REGISTRAR

Running Deep Limited

Report and Financial Statements

31 January 2003

ERNST & YOUNG

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COMPANIES HOUSE 26/11/03

Registered No: 3606689

Directors
Councillor D W Gemmell (Chairman)
J A Parkes CBE
J F Brignall
Professor G Chesters
Professor P E Kopp
A J Hunt
M R Killoran
A Pearson
C C Brown

Secretary
Neil G Porteus

Auditors
Ernst & Young LLP
P O Box 3
Lowgate House
Lowgate
Hull
HU1 1JJ

Bankers
National Westminster Bank Plc
PO Box 944
34 King Edward Street
Hull
HU1 3YN

Solicitors
Rollits
Wilberforce Court
High Street
Hull
HU1 1YJ

Registered office
The Deep Business Centre
Kingston upon Hull
HU1 4BG

Directors' report

The directors present their report and financial statements for the year ended 31 January 2003.

Results and dividends

The profit for the year amounted to £1,660,883. The directors do not recommend the payment of any dividends.

Gift aid payments, of £1,200,000 and £525,086 were made by the company to its parent, EMIH Limited on 28 and 30 October 2003 respectively.

Principal activities and review of the business

The principal activities of the company during the year were to operate The Deep Business Centre, a serviced business centre; and, from 23 March 2002, The Deep Visitor Attraction. Both of these facilities are located in Hull.

Directors

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

Councillor D W Gemmell	
J A Parkes CBE	
J F Brignall	
Professor G Chesters	
Professor P E Kopp	
A J Hunt	
M R Killoran	
A Pearson	
C C Brown	(Appointed 28 March 2002)

There are no directors' interests requiring disclosure under the Companies Act 1985.

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 and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report

Auditors

On 28 July 2000, the Members of the Company resolved to dispense with the obligation to appoint auditors annually (in accordance with Section 386 of the Companies Act 1985). Accordingly, Ernst & Young LLP shall remain the appointed auditors until the Members of the Company resolve otherwise.

By order of the board

Neil G Porteus
Secretary

21 November 2003

Ernst & Young

Independent auditors' report

to the members of Running Deep Limited

We have audited the company's financial statements for the year ended 31 January 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 16. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 . Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit 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.

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Independent auditors' report

to the members of Running Deep Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 January 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Hull

21 November 2003

Profit and loss account
for the year ended 31 January 2003

	Notes	2003 £	2002 £
Turnover	2	4,554,312	249,385
Cost of sales		1,106,801	100,393
Gross profit		3,447,511	148,992
Administrative expenses		1,802,630	124,924
Operating profit	3	1,644,881	24,068
Bank interest receivable	6	12,490	–
Profit on ordinary activities before taxation		1,657,371	24,068
Tax on profit on ordinary activities	7	(3,512)	–
Profit retained for the financial year		1,660,883	24,068

Statement of total recognised gains and losses
There are no recognised gains or losses other than the profit of £1,660,883 attributable to the shareholders for the year ended 31 January 2003 (2002 - profit of £24,068).

Balance sheet
at 31 January 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	8	23,736	–
Current assets			
Stocks	9	146,569	–
Debtors	10	749,813	76,969
Cash at bank and in hand		1,476,607	102,726
		2,372,989	179,695
Creditors: amounts falling due within one year	11	711,772	155,625
Net current assets		1,661,217	24,070
Total assets less current liabilities		1,684,953	24,070
Capital and reserves			
Called up share capital	14	2	2
Profit and loss account	15	1,684,951	24,068
Equity shareholders' funds	15	1,684,953	24,070

Councillor D W Gemmell
Chairman

J A Parkes CBE
Director

21 November 2003

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Notes to the financial statements
at 31 January 2003

1. Accounting policies
Basis of preparation
The financial statements are prepared under the historical cost convention.

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 wholly owned and its parent publishes a consolidated cash flow statement.

Fixed assets
All fixed assets are initially recorded at cost.

Depreciation
Depreciation is provided on all tangible fixed assets, at rates calculated to write off thecost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Equipment	-	3 -5 years

A full year's depreciation is charged in the year of acquisition.

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

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

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. FRS 19 'Deferred Taxation' was issued on 7 December 2000 and is mandatory for years ending on or after 23 January 2002. The company has therefore followed the provisions of FRS 19 this year. 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 that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exception:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on a non-discounted 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 January 2003

1. Accounting policies (continued)

Pension costs

The company operates a defined benefit pension scheme, which requires contributions to be made to separately administered funds. Contributions are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives within the company. The regular cost is attributed to individual years using the projected unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged in the profit and loss account are treated as either provisions or prepayments in the balance sheet.

2. Turnover

Turnover, which is stated net of value added tax, arises from the one continuing activity of the company in the United Kingdom and represents amounts invoiced for services to third parties and other group companies.

An analysis of turnover by geographical market is given below:

	2003	*2002*
	£	*£*
United Kingdom	4,554,312	249,385

3. Operating profit

This is stated after charging:

		2003	*2002*
		£	*£*
Auditors' remuneration	- audit services	5,000	–
	- non-audit services	2,500	–
		7,500	–
Depreciation of owned fixed assets		7,811	–

Notes to the financial statements
at 31 January 2003

4. Staff costs

	2003 £	2002 £
Wages and salaries	982,101	7,426
Social security costs	246,365	466
Pensions	57,923	401
	1,286,389	8,293

The monthly average number of employees during the year was as follows:

	2003 No.	2002 No.
Administrative staff	118.4	1.7
Management staff	6	1
	124.4	2.7

In addition to these staff costs, there were some staff costs borne direct by the ultimate parent company (EMIH Limited) from designated grant funding.

5. Directors' emoluments

	2003 £	2002 £
Emoluments	78,400	–
Value of company pension contributions to money purchase schemes	6,779	–

6. Interest receivable

	2003 £	2002 £
Bank interest receivable	12,490	–

Notes to the financial statements
at 31 January 2003

7. Tax

(a) Tax on profit on ordinary activities

The tax credit is made up as follows:

	2003	*2002*
	£	*£*
Current tax:		
Corporation tax	–	–
Tax under provided in previous years	91	–
Total current tax (note 7(b))	91	–
Deferred tax:		
Origination and reversal of timing differences	(3,051)	–
Adjustment in respect of prior periods	(552)	–
Tax on profit on ordinary activities	(3,512)	–

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2002 - 20%). The differences are reconciled below:

	2003	*2002*
	£	*£*
Profit on ordinary activities before taxation	1,657,371	24,068
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK	497,211	4,814
Expenses not deductible for tax purposes	9,764	–
Depreciation in excess of capital allowances	3,051	–
Adjustment in respect of prior periods	91	–
Gift aid payment to parent charity following the year end	(517,526)	(4,814)
Adjustment for prior year gift aid payment	7,500	–
Total current tax (note 7(a))	91	–

(c) Deferred tax

	2003	*2002*
	£	*£*
Originating and reversal of timing differences	3,051	–
Adjustment in respect of prior periods	552	–
Provision for deferred taxation	3,603	–

	£
Profit and Loss Account movement arising during the year	3,603
At 31 January 2003	3,603

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Notes to the financial statements

at 31 January 2003

8. Tangible fixed assets

	Equipment £
Cost:	
At 1 February 2002	–
Additions	31,547
At 31 January 2003	31,547
Depreciation:	
At 1 February 2002	–
Provided during the year	7,811
At 31 January 2003	7,811
Net book value:	
At 31 January 2003	23,736
At 1 February 2002	–

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9. Stocks

	2003 £	2002 £
Finished goods	146,569	–

10. Debtors

	2003 £	2002 £
Trade debtors	62,659	20,795
Amounts owed by group undertakings	588,201	41,353
Other debtors	45,217	–
Prepayments and accrued income	50,133	14,821
Deferred taxation (note 7)	3,603	–
	749,813	76,969

11. Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	151,504	32,115
Amounts owed to group undertakings	285,946	10,293
Other taxation	–	23,557
Other creditors	14,215	–
Accruals and deferred income	260,107	89,660
	711,772	155,625

Notes to the financial statements

at 31 January 2003

12. Related party transactions

Advantage has been taken of exemptions available under FRS8 from disclosing transactions with other group companies.

On 24 June 2002, an interest free loan of £17,995 was made to Mr C C Brown , a director of the company under the company's assisted car purchase scheme. The maximum amount outstanding during the year was £17,995 and the amount outstanding at 31 January 2003 was £16,271. A P11D has been issued and therefore Mr C C Brown has paid the relevant amount of tax on the interest benefit of this loan personally.

13. Share capital

		Authorised
	2003	*2002*
	£	*£*
Ordinary shares of £1 each	1,000	1,000

	Allotted, called up and fully paid			
		2003		*2002*
	No.	*£*	*No.*	*£*
Ordinary shares of £1 each	2	2	2	2

14. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£	*£*	*£*
At 1 February 2001	2	–	2
Profit for the year	–	24,068	24,068
At 31 January 2002	2	24,068	24,070
Profit for the year	–	1,660,883	1,660,883
At 31 January 2003	2	1,684,951	1,684,953

15. Pension commitments

Running Deep Limited is an admitted body of the East Riding Pension Fund, a Local Government Pension Scheme (LGPS) administered by the East Riding of Yorkshire Council. The Pension Scheme is a defined benefit scheme, with benefits being determined by an employee's length of service and level of remuneration during their last 12 months of employment. Membership of the Pension Scheme is open to all employees, with an employee required to make a contribution of 6% of pensionable pay with The Deep augmenting this with an employer contribution of 10.8% of an employee's pensionable pay.

Following an actuarial valuation of the East Riding Pension Fund by Hymans Robertson as at 31March 2001, The Deep has been informed that the employee contribution rate will remain at 6% of pensionable pay, but that the employer contribution rate will be12.9% from 1 April 2003 and 15.0% from 1 April 2004. The next scheduled actuarial valuation of the Fund will take place as at 31 March 2004 and will make recommendations for the employers rates for the proceeding three years based on the assets and liabilities of the Fund at that time.

The pension cost for the period of these accounts was £57,923 (2002 - £401), of which was £5,021 was owing to the East Riding Pension Fund at 31 January 2003, but which was paid in full on 13 February 2003.

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Notes to the financial statements
at 31 January 2003

15. Pension commitments (continued)

Therefore, the Pension Scheme is a multi-employer plan with contributions set entirely with reference to the pensionable pay included in these accounts. In these circumstances, were FRS17 to be adopted allows defined benefit plans to be accounted for on a defined contribution basis as it is not possible to identify the company's share of the underlying assets and liabilities.

16. Ultimate parent company

The company's ultimate parent undertaking is EMIH Limited. It has included the company in its group financial statements, copies of which are available from its registered office: The Deep, Kingston upon Hull, HU1 4DP.