Rail Industry Quality Certification Limited

Financial statements

For the year ended 31 December 2002

Grant Thornton

Company no.3062726

Company information

Company registration number	3062726
Registered office	QSS House PO Box 464 London Road Derby DE24 8ZL
Directors	K F Mee L A Fitch
Secretary	P D Brearley
Bankers	The Royal Bank of Scotland plc 41 Cornmarket Derby DE1 2DH
Auditors	Grant Thornton Chartered Accountants Registered Auditors 30 Hounds Gate Nottingham NG1 7DH

Index to the financial statements

Report of the directors

The directors present their report and the financial statements of the company for the year ended 31 December 2002.

Principal activities and business review

The company is principally engaged in the provision of certification services to the rail industry.

RIQC have delivered a full year of trading following restructuring in 2001. Having appointed a full team, sales and profitability have achieved significantly better than budget results, including a substantial increase over the previous year's (2001) trading. New areas of business have included working in rail infrastructure, development and implementation of ISO14001, Environmental Management Systems certification and an expansion of the audit activity undertaken on behalf of a major client.

Results and dividends

The trading results for the year, and the company's financial position at the end of the year are shown in the attached financial statements. There was a retained profit for the year of £68,642 (2001 - £39,000).

The directors have not recommended a dividend.

Directors

The directors who served the company during the year were as follows:

K F Mee
L A Fitch

The interests of the directors and their families in the shares of the parent undertaking are disclosed in the parent company's financial statements.

Directors' responsibilities

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 at the end of the year and of the profit or loss for the year then ended.

In preparing those financial statements, the directors are required to select suitable accounting policies, as described on pages 7 to 8, and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable. The directors must also 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. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to re-appoint Grant Thornton as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

P D Brearley
Secretary

28 MARCH 2003

Grant Thornton

Report of the independent auditors to the members of Rail Industry Quality Certification Limited

We have audited the financial statements of Rail Industry Quality Certification Limited for the year ended 31 December 2002 which comprise the profit and loss account, balance sheet, statement of total recognised gains and losses and notes 1 to 18. 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

The directors' responsibilities for preparing the report of the directors and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom 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 to you 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 the 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 other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial statements.

Opinion

In our opinion the Financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON
Registered Auditors
Chartered Accountants
Nottingham
28 March 2003

Principal accounting policies

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost convention, and on a going concern basis assuming continuing support of group undertakings.

The principal accounting policies, all of which were applied consistently throughout the year and the preceding year except for the adoption of Financial Reporting Standard 19 "Deferred tax", are set out below. The profit effect of the adoption of FRS 19 on the year ended 31 December 2002 is £nil (2001: £nil).

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is small.

Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

Development costs

Development costs incurred on specific projects are capitalised when recoverability can be assessed with reasonable certainty and amortised over three or ten years in line with the expected sales and use arising from the projects. All other development costs are written off in the year of expenditure.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Development costs	-	3 - 10 years straight line

Work in progress

Work in progress is stated at the lower of cost and net realisable value.

Pension costs

The company operates a defined benefit pension scheme for employees. The assets of the scheme are held separately from those of the company. The contributions to the scheme are charged to the Profit and Loss Account so as to spread the cost of pensions over the service lives of employees. Variations from the regular costs are spread over the average expected remaining working lives of current members in the scheme.

Deferred taxation

Deferred tax is recognised on all timing differences where the transaction or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Profit and loss account

	Note	Year ended 31 December 2002 £000	Period ended 31 December 2001 £000
Turnover	1	**696**	419
Cost of sales		**493**	264
Gross profit		**203**	155
Other operating income and charges	2	**125**	107
Operating profit	3	**78**	48
Interest receivable		**1**	–
Profit on ordinary activities before taxation		**79**	48
Tax on profit on ordinary activities	6	**10**	9
Retained profit for the financial year	14	**69**	39

All of the activities of the company are classed as continuing.

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £68,642 attributable to the shareholders for the year ended 31 December 2002 (2001 - profit of £39,000).

Balance sheet

	Note	2002 £000	2001 £000
Fixed assets			
Intangible assets	7	-	36
Current assets			
Stocks	8	**2**	–
Debtors	9	**109**	256
Cash at bank		**89**	–
		200	256
Creditors: amounts falling due within one year	10	**147**	295
Net current assets/(liabilities)		**53**	(39)
Total assets less current liabilities		**53**	(3)
Provisions for liabilities and charges			
Deferred taxation	11	**2**	15
		51	(18)
Capital and reserves			
Share capital	13	–	–
Profit and Loss Account	14	**51**	(18)
Shareholders' funds/(deficiency)	15	**51**	(18)

These financial statements were approved by the directors on 28 March 03 and are signed on their behalf by:

K F Mee

Notes to the financial statements

1 Turnover

The turnover and profit before tax are attributable to the one principal activity of the company.

An analysis of turnover is given below:

	Year ended 31 December 2002 £000	Period ended 31 December 2001 £000
United Kingdom	693	386
Europe	3	3
Rest of World	-	30
	696	419

2 Other operating income and charges

	2002 £000	2001 £000
Administrative expenses	125	107

3 Operating profit

Operating profit is stated after charging:

	2002 £000	2001 £000
Amortisation	36	12
Auditors' remuneration:		
Audit fees	2	2

4 Directors and employees

The average number of staff employed by the company during the financial year amounted to:

	2002 No	2001 No
Operational	6	6

4 Directors and employees (continued)

The aggregate payroll costs of the above were:

	Year ended 31 December 2002 £000	Period ended 31 December 2001 £000
Wages and salaries	**243**	175
Social security costs	**17**	13
Pensions paid to former employees	**5**	3
	265	191

5 Directors

Remuneration in respect of directors was as follows:

	2002 £000	2001 £000
Emoluments receivable	**51**	39

The number of directors who are accruing benefits under company pension schemes was as follows:

	2002 No	2001 No
Defined benefit schemes	**1**	1

6 Tax on profit on ordinary activities

(a) Taxation

	2002 £000	2001 £000
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 20% (2001 - 20%)	**23**	11
Total current tax	**23**	11
Deferred tax:		
Decrease in deferred tax provision	**(13)**	(2)
Tax on profit on ordinary activities	**10**	9

6 Tax on profit on ordinary activities (continued)

(b) Factors affecting current tax charge

	Year ended 31 December 2002 £000	Period ended 31 December 2001 £000
Profit on ordinary activities before taxation	78	48
Profit on ordinary activities by rate of tax	23	14
Expenses not deductible for tax	1	–
Short term timing differences	12	4
Adjustment for small companies rate of corporation tax	(13)	(5)
Brought forward losses	–	(2)
Total current tax (note 6(a))	23	11

7 Intangible fixed assets

	Development costs £000
Cost	
At 1 January 2002 and 31 December 2002	84
Amortisation	
At 1 January 2002	48
Charge for the year	36
At 31 December 2002	84
Net book value	
At 31 December 2002	-
At 31 December 2001	36

The directors have reassessed the value of the above intangible asset to the business at 31 December 2002 and, as a result, have fully amortised the remaining net book value at that date.

8 Stocks

	2002 £000	2001 £000
Work in progress	2	–

9 Debtors

	2002 £000	2001 £000
Trade debtors	100	127
Other debtors	1	117
Prepayments and accrued income	8	12
	109	256

10 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Bank loans and overdrafts	–	1
Trade creditors	–	6
Amounts owed to group undertakings	83	240
Corporation tax	23	11
Other taxation and social security	31	21
Accruals and deferred income	10	16
	147	295

The bank overdraft is secured by a debenture in the favour of The Royal Bank of Scotland. The security is in the form of fixed and floating charges over the company and all property and assets.

Amounts owed to the group undertakings are unsecured, interest free and have no fixed repayment date but will not be recalled until such time as the company can meet all its other liabilities as they fall due.

11 Deferred taxation

	2002 £000	2001 £000
The movement in the deferred taxation provision during the year was:		
Provision brought forward	15	17
Profit and Loss Account movement arising during the year	(13)	(2)
Provision carried forward	2	15

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2002 £000	2001 £000
Other timing differences	2	15

12 Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

13 Share capital

Authorised share capital:

	2002 £000	2001 £000
100 Ordinary shares of £1 each	-	-

Allotted, called up and fully paid:

	2002 £000	2001 £000
Ordinary share capital	-	-

14 Profit and loss account

	2002 £000	2001 £000
Balance brought forward	(18)	(57)
Retained profit for the financial year	69	39
Balance carried forward	51	(18)

15 Reconciliation of movements in shareholders' funds

	2002 £000	2001 £000
Profit for the financial year	69	39
Opening shareholders' equity deficit	(18)	(57)
Closing shareholders' equity funds/(deficit)	51	(18)

16 Pension commitments

The majority of employees are members of the group's section of the Railways Pension Scheme which includes arrangements for all employees of the group and is an industry-wide contributory scheme with defined benefits based on average final salary. Those employees who were employees of the British Railways Board at 5 November 1993 have statutory protection of pension rights under the Railway Act 1993 and are entitled to the same pension rights for all future continuous employment.

The results of the actuarial valuation carried out as at 31 December 2001 show that the assets of the group's section of the Scheme at the date of valuation were £5.726m and the actuarial valuation of those assets represented 105% of the benefits accrued to members after allowing for expected future increases in earnings. For the actuarial valuation, the projected unit method was used for those sections that remained open to new members at the valuation date and the attained age method for those which were closed to new members.

The main financial actuarial assumptions used in the valuation at 31 December 2001 were:

	% per annum
Investment return - existing assets	5.53%
Investment return - new assets	6.3%
Pay increases	4.0%
Pension increases	4.0%
State basic pension increases	2.5%

16 Pension commitments (continued)

The scheme trustees decide the levels of contributions and from 1 January 1999 the rate of contributions for employees is 5% of Scheme pay and the rate of company contributions is nil. Subsequent to the above valuation, the Trustees of the scheme have agreed, with the actuary, contribution rates of 5% for existing employees to 30 April 2004 and company contributions of nil to 31 December 2003. It is anticipated that from 1 May 2004 rates will increase to a joint contribution rate of 23.4%.

The net pension cost to the company taking into account experienced surpluses is charged or credited to the profit and loss account and amounted to £4,550 for the year (2001: £3,000).

There was a prepayment of £7,124 in the balance sheet at 31 December 2001 (2001: £11,674) and the amount outstanding due to the fund at the end of the period was £nil (2001: £nil).

The latest full actuarial valuation at 31 December 2001 was updated to 31 December 2002 by a qualified independent actuary. The main assumptions used by the actuary were:

	2002	2001
Rate of increase in salaries	**4.25%**	4.25%
Rate of increase in pensions in payment	**2.50%**	2.50%
Rate of increase in deferred pensions	**2.50%**	2.50%
Discount rate	**5.50%**	5.75%
Inflation assumption	**2.50%**	2.50%

The assets and liabilities of the scheme and the expected rate of return at 31 December 2002 were:

	Long term rate of return expected	**Value £000**
Equities	**7.00%**	**3,738**
Bonds	**4.75%**	**495**
Properties	**6.00%**	**379**
Total market value of assets		**4,612**
Present value of section liabilities		**(5,469)**
Pension (deficit) before deferred tax		**(857)**
Related deferred tax asset		**257**
Net pension (liability)		**(600)**

16 Pension commitments (continued)

The amounts that would have been (charged) / credited to profit and loss are:

	2002 £000
Current service cost, less employee contributions	162
Past service costs	-
Total charged to operating profit	162
Interest on section liabilities	(300)
Expected return on assets	387
Net return	87

The amounts that would have been shown in the statement of total recognised gains and losses are:

	2002 £000
Actual return less expected return on assets	(1,402)
Experience gains on liabilities	291
Effect of change in assumptions on liabilities	(271)
Total (loss) recognised before adjustment for tax	(1,382)

The history of gains and losses has been:

	2002 £000
Actual return less expected return on assets	(1,402)
% of section assets	30%
Experience gains on section liabilities	291
% of present value of section liabilities	5%
Total actuarial (losses) recognised	(1,382)
% of section liabilities	25%

The movement in the surplus / (deficit) in the year was:

	2002 £000
Surplus in section at the beginning of the year	600
Current service cost	(162)
Other finance income	87
Actuarial (loss)	(1,382)
(Deficit) in the section at the end of the year	(857)

17 Contingent liabilities

The company is a party, together with other group companies, to a debenture in favour of The Royal Bank of Scotland plc as security for overdraft facilities. The security is in the form of fixed and floating charges over the company and all property and assets. There are also cross guarantees between companies within the group. Total group net borrowings at 31 December 2002 were £nil (2001: £nil). The contingent liability of Rail Industry Quality Certification Limited was £nil (2001: £5,263).

18 Ultimate parent company

The directors consider that the ultimate parent undertaking of this company is The QSS Group Limited due to its 100% shareholding in the company.

There is no ultimate controlling party as no one person or related persons has greater than 50% of the voting rights of The QSS Group Limited.