584 599

# Volution Group Limited

## Report and Financial Statements

31 July 2009

Registered No. 5841599

## Directors

| | |
|---|---|
| E Lindh | (Non Executive Chairman) |
| K Sargeant | (Chief Executive) |
| S J Diamond | |
| R A George | |
| A D Moye | (Non Executive) |
| L F Rutter | |
| P G Southwell | (Non Executive) |

## Secretary
S J Diamond

## Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

## Registered Office
Fleming Way
Crawley
West Sussex RH10 9YX

# Directors' report

The directors present their report and financial statements for the year ended 31 July 2009.

## Results and dividends

The consolidated profit and loss account is set out on page 9 and reports a loss for the year of £8,849,000 (period ended 31 July 2008 – loss of £5,659,000). The directors do not recommend the payment of a dividend.

## Principal activity and review of the business

The company's principal activity is that of an investment holding company, with subsidiaries engaged in the design, manufacture and distribution of high quality unitary and systems ventilation products. These include a number of respected brands in the ventilation industry.

The group's key financial and other performance indicators during the year were as follows:

| | 2009 | 2008 | Change |
|---|---|---|---|
| | £'000 | £'000 | % |
| Group Turnover | 82,467 | 93,224 | -11.5% |
| EBITDA | 15,136 | 17,307 | -12.5% |
| Net Cash Flow Before Financing | 10,304 | 8,833 | +16.6% |
| Average Number of Employees | 723 | 799 | -9.5% |

Financial performance for the year was in line with expectations given the difficult market conditions faced by its subsidiaries. Demand fell in both the UK residential and commercial construction sectors which was a key driver in group turnover falling 11.5% against the prior year. During the year all subsidiaries focused on initiatives to maintain market share, improve margins and reduce indirect costs. The directors consider the results to be satisfactory with gross profit margin improving, EBITDA in excess of £15.1m and a net cash inflow before financing of £10.3m.

On the 13 November 2008 the Deep Discounted Bonds ('DDB's') were repaid and refinanced by Payment In Kind ('PIK') notes containing, in all material respects, the same interest and repayment obligations for the group.

## Future developments

The Group will develop its existing activities and seek expansion opportunities to increase revenues and profitability both organically and by acquisition.

## Research and development

The Group carries out research and development programmes to suit its particular market, product and customer needs.

## Employees

A skilled workforce is key to the future of the Group. Health and Safety matters are reviewed regularly by the directors and it is our policy to ensure that:

1. Full and fair consideration is given to all applications for employment made by disabled persons, having regard to their capabilities;
2. If an existing employee becomes disabled (whether from illness or accident) every reasonable effort is made to continue to provide employment either in the same, or by training, in a suitable alternative job; and
3. Disabled persons are given equal consideration for training, career development and opportunities for promotion within the Group.

# Directors' report

## Employees (continued)

Management are regularly provided with a range of information concerning the performance of the business by means of meetings and similar briefings that allows their views and opinions to be taken into consideration. Other means of communication are used to ensure employees are systematically provided with information on matters of concern to them.

## Supplier payments policy

The Group's policy in relation to the payment of its suppliers is to agree terms of payment with each supplier when negotiating the terms of each business transaction. It is group practice to abide by the agreed terms of payment unless the supplier defaults under its own obligations. Trade creditors at the period end amount to 44 days (2008 – 54 days), the reduction being due mainly to a change in supplier base.

## Environmental policy

Companies in the Group adopt a responsible attitude towards the protection of the environment. The Group strives to meet requirements of all applicable environmental laws and regulations, to continuously improve environmental performance and to contribute to long-term economic, environmental and social sustainability. Group companies develop energy efficient means of manufacturing, recycling, reducing, and re-using waste. To this end the company has developed a range of ventilation equipment that uses significantly less energy, and also has an expanded range of domestic heat recovery products. The Group also arranges for responsible disposal of waste.

## Directors

The directors who served during the year were as follows:

| | |
|---|---|
| E Lindh | |
| K Sargeant | |
| D E Collier | (resigned 31st January 2009) |
| S J Diamond | |
| A D Moye | |
| L F Rutter | |
| R A George | |
| P G Southwell | (appointed 31st January 2009) |

## Principal risks and uncertainties

The directors consider the principal risks and uncertainties facing the group to be broadly grouped as economic, exchange rates and financial instrument risk.

- Economic

  In the UK demand for group products is influenced by both public and privately funded construction projects. The UK construction market is in turn heavily influenced by prevailing macro economic conditions.

- Exchange Rates

  Fluctuations in the exchange rate of sterling with other major currencies will impact both the revenue stream and purchase cost of some of the group's products.

- Financial Instrument Risk

The financial risk management objectives and policies of the Company and its subsidiary undertakings included in the consolidation, and the group's policy for hedging major forecasted transactions, are detailed in note 1 to the financial statements.

# Directors' report

## **Principal risks and uncertainties** (continued)

The group engages in three main types of financial instruments:

- Short-term trade receivable and payables;
- Bank loan notes and bonds;
- Vanilla forwards and interest rate swaps

The directors do not consider the book value of first two to materially differ from the fair value.

At 31 July 2009, the Group had a number of commitments under vanilla forward foreign exchange contracts with varying settlement dates to 12 July 2010. The fair value of these financial instruments is a liability of £382,000. The group also had commitments under interest rate swaps due to settle on 31 October 2009 and 31 October 2010, the fair value of these financial instruments is a liability of £1,012,000.

The directors' understanding of risk and the group's exposure to risk as a result of using financial instruments is as follows:

### *Price risk*

Risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The directors consider this risk to relate to foreign exchange. The risk to derivative financial instruments is minimal as the transacted rate and quantity of currency are fixed in advance.

### *Credit risk*

Risk that one party to a financial instrument will fail to discharge their obligation and cause the other party to incur a financial loss. In relation to derivative financial instruments the directors believe this to be related to the counterparty the Group transacts with. This is typically a reputable high street bank thus minimising risk. With regard to trading instruments the directors believe credit risk relates to trade debtors, to mitigate against credit risk the group has developed strong credit control procedures and internal control mechanisms.

### *Liquidity risk*

Risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Cash flow is regularly monitored and the group has been using derivative contracts for a number of years and is therefore aware of the working capital commitment. To the best of the directors' knowledge there are no foreseeable constraints in discharging obligations in relation to forward contracts. Cash flow is regularly monitored using weekly and monthly reporting in addition to quarterly reforecast updates against the annual budget.

The group also reviews its long term funding requirements in parallel with its long term strategy with an objective of aligning both in a timely manner.

### *Cash flow risk*

Risk that future cash flows of a financial instrument will fluctuate. The intention of using forward contracts is to minimise volatile cash flow resulting from exposure to foreign exchange risk. Similarly the intention of using interest rate swaps is to minimise exposure to volatile cash flow resulting from changes in the Bank of England base rate. As the rate and quantity are fixed exposure is deemed minimal.

# Directors' report

## Going concern

The financial statements have been prepared on a going-concern basis. The Group made a loss which is mainly attributable to the costs of servicing the acquisition of trading entities exceeding the trading profits. A cash flow forecast indicates that the Group will be able to meet its liabilities as they fall due for the foreseeable future. The net liabilities arise mainly from the long term loans and the interest which is rolled up and hence not payable until maturity in 2016, thus not draining cash resources. The group is in compliance with loan covenants at the year end and the cash flow projections show that the group has sufficient headroom to comply with loan covenants for at least the next 18 months from the balance sheet date.

The directors confirm, after making appropriate enquiries, they have a reasonable expectation the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements. The directors' responsibilities are set out on page 5 and should be read in conjunction with this statement.

## Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

## Auditors

Ernst & Young LLP will remain as auditors to the Company by virtue of an elective resolution passed on 7 November 2007.

On order of the Board

S J Diamond
Secretary
6 November 2009

# Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

# Independent auditors' report

**to the members of Volution Group Limited**

We have audited the financial statements of Volution Group Limited for the year ended 31 July 2009 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. 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 explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's [(APB's)] Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 July 2009 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Independent auditors' report

**to the members of Volution Group Limited**

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

*Julie Carlyle (Senior statutory auditor)*

*for and on behalf of Ernst & Young LLP, Statutory Auditor*

*London*

*Date* 6 November 2019

# Consolidated profit and loss account

**for the year ended 31 July 2009**

| | Notes | 2009<br>£000 | 2008<br>£000 |
|---|---|---|---|
| ***Turnover*** | 2 | 82,467 | 93,224 |
| Cost of sales | | (48,553) | (55,356) |
| ***Gross profit*** | | 33,914 | 37,868 |
| Distribution expenses | | (11,876) | (13,832) |
| Administrative expenses | | (14,783) | (14,978) |
| ***Operating profit*** | 3 | 7,255 | 9,058 |
| Interest receivable and similar income | 6 | 349 | 738 |
| Interest payable and similar charges | 7 | (15,547) | (14,865) |
| ***Loss on ordinary activities before tax*** | | (7,943) | (5,069) |
| Tax on loss on ordinary activities | 8 | (906) | (590) |
| ***Loss for the year*** | 20 | (8,849) | (5,659) |

# Consolidated statement of total recognised gains and losses

**for the year ended 31 July 2009**

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

# Consolidated balance sheet

**at 31 July 2009**

| | Notes | 2009 £000 | 2008 £000 |
|---|---|---|---|
| ***Fixed assets*** | | | |
| Intangible assets | 9 | 91,145 | 97,494 |
| Tangible assets | 10 | 10,395 | 10,857 |
| | | 101,540 | 108,351 |
| ***Current assets*** | | | |
| Stocks | 12 | 8,950 | 9,966 |
| Debtors | 13 | 18,845 | 23,186 |
| Cash at bank | | 8,635 | 15,965 |
| | | 36,430 | 49,117 |
| ***Creditors:*** amounts falling due within one year | 14 | (14,400) | (18,581) |
| ***Net current assets*** | | 22,030 | 30,536 |
| ***Total assets less current liabilities*** | | 123,570 | 138,887 |
| ***Creditors:*** amounts falling due in more than one year | 14 | (142,967) | (149,559) |
| ***Provisions for liabilities*** | 15 | (1,130) | (1,006) |
| | | (144,097) | (150,565) |
| ***Net liabilities*** | | (20,527) | (11,678) |
| ***Capital and reserves*** | | | |
| Called up share capital | 19 | 787 | 787 |
| Share premium account | 20 | 2,213 | 2,213 |
| Profit and loss account | 20 | (23,527) | (14,678) |
| ***Shareholders' funds*** | 20 | (20,527) | (11,678) |

Approved by the Board on 6 November 2009 and signed on its behalf by:

K Sargeant
Director

S J Diamond
Director

# Company balance sheet
**at 31 July 2009**

| | Notes | *2009* *£000* | *2008* *£000* |
|---|---|---|---|
| ***Fixed assets*** | | | |
| Investment in subsidiary undertakings | 11 | 913 | 913 |
| ***Current assets*** | | | |
| Debtors: amounts falling due in more than one year | 13 | 2,486 | 2,382 |
| ***Creditors:*** amounts falling due within one year | 14 | (40) | (40) |
| ***Net current assets*** | | 2,446 | 2,342 |
| ***Net assets*** | | 3,359 | 3,255 |
| ***Capital and reserves*** | | | |
| Called up equity share capital | 19 | 787 | 787 |
| Share premium account | 20 | 2,213 | 2,213 |
| Profit and loss account | 20 | 359 | 255 |
| ***Shareholders' funds*** | 20 | 3,359 | 3,255 |

Approved by the Board on 6 November 2009 and signed on its behalf by:

K Sargeant
Director

S J Diamond
Director

# Consolidated statement of cash flows

**for the year ended 31 July 2009**

| | Notes | 2009<br>£000 | 2008<br>£000 |
|---|---|---|---|
| ***Net cash inflow from operating activities*** | 21 | 14,956 | 17,268 |
| ***Returns on investments and servicing of finance*** | | | |
| Interest paid on bank loans and overdrafts | | (5,944) | (7,470) |
| Receipt of compensation from bondholders | | 2,951 | – |
| Interest received | | 349 | 738 |
| | | (2,644) | (6,732) |
| ***Taxation*** | | | |
| UK corporation tax paid | | (960) | (842) |
| ***Capital expenditure*** | | | |
| Purchase of tangible fixed assets | | (1,100) | (978) |
| Proceeds from sale of tangible fixed assets | | 52 | 117 |
| | | (1,048) | (861) |
| ***Net cash inflow/(outflow) before financing*** | | 10,304 | 8,833 |
| ***Financing*** | | | |
| Repayment of long-term loans | | (17,634) | (1,075) |
| ***Increase in cash*** | 22,23 | (7,330) | 7,758 |

# Notes to the financial statements

**at 31 July 2009**

## 1. Accounting policies

***Basis of preparation***

The consolidated financial statements incorporate the financial statements of Volution Group Limited and all of its subsidiary undertakings made up to 31 July each year. The acquisition method of accounting is used to consolidate the results of subsidiary undertakings in the Group financial statements, whereby the results of subsidiary undertakings are included from the date of acquisition and businesses sold are included up to the date of sale. The Company is exempt from presenting its own profit and loss account under section 408 of the Companies Act 2006. The company's profit after tax for the year amounted to £104,000 (2008 - £95,000).

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards.

*Going Concern*

Notwithstanding the net current liability position of the company, the financial statements have been prepared on a going concern basis, which the directors believe to be appropriate as this is mainly attributable to the costs of servicing the acquisition of trading entities exceeding the trading profits. A cash flow forecast indicates that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

The group is in compliance with loan covenants at the year end. Cash flow projections show that the group has sufficient cash and covenant headroom for at least the next 18 months from the balance sheet date.

The directors confirm, after making appropriate enquiries, they have a reasonable expectation the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

***Depreciation***

Depreciation is provided on all tangible fixed assets, except freehold land, at rates estimated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

| | | |
|---|---|---|
| Freehold buildings | – | 50 years |
| Plant and machinery | – | 5 to 10 years |
| Fixtures, fittings, tools, equipment and vehicles | – | 2 to 10 years |

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be fully recoverable.

***Investments***

Investments are included in the Company balance sheet at cost less amounts written off.

The carrying values of investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be fully recoverable.

***Goodwill***

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its estimated useful life, between 5 and 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be fully recoverable.

***Research and development***

Research and development expenditure, other than that re-chargeable to third parties, is written off as incurred.

# Notes to the financial statements

**at 31 July 2009**

## 1. Accounting policies (continued)

***Stocks and work in progress***

Stocks and work in progress are valued at the lower of cost and net realisable value and, in the case of work in progress and finished goods, includes the relevant proportion of overheads.

***Pension costs***

Contribution to defined contribution schemes are recognised in the income statement in the period in which they become payable. The cost charged in the profit and loss account of providing retirement pensions for employees represents the amounts paid by group companies to the various defined contribution pension schemes operated by the Group in the financial year.

***Revenue recognition***

Revenue is recognised to the extent that the group obtains the right to consideration in exchange for its performance. Revenue is measured at the fair value of the consideration received, excluding discounts, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

*Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.

*Rendering of services*

Revenue from the provision of services is recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

***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 have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive tax, with the following exceptions:

- Provision is made for deferred tax that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that taxable profits will be available from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

# Notes to the financial statements

**at 31 July 2009**

## 1. Accounting policies (continued)

***Foreign currencies***

*Company*

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Exchange differences arising in the ordinary course of business are included in the profit and loss account.

*Group*

All translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

***Derivative instruments***

The group uses forward foreign currency contracts to reduce exposure to foreign exchange risk. The group also uses interest rate swaps to adjust exposure to interest rate risk.

***Forward foreign currency contracts***

The group's purchases in foreign currencies, net of group sales in those currencies, represent approximately 25% of total material and component purchases. Annually, typically in May, the Group enters into forward exchange contracts for the purchase of the budgeted monthly net expenditure in Euros and US dollars, for the financial year commencing on the following 1 August.

The criteria for forward foreign currency contracts are:

- The instrument must be related to anticipated foreign currency commitment;
- It must involve the same currency as the hedged item; and
- It must reduce the risk of foreign currency exchange movements on the Group's operations

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a future transaction, are not recognised until the transaction occurs.

***Interest rate swaps***

The group's criteria for interest rate swaps are:

- The instrument must be related to an asset or a liability; and
- It must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Interest differentials are recognised by accruing with net interest payable. Interest rate swaps are not revalued to fair value or shown on the group balance sheet at the year end. If they are terminated early, the gain/loss is spread over the remaining maturity of the original instrument.

***Lease commitments***

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Provision is made for the cost of reinstatement work on leased properties where there is an obligation under the lease, and the costs can be reasonably estimated.

# Notes to the financial statements

**at 31 July 2009**

## 1. Accounting policies (continued)

***Finance costs***

Finance costs associated with the issue of debt are deducted from the proceeds of the issue and charged to the profit and loss account over the term of the debt so that the amount charged is at a constant rate on the carrying amount.

***Provisions for liabilities***

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions for the expected costs of maintenance under guarantees are charged against profits when products have been invoiced. The effect of the time value of money is not material and therefore the provisions are not discounted.

## 2. Turnover

Turnover, which comprises a single continuing class of activity, represents the net amount invoiced to customers less trade discounts allowed, excluding value added tax, rebates and sales of fixed assets. The analysis of turnover by geographical area is as follows:

| | *2009* | *2008* |
|---|---|---|
| | *£000* | *£000* |
| UK | 68,189 | 78,535 |
| Overseas | 14,278 | 14,689 |
| | 82,467 | 93,224 |

## 3. Operating profit

This is stated after charging / (crediting):

| | *2009* | *2008* |
|---|---|---|
| | *£000* | *£000* |
| Depreciation of tangible fixed assets | 1,532 | 1,845 |
| Amortisation of intangible fixed assets | 6,349 | 6,404 |
| Operating lease rentals – land and buildings | 508 | 508 |
| – plant and machinery | 52 | 59 |
| Research and development expenditure | 1,513 | 1,350 |
| Auditors' remuneration – audit services | 90 | 105 |
| – taxation services | – | 11 |
| Profit on sale of tangible fixed assets | (22) | (51) |

# Notes to the financial statements
**at 31 July 2009**

## 4. Directors' emoluments

| | *2009* | *2008* |
|---|---|---|
| | *£000* | *£000* |
| Aggregate directors' emoluments | 715 | 672 |
| Aggregate directors' pension contributions | 82 | 64 |

| | | |
|---|---|---|
| In respect of highest paid director: | | |
| Aggregate emolument | 190 | 236 |
| Aggregate pension contributions | 28 | 25 |

The Company paid £27,000 (2008:£50,000) for the services as directors of A. Moye and P. Southwell.

The number of directors accruing benefits under Group money purchase pension arrangements was 4 (2008:4).

## 5. Staff costs

Staff costs (excluding directors' emoluments) during the year were:

| | *2009* | *2008* |
|---|---|---|
| | *£000* | *£000* |
| Wages and salaries | 14,089 | 15,436 |
| Social security costs | 1,429 | 1,475 |
| Other pension costs | 567 | 630 |
| | 16,085 | 17,541 |

The average monthly number of employees during the financial year was:

| | *2009* | *2008* |
|---|---|---|
| | *No.* | *No.* |
| Production | 384 | 456 |
| Sales and administration | 339 | 343 |
| | 723 | 799 |

## 6. Interest receivable and similar income

| | *2009* | *2008* |
|---|---|---|
| | *£000* | *£000* |
| Other interest receivable | 349 | 738 |

# Notes to the financial statements

**at 31 July 2009**

## 7. Interest payable and similar charges

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Interest payable on bank loans and overdrafts | 6,934 | 8,412 |
| Amortisation of finance costs | 442 | 442 |
| Interest on loan notes repayable after more than five years* | 8,398 | 7,299 |
| Adjustment to prior year deep discount bonds interest payable* | (227) | (1,288) |
| | 15,547 | 14,865 |

* The amount of interest payable on the deep discount bonds 2016 for the year ended 31 July 2009 and 2008 and on the PIK notes 2016 (see note 16) for the year ended 31 July 2009 have been reduced by £1,721,000 (2008:£2,724,000) to reflect a compensation agreement with the bond holder regarding non-deductibility for tax purposes of a portion of the interest cost.

Adjustment to prior year deep discount bond interest compensation reflects the additional amount received during the year in relation to compensation agreement and recognised in the current year.

## 8. Tax

(a) Analysis of charge in the year:

| | 2009 £000 | 2008 £000 |
|---|---|---|
| *Current tax* | | |
| UK corporation tax | 849 | 1,107 |
| Adjustment in respect of the prior year | (13) | (134) |
| Total current tax (note 8(b)) | 836 | 973 |
| *Deferred tax* | | |
| Origination and reversal of timing differences | 70 | 383 |
| Total deferred tax (note 8(c)) | 70 | 383 |
| Tax charge for the year | 906 | 590 |

# Notes to the financial statements

**at 31 July 2009**

**8. Tax (continued)**

(b) Factors affecting the current tax charge/(credit) for the year:

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 28% (2008:29.33%). The differences are explained below:

| | *2009* *£000* | *2008* *£000* |
|---|---|---|
| Loss on ordinary activities before tax | (7,943) | (5,069) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 – 29.33%) | (2,224) | (1,487) |
| *Effects of:* | | |
| Expenses not deductible for tax purposes | 3,097 | 2,638 |
| Capital allowances in arrears of depreciation | 38 | 104 |
| Other timing differences | (62) | (148) |
| Adjustment in respect of prior year | (13) | (134) |
| Current tax for the year (note 8(a)) | 836 | 973 |

(c) Deferred tax asset:

| | *2009* *£000* | *2008* *£000* |
|---|---|---|
| Consisting of | | |
| Depreciation in advance of capital allowances | (298) | (282) |
| Other timing differences | (15) | (101) |
| Undiscounted deferred tax asset (note 13) | (313) | (383) |

| | *2009* *£000* | *2008* *£000* |
|---|---|---|
| Unrecognised tax asset: | | |
| Short-term timing differences | (1) | (141) |
| At 31 July 2009 | (1) | (141) |

At 31 July 2009 the group has an unrecognised deferred tax asset of £1,000 (2008 - £141,000) in respect of the holding entity Volution Holdings Limited. .The £1,000 deferred tax asset has not been recognised on the grounds there is insufficient evidence the asset will be recoverable.

# Notes to the financial statements

**at 31 July 2009**

## 9. Intangible fixed assets

*Group*

| | *Goodwill* |
|---|---|
| | *£000* |
| Cost: | |
| At 31 July 2008 | 109,733 |
| Increase during the year | – |
| At 31 July 2009 | 109,733 |
| Amortisation: | |
| At 31 July 2008 | 12,239 |
| Charge for the year | 6,349 |
| At 31 July 2009 | 18,588 |
| Net book value: | |
| At 31 July 2009 | 91,145 |
| At 31 July 2008 | 97,494 |

## 10. Tangible fixed assets

*Group*

| | *Freehold land and buildings* | *Plant and machinery* | *Fixtures, fittings, tools, equipment and vehicles* | *Total* |
|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* |
| Cost: | | | | |
| At 31 July 2008 | 7,688 | 2,609 | 3,581 | 13,878 |
| Additions | 57 | 185 | 858 | 1,100 |
| Disposals | – | (619) | (285) | (904) |
| At 31 July 2009 | 7,745 | 2,175 | 4,154 | 14,074 |
| Depreciation: | | | | |
| At 31 July 2008 | (399) | (903) | (1,719) | (3,021) |
| Charge for the year | (236) | (492) | (804) | (1,532) |
| Disposals | – | 617 | 257 | 874 |
| At 31 July 2009 | (635) | (778) | (2,266) | (3,679) |
| Net book value: | | | | |
| At 31 July 2009 | 7,110 | 1,397 | 1,888 | 10,395 |
| At 31 July 2008 | 7,289 | 1,706 | 1,862 | 10,857 |

# Notes to the financial statements

**at 31 July 2009**

## 11. Investment in subsidiary undertakings

*Company*

| | *2009* | *2008* |
|---|---|---|
| | *£000* | *£000* |
| Cost: | | |
| At 31 July 2009 and 31 July 2008 | 913 | 913 |

The investment represents a 100% shareholding in Darwin Bond Limited (an intermediate holding company, incorporated in England), which has direct or indirect interests in the following companies:

| *Company* | *Country of incorporation* | *Proportion of shares held* | *Nature of business* |
|---|---|---|---|
| *Direct:* | | | |
| Darwin Mezzanine Limited | England | 100% | Intermediate holding company |
| *Indirect:* | | | |
| Volution Holdings Limited | England | 100% | Holding company |
| Volution Limited | England | 100% | Intermediate holding company |
| Vent-Axia Group Limited | England | 100% | Air movement products |
| Torin Sifan Limited | England | 100% | Air movement products |
| Manrose Manufacturing Limited | England | 100% | Air movement products |
| Anda Products Limited | England | 100% | Unremunerated agent |
| Axia Fans Limited | England | 100% | Dormant |
| NCA Manufacturing Limited | England | 100% | Dormant |
| Roof Units Limited | England | 100% | Unremunerated agent |
| Sifan Systems Limited | England | 100% | Unremunerated agent |
| Torin Limited | England | 100% | Unremunerated agent |
| Torin Holdings Limited | England | 100% | Non trading |
| Tradewinds Ventilation Limited | England | 100% | Dormant |
| Vent-Axia Limited | England | 100% | Unremunerated agent |
| Vent-Axia Air Conditioning Limited | England | 100% | Dormant |
| Vent-Axia Clean Air Systems Limited | England | 100% | Unremunerated agent |
| Vent-Axia Ventilation Limited | England | 100% | Dormant |
| Willow Plastics Limited | England | 100% | Dormant |

Principal shareholdings are of ordinary shares giving rise to complete voting rights in each subsidiary.

## 12. Stocks

| | *Group 2009* | *Company 2009* | *Group 2008* | *Company 2008* |
|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* |
| Raw materials and consumables | 4,286 | – | 4,730 | – |
| Work in progress | 730 | – | 914 | – |
| Finished goods and goods for resale | 3,934 | – | 4,322 | – |
| | 8,950 | – | 9,976 | – |

The difference between the estimated replacement cost of stocks and the purchase price or product cost is not material.

# Notes to the financial statements

**at 31 July 2009**

## 13. Debtors

| | Group 2009 £000 | Company 2009 £000 | Group 2008 £000 | Company 2008 £000 |
|---|---|---|---|---|
| Amounts falling due within one year: | | | | |
| Trade debtors | 15,145 | – | 18,775 | – |
| Other debtors | 2,302 | – | 2,895 | – |
| Prepayments and accrued income | 1,085 | – | 1,133 | – |
| Deferred tax (note 8(c)) | 313 | – | 383 | – |
| | 18,845 | – | 23,186 | – |
| Amounts falling due in more than one year: | | | | |
| Amounts owed by group undertakings | – | 2,486 | – | 2,382 |

## 14. Creditors

| | Group 2009 £000 | Company 2009 £000 | Group 2008 £000 | Company 2008 £000 |
|---|---|---|---|---|
| Amounts falling due within one year: | | | | |
| Bank loans (note 16) | 1,900 | – | 1,390 | – |
| Unamortised finance costs | (442) | – | (442) | – |
| | 1,458 | – | 948 | – |
| Trade creditors | 6,347 | – | 9,329 | – |
| Other creditors | 4,808 | – | 6,453 | – |
| Corporation tax | 790 | 40 | 431 | 40 |
| Taxes and social security | 997 | – | 1,420 | – |
| | 14,400 | 40 | 18,581 | 40 |
| Amounts falling due in more than one year: | | | | |
| Bank loans (note 16) | 67,718 | – | 84,872 | – |
| Unamortised finance costs | (1,769) | – | (2,211) | – |
| | 65,949 | – | 82,661 | – |
| PIK Notes 2016 (note 16) | 71,933 | – | – | – |
| Unsecured deep discount bonds 2016 (note 16) | – | – | 62,477 | – |
| Unsecured QCB loan notes 2016 (note 16) | 5,085 | – | 4,421 | – |
| | 142,967 | – | 149,559 | – |

# Notes to the financial statements

**at 31 July 2009**

## 15. Provisions for liabilities

*Group*

| | *Service guarantees* | *Property dilapidations* | *Total* |
|---|---|---|---|
| | *£000* | *£000* | *£000* |
| At 31 July 2008 | 456 | 550 | 1,006 |
| Charged | 726 | – | 726 |
| Utilised | (602) | – | (602) |
| At 31 July 2009 | 580 | 550 | 1,130 |

*Dilapidations*

A provision has been recognised for dilapidations relating to obligations under a lease for a leasehold building which will be payable at the end of the lease term.

*Service guarantees*

A provision is recognised for expected service guarantees on products sold during the year.

## 16. Borrowings

| | *Group 2009* | *Company 2009* | *Group 2008* | *Company 2008* |
|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* |
| Analysis of maturity of debt: | | | | |
| In one year or less | 1,900 | – | 1,390 | – |
| In more than one year but no more than two | 2,267 | – | 1,959 | – |
| In more than two years but not more than five | 28,116 | – | 7,491 | – |
| Bank loans | 32,283 | – | 10,840 | – |
| In more than five years: | | | | |
| Bank loans | 37,335 | – | 75,422 | – |
| PIK Notes of £65,098,000 repayable in 2016 | 71,933 | – | – | – |
| Unsecured deep discount bonds | – | – | 62,477 | – |
| Unsecured non QCB loan notes of £3,337,000 repayable in 2016 | 5,085 | – | 4,421 | – |
| | 146,636 | – | 153,160 | – |

The bank loans made available by Royal Bank of Scotland plc are governed by a facilities agreement and mezzanine loan agreement dated 6 July 2006 between Darwin Mezzanine Limited and Royal Bank of Scotland plc. The outstanding loans comprise four elements:

| *Element* | *Principal* | *Amount outstanding* | *Repayment dates* | *Repayment frequency* | *Interest rate* |
|---|---|---|---|---|---|
| | *£000* | *£000* | | | *%* |
| A | 28,000 | 9,160 | 2010 – 2013 | Twice yearly | LIBOR + 1.75% |
| B | 60,000 | 23,123 | 2014 | Two payments | LIBOR + 2.50% |
| C | 17,000 | 17,000 | 2015 | One payment | LIBOR + 5.00% |
| Mezzanine | 17,500 | 20,335 | 2016 | One payment | LIBOR + 9.00% |

# Notes to the financial statements
**at 31 July 2009**

## 16. Borrowings (continued)

The facilities agreement and mezzanine loan agreement give Royal Bank of Scotland plc, as Security Agent, for itself and any other bank which participates in the facilities, a fixed and floating charge over the assets of the Company and its subsidiaries.

On 26 October 2006, Darwin Mezzanine Limited entered into an interest rate swap agreement with Royal Bank of Scotland plc. Under this agreement, which matures on 31 October 2009, an amount equivalent to approximately 100% of the outstanding loan detailed above is subject to a fixed rate with 5.278% replacing LIBOR. The fair value of these financial instruments at 31 July 2009 is a liability of £765,000.

On 11 February 2009, the Company entered into an interest rate swap agreement with Royal Bank of Scotland plc. Under this agreement, which matures on 31 October 2010, an amount equivalent to approximately 70% of the outstanding loan detailed above is subject to a fixed rate with 1.95% replacing LIBOR. The fair value of these financial instruments at 31 July 2009 is a liability of £247,000.

On the 13 November 2008 the Deep Discounted Bonds ('DDB's') were repaid and refinanced by Payment In Kind ('PIK') notes containing, in all material respects, the same interest and repayment obligations for the group.

The PIK notes and the non QCB loan notes are unsecured and are repayable in one instalment in 2016. Both loans carry interest at 14.24% per annum compounded quarterly.

All borrowings detailed above are denominated in pounds sterling. The fair value of each financial liability is considered to equal the book value above.

## 17. Capital commitments

| | *Group 2009 £000* | *Company 2009 £000* | *Group 2008 £000* | *Company 2008 £000* |
|---|---|---|---|---|
| Amounts contracted | 254 | – | 182 | – |

## 18. Obligations under operating leases

At the year end, the Group had annual commitments as follows:

| | *Land and buildings 2009 £000* | *Other 2009 £000* | *Land and buildings 2008 £000* | *Other 2008 £000* |
|---|---|---|---|---|
| Leases expiring: | | | | |
| Within one year | – | 6 | – | 8 |
| Within two to five years | – | 24 | – | 24 |
| After five years | 508 | 4 | 508 | – |
| | 508 | 34 | 508 | 32 |

# Notes to the financial statements

**at 31 July 2009**

## 19. Authorised and issued share capital

| | Authorised | Allotted Called up and fully paid | £000 |
|---|---|---|---|
| Ordinary shares of £1 each | 765,000 | 765,000 | 765 |
| A cumulative participating ordinary shares of 1p each | 2,087,300 | 2,087,300 | 21 |
| B cumulative participating ordinary shares of 1p each | 147,700 | 147,700 | 1 |
| | | | 787 |

A and B cumulative participating ordinary shares are entitled to dividends from 2010 in preference to the ordinary shares. In all other respects, all classes of shares rank pari passu with each other, and all classes carry restricted rights in respect of transfer and sale.

## 20. Reconciliation of shareholders' funds and movement on reserves

| | Share capital £000 | Share premium account £000 | Profit and loss account £000 | Total share-holders' funds £000 |
|---|---|---|---|---|
| *Group* | | | | |
| At 31 July 2007 | 787 | 2,213 | (9,019) | (6,019) |
| Loss for the period | – | – | (5,659) | (5,659) |
| At 31 July 2008 | 787 | 2,213 | (14,678) | (11,678) |
| Loss for the year | – | – | (8,849) | (8,849) |
| At 31 July 2009 | 787 | 2,213 | (23,527) | (20,527) |

| | Share capital £000 | Share premium account £000 | Profit and loss account £000 | Total share-holders' funds £000 |
|---|---|---|---|---|
| *Company* | | | | |
| At 31 July 2007 | 787 | 2,213 | 160 | 3,160 |
| Profit for the period | – | – | 95 | 95 |
| At 31 July 2008 | 787 | 2,213 | 255 | 3,255 |
| Profit for the year | – | – | 104 | 104 |
| At 31 July 2009 | 787 | 2,213 | 359 | 3,359 |

# Notes to the financial statements

**at 31 July 2009**

## 21. Reconciliation of operating profit to net cash inflow from operating activities

| | *2009* | *2008* |
|---|---|---|
| | *£000* | *£000* |
| Operating profit | 7,255 | 9,058 |
| Depreciation | 1,532 | 1,845 |
| Amortisation of goodwill | 6,349 | 6,404 |
| Profit on sale of tangible fixed assets | (22) | (51) |
| Decrease/(increase) in stocks | 1,016 | (291) |
| Decrease in debtors | 3,752 | 138 |
| (Decrease)/increase in creditors | (4,926) | 165 |
| Net cash inflow from operations | 14,956 | 17,268 |

## 22. Analysis of net debt

| *Group* | *2008* | *Cash flow* | *Non-cash movements* | *2009* |
|---|---|---|---|---|
| | *£000* | *£000* | *£000* | *£000* |
| Cash at bank | 15,965 | (7330) | – | 8,635 |
| Debt due within one year | (1,390) | 1,348 | (1,858) | (1,900) |
| Debt due after one year | (151,770) | 16,286 | (9,252) | (144,736) |
| Unamortised finance costs | 2,653 | 0 | (442) | 2,211 |
| | (134,542) | 10,304 | (11,552) | (135,790) |

Non-cash movements:

Rolled-up interest of £11,110,000 (2008 – £9,677,000) was accrued during the year in respect of the mezzanine element of the bank loans and the loan notes. £442,000 was charged to the profit and loss account as amortisation of deferred costs of obtaining finance.

## 23. Reconciliation of net cash flow to movement in net debt

| | *2009* | *2008* |
|---|---|---|
| | *£000* | *£000* |
| (Decrease)/increase in cash | (7,330) | 7,758 |
| Long-term loan repayments | 17,634 | 1,075 |
| Change in net debt resulting from cashflows | 10,304 | 8,833 |
| Rolled-up interest | (11,110) | (9,677) |
| Finance costs written off during year | (442) | (442) |
| ***Movement in net debt in year*** | (1,248) | (1,286) |
| Net debt at 31 July 2008 | (134,542) | (133,256) |
| ***Net debt at 31 July 2009*** | (135,790) | (134,542) |

# Notes to the financial statements

**at 31 July 2009**

## 24. Contingent liabilities

Group companies guarantee bank loans of £69,618,000 (2008 – £86,262,000) held by Darwin Mezzanine Limited with Royal Bank of Scotland plc on a joint and several basis. The Group acts as a chargor for this secured bank funding and, as such, is subject to a fixed and floating charge over its assets.

## 25. Parent undertaking and controlling party

The immediate parent undertaking is AAC UK Buy Out Fund LP which is a limited partnership fund registered in England.

The majority investor in this fund is AAC Capital NEBO Fund I LP which is a limited partnership registered in Scotland.

AAC Capital Partners (Guernsey) Limited (the general partner of AAC UK Buy Out Fund LP) is regarded as the direct controlling party of the company and AAC Capital Partners Holding BV (incorporated in the Netherlands) is regarded as the ultimate controlling party of the company.

The financial statements of Volution Group Limited are not consolidated into the accounts of any other entity.

## 26. Related party transactions

During the year the group entered into transactions with other related parties. Transactions entered and balances outstanding at 31 July 2009 are as follows:

| Name of related party | Description of Transaction | Description of relationship | Balance outstanding/(due) at 31 July 2009 *£000* | Balance outstanding/(due) at 31 July 2008 |
|---|---|---|---|---|
| AAC Capital NEBO Fund 1 LP | PIK Notes (2008 – DDB) repayable in 2016 (capital and interest) | Majority investor in AAC UK Buy Out Fund LP | 71,933 | 62,477 |
| AAC Capital Partners Ltd | Fees for provision of non-executive directors | Manager of AAC UK Buy Out Fund LP | – | – |
| K Sargeant | Non QCB loan notes | Director | 2,450 | 2,130 |
| L F Rutter | repayable in 2016 | Director | 1,716 | 1,492 |
| S J Diamond | (capital and interest)[1] | Director | 919 | 799 |

[1]Refer to Note 16 for further details

On the 13 November 2008 the Deep Discounted Bonds ('DDB's') were repaid and refinanced by Payment In Kind ('PIK') notes containing, in all material respects, the same interest and repayment obligations for the group.