has been prepared from the accounting records of the company. While it is not audited and does not form part of the statutory financial statements, it should be read in conjunction with them and the auditors' report thereon.

## ROCK DEFORMATION RESEARCH LIMITED

**TRADING ACCOUNT**

for the year ended 31 July 2006

	2006	2005
SALES	1,837,686	1,712,935
COST OF SALES	877,024	988,604
GROSS PROFIT	960,662	724,331
OVERHEADS:		
Directors and staff costs	724,675	577,188
Establishment expenses	50,188	48,600
Sales and marketing expenses	40,103	43,030
Administrative expenses	114,205	88,509
Financial expenses	42,283	56,162
Depreciation	26,224	26,231
PhD and MSc supervision and support	9,082	21,097
Gift aid	78,000	48,000
Transfer to WIP - overhead absorption	( 275,713 )	( 234,611 )
	809,047	674,206
	151,615	50,125
Income from PhD and MSc supervision and support	( 26,275 )	( 59,690 )
Finance costs	( 10,385 )	( 17,021 )
	( 36,660 )	( 76,711 )
PROFIT BEFORE TAXATION	£ 188,275	£ 126,836