

Company Registration No. 4512219 (England and Wales)

COMPANIES HOUSE COPY

**HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)**

GROUP REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2003



HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)

COMPANY INFORMATION

Directors	C Cheshire R Skipp N Williams
Company secretary	N Williams
Company number	4512219
Registered office	Enterprise House 181-189 Garth Road Morden Surrey SM4 4LL
Business address	Enterprise House 181-189 Garth Road Morden Surrey SM4 4LL
Auditors	UHY Hacker Young St Alphage House 2 Fore Street London EC2Y 5DH
Bankers	Royal Bank of Scotland plc 62-63 Threadneedle Street London EC2R 8LA
Solicitors	Eversheds Cloth Hall Court Infirmary Street Leeds LS1 2JB

**HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)**

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**HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)**

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2003**

The directors present their report together with the accounts of the group for the year ended 31 December 2003.

Principal activities and review of the business

The company was incorporated on 15 August 2002.

On 12 September 2002 the company purchased 100% of the ordinary share capital of Hudson Engineering Services Limited (formerly Hudson Electronic Systems Limited), which on the same date acquired the business carried on by Hudson Electrical Limited by way of a management buyout.

Following the management buyout the company changed its year end to 31 December, as the directors feel this better reflects the seasonality of the business.

On 14 October 2002 the company purchased 100% of the ordinary share capital of Hudson Electrical Limited (formerly Ever 1848 Limited). This company remains dormant.

On 24 October 2002 the company changed its name from Hudson Engineering Services Limited to Hudson Electronic Systems Limited.

Results and dividends

The financial statements show turnover of £13,678,646 (2002: £3,697,802), producing a loss on ordinary activities before interest and taxation of £62,753 (2002: £261,213 profit). This result is after taking account of amortisation of goodwill purchased at the time of the management buyout of £158,915 (2002: £37,741).

The directors do not propose a dividend, and the retained loss of £197,660 has been transferred to reserves.

Directors and their interests

The directors who served during the year and their beneficial interests in the shares of the company at the end of the year were as follows:

	31 December 2003	Ordinary shares of £1 each 31 December 2002
C Cheshire	100	100
L Fitzpatrick (Resigned 29 February 2004)	100	100
A Sheehan (Resigned 29 February 2004)	100	100
R Skipp	100	100
N Williams	100	100

**HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)**

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2003**

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that UHY Hacker Young, formerly known as Hacker Young, be reappointed as auditors of the company will be put to the Annual General Meeting.

Directors' responsibilities for the accounts

Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss for that year. It is also the directors' responsibility to maintain adequate accounting records, safeguard the assets of the company and the group and to take reasonable steps in preventing and detecting fraud and other irregularities.

The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the accounts on a going concern basis, and that applicable accounting standards have been followed.

By order of the board



N Williams

Director

28 October 2004

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)**

We have audited the financial statements of Hudson Electronic Systems Limited (formerly Hudson Engineering Services Limited) on pages 4 to 18 for the year ended 31 December 2003. These financial statements have been prepared under the historical cost convention and 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 on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom 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 opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes an 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 the affairs of the company and of the group as at 31 December 2003 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

UHY Hacker Young
Chartered Accountants
Registered Auditors

28 October 2004

HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)

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CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	£	2003 £	£	6m period ended 31 December 2002 £
Turnover - acquisitions	2		13,678,646		3,697,802
Cost of sales			(10,413,576)		(2,527,167)
Gross profit			3,265,070		1,170,635
Distribution costs			(580,752)		(131,708)
Administrative expenses prior to goodwill amortisation		2,588,156		739,973	
Amortisation of goodwill		158,915		37,741	
Administrative expenses			(2,747,071)		(777,714)
Operating profit prior to goodwill amortisation		96,162		298,954	
Amortisation of goodwill		(158,915)		(37,741)	
Operating (loss)/profit	3		(62,753)		261,213
Interest payable	6		(142,518)		(35,039)
(Loss)/Profit on ordinary activities before taxation			(205,271)		226,174
Taxation	7		7,611		(35,358)
(Loss)/Profit on ordinary activities after taxation	18		(197,660)		190,816

There were no recognised gains or losses other than those passing through the profit and loss account.

HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)

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CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2003

	Notes	£	2003 £	£	2002 £
Fixed assets					
Intangible assets	9		1,392,489		1,551,404
Tangible assets	10		155,954		19,086
			<hr/>		<hr/>
			1,548,443		1,570,490
Current assets					
Stock	12	741,048		570,192	
Debtors	13	2,464,781		1,743,100	
Cash at bank and in hand		39,697		4,400	
		<hr/>		<hr/>	
			3,245,526	2,317,692	
Creditors: amounts falling due within one year	14	(3,702,858)		(2,346,866)	
		<hr/>		<hr/>	
Net current liabilities			(457,332)		(29,174)
			<hr/>		<hr/>
Total assets less current liabilities			1,091,111		1,541,316
Creditors: amounts falling due after more than one year	15		(1,047,455)		(1,300,000)
			<hr/>		<hr/>
Net assets			43,656		241,316
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	17		1,000		1,000
Share premium	18		49,500		49,500
Profit and loss account	18		(6,844)		190,816
			<hr/>		<hr/>
Shareholders' funds - equity interests	19		43,656		241,316
			<hr/>		<hr/>

The accounts were approved by the board on 28 October 2004


N Williams
Director

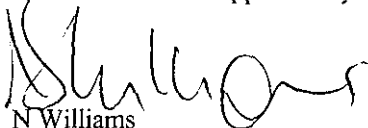
HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)

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COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2003

	Notes	£	2003 £	£	2002 £
Fixed assets					
Investments	11		15,001		15,001
Current assets					
Debtors	13	1,251,094		1,544,235	
Creditors: amounts falling due within one year	14	(300,000)		(229,060)	
Net current assets			951,094		1,315,175
Total assets less current liabilities			966,095		1,330,176
Creditors: amounts falling due after more than one year	15		(1,047,455)		(1,300,000)
			(81,360)		30,176
Capital and reserves					
Called up share capital	17		1,000		1,000
Share premium	18		49,500		49,500
Profit and loss account	18		(131,860)		(20,324)
Shareholders' funds – equity interests			(81,360)		30,176

The accounts were approved by the board on 28 October 2004



N Williams
Director

HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)

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CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	£	2003 £	£	2002 £
Net cash outflow from operating activities	20		(215,600)		(5,232)
Returns on investments and servicing of finance					
Interest paid			(142,518)		(35,039)
Taxation			(321)		(35,358)
Capital expenditure and financial investment					
Payments to acquire fixed assets		(161,328)		(1,850)	
Net cash outflow capital expenditure and financial investment			(161,328)		(1,850)
Acquisitions					
Purchase of subsidiary	11	-	(15,001)		
Net overdraft acquired with subsidiary		-	(108,894)		
Purchase of trade	9	-	(1,485,000)		
Net cash outflow from acquisitions			-		(1,608,895)
Net cash outflow before financing			(519,767)		(1,686,374)
Financing					
Issue of shares		-	50,500		
Bank loan (repayment)/issue		(152,545)	1,500,000		
Net cash (outflow)/inflow from financing			(152,545)		1,550,500
Decrease in cash	21		(672,312)		(135,874)

HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)

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NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003

1. **Accounting policies**

a) **Basis of preparation and going concern**

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

b) **Basis of consolidation**

The consolidated accounts include the audited accounts of the company and its subsidiary undertakings drawn up to 31 December 2003 by the principles of acquisition accounting. Intra-group transactions and results are eliminated on consolidation.

c) **Turnover**

Turnover comprises amounts receivable for goods and services net of value added tax and trade discounts.

d) **Intangible fixed assets and amortisation**

Goodwill represents the difference between the costs of acquisition and the fair value of the net tangible assets acquired. In accordance with Financial Reporting Standard 10, goodwill arising on the acquisition of subsidiaries is capitalised as an intangible asset and amortised over the useful economic life, considered by the directors to be 10 years.

e) **Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on the straight line basis at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold improvements	- Over the term of the lease
Plant and machinery	- 20% straight line
Goodwill	- 10% straight line

f) **Leasing**

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

g) **Stock and work in progress**

Stock and work in progress are valued at the lower of cost and net realisable value.

h) **Pensions**

Payments to the company's defined contribution pension scheme are charged to the profit and loss account as they become payable.

i) **Deferred taxation**

Deferred taxation is provided at appropriate rates, using the liability method, on all timing differences only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

j) **Investments**

Investments are stated at cost less provision for impairment in value, where necessary.

HUDSON ELECTRONIC SYSTEMS LIMITED
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NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003

2. Turnover

The total turnover of the group for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

3. Operating profit

	2003	2002
	£	£
The group operating (loss)/profit is stated after charging:		
Depreciation of tangible fixed assets	24,460	2,514
Auditors' remuneration – group audit fees	18,011	7,500
Operating lease rentals – other assets	561,769	144,074
Amortisation of goodwill	158,915	37,741
	<u>2003</u>	<u>2002</u>

4. Employees

	2003	2002
	£	£
Wages and salaries	5,708,265	1,528,277
Social security costs	571,288	141,029
Other pension costs	24,961	-
	<u>2003</u>	<u>2002</u>
	6,304,514	1,669,306

The average weekly number of employees was as follows:

	Number	Number
Administrative and engineers	224	195

5. Directors' emoluments

	2003	2002
	£	£
Emoluments for qualifying services	270,457	123,776
Other pension costs	23,800	-
	<u>2003</u>	<u>2002</u>
	294,257	123,776

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	80,365	37,748
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NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003

6. Interest payable and similar charges

	2003	2002
	£	£
On bank loans and overdrafts:		
Wholly repayable within 5 years	86,536	29,059
On amounts payable to factors	55,982	5,980
	<u>142,518</u>	<u>35,039</u>

7. Taxation

	2003	2002
	£	£
Domestic current year tax		
UK corporation tax	-	48,398
Adjustments for prior years	(49,085)	-
	<u>(49,085)</u>	<u>48,398</u>
Current tax charge	(49,085)	48,398
Deferred tax		
Deferred tax credit current period	(12,763)	(13,040)
Adjustments for prior years	54,237	-
	<u>41,474</u>	<u>(13,040)</u>
	<u>(7,611)</u>	<u>35,358</u>
Factors affecting the tax charge for the year		
(Loss)/Profit on ordinary activities before taxation	(205,271)	226,174
(Loss)/Profit on ordinary activities before taxation multiplied by standard rate of corporation tax of 19% (2002: 30%)	(39,001)	67,852
Effects of:		
Non-deductible expenses	950	4,235
Depreciation	4,647	754
Capital allowances	(5,830)	(2,709)
Tax losses utilised	36,879	(26,329)
Other tax adjustments	2,355	4,595
Adjustments to previous periods	(49,085)	-
	<u>(10,084)</u>	<u>(19,454)</u>
Current tax (credit)/charge	<u>(49,085)</u>	<u>48,398</u>

HUDSON ELECTRONIC SYSTEMS LIMITED
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NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003

8. Profit attributable to members of the parent company

The company has taken advantage of the exemption under Section 230 of the Companies Act 1985 in not presenting its own profit and loss account. The loss after taxation of the company amounting to £111,536 for the year ended 31 December 2003 has been dealt with in the financial statements of the parent company.

9. Intangible fixed assets - group

	Goodwill
	£
Cost	
At 1 January 2003 & 31 December 2003	1,589,145
	<u>=====</u>
Amortisation	
At 1 January 2003	37,741
Charge for the year	158,915
	<u>=====</u>
At 31 December 2003	196,656
	<u>=====</u>
Net book value	
At 31 December 2003	1,392,489
	<u>=====</u>
At 31 December 2002	1,551,404
	<u>=====</u>

On 12 September 2002, the group concluded a management buyout to carry on the former business of Hudson Electrical Limited for a consideration of £1,585,000, including deferred consideration of £100,000. The group agreed to pay to Hudson Electrical Limited by way of deferred consideration, 20% of the amount received in relation to work in progress invoices. The remaining consideration was paid in cash on completion.

The amount of goodwill arising as a result of the acquisition is £1,465,185, which is being written off to the profit and loss account over 10 years.

An analysis of net assets (at book and fair values) acquired is as follows:

	£
Tangible fixed assets	19,750
Current assets:	
Stocks	502,500
Creditors:	
Other	(402,435)
	<u>=====</u>
Net assets	119,815
	<u>=====</u>

HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)

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NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003

10. **Tangible fixed assets - group**

	Leasehold Improvements £	Fixtures and Fittings £	Plant and machinery £	Total £
Cost				
At 1 January 2003	-	-	21,600	21,600
Additions	95,860	29,704	35,764	161,328
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	95,860	29,704	57,364	182,928
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 January 2003	-	-	2,514	2,514
Charge for the period	9,166	3,024	12,270	24,460
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	9,166	3,024	14,784	26,974
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2003	86,694	26,680	42,580	155,954
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002	-	-	19,086	19,086
	<hr/>	<hr/>	<hr/>	<hr/>

HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)

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NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003

11. Fixed asset investments

Company	Subsidiary undertakings £
Cost	
At 1 January 2003	15,001
Additions	-
Net book value	
At 31 December 2003	15,001

The company's acquired subsidiary undertakings are as follows:

Name	Activity	Country of incorporation	Proportion held
Hudson Engineering Services Limited	General contractor	England & Wales	100%
Hudson Electrical Limited	Dormant	England & Wales	100%
			Book and fair value £
Stock			15,000
Debtors			89,926
Creditors			(213,886)
Net liabilities			(108,960)
Goodwill arising on acquisition			123,960
Cost of acquisition – settled by cash			15,000

The results relating to Hudson Engineering Services Limited at the date of acquisition are set out below:

	£
Results from 1 July 2002 (the start of the subsidiary's financial year) to 12 September 2002 (the date of acquisition)	-
Loss after tax for the previous financial year	190,678

HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)

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NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003

12. Stock and work in progress

	Group 2003 £	Company 2003 £	Group 2002 £	Company 2002 £
Raw materials and consumables	123,187	-	69,175	-
Work in progress	617,861	-	501,017	-
	<u>741,048</u>	<u>-</u>	<u>570,192</u>	<u>-</u>

13. Debtors

	Group 2003 £	Company 2003 £	Group 2002 £	Company 2002 £
Trade debtors	2,040,687	-	1,515,335	-
Other debtors	32,350	149	150	8,885
Prepayments and accrued income	377,630	-	173,378	-
Due from subsidiaries	-	1,241,953	-	1,535,350
Corporation tax recoverable	1,351	8,992	-	-
Deferred tax asset	12,763	-	54,237	-
	<u>2,464,781</u>	<u>1,251,094</u>	<u>1,743,100</u>	<u>1,544,235</u>

Deferred tax

	2003 £
Balance at 1 January 2003 and at 31 December 2003	54,237
Profit and loss account	(41,474)
	<u>12,763</u>

Balance as at 31 December 2003

	2003 £	2002 £
Accelerated capital allowances	(2,924)	(1,955)
Other timing differences	-	9,000
Tax losses available	15,687	47,192
	<u>12,763</u>	<u>54,237</u>

HUDSON ELECTRONIC SYSTEMS LIMITED
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NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003

14. Creditors: amounts falling due within one year

	Group 2003 £	Company 2003 £	Group 2002 £	Company 2002 £
Bank loans and overdrafts (note 16)	1,147,883	300,000	340,274	200,000
Trade creditors	1,549,040	-	796,267	-
Corporation tax	-	-	48,055	-
Other taxes and social security costs	672,071	-	390,331	-
Other creditors	73,418	-	304,129	-
Accruals and deferred income	260,446	-	467,810	29,060
	<u>3,702,858</u>	<u>300,000</u>	<u>2,346,866</u>	<u>229,060</u>

15. Creditors: amounts falling due after more than one year

	Group 2003 £	Company 2003 £	Group 2002 £	Company 2002 £
Bank loan (note 16)	<u>1,047,455</u>	<u>1,047,455</u>	<u>1,300,000</u>	<u>1,300,000</u>

The above amount represents a bank loan with an interest rate of 2.5% above the base rate to be repaid by 19 December 2006.

16. Borrowings

	Group 2003 £	Company 2003 £	Group 2002 £	Company 2002 £
Bank overdrafts	847,883	-	140,274	-
Bank loan	1,347,455	1,347,455	1,500,000	1,500,000
	<u>2,195,338</u>	<u>1,347,455</u>	<u>1,640,274</u>	<u>1,500,000</u>
Due within one year	1,147,883	300,000	340,274	200,000
Due between one and two years	300,000	300,000	300,000	300,000
Due between two and five years	747,455	747,455	1,000,000	1,000,000
	<u>2,195,338</u>	<u>1,347,455</u>	<u>1,640,274</u>	<u>1,500,000</u>

The bank overdrafts are unsecured and repayable on demand. The bank loan is secured by a debenture over the assets of the subsidiary companies involved in favour of the bank.

HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)

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NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003

17. Called up share capital

	2003	2002
Authorised:		
500 'A' Ordinary shares of £1 each	500	500
450 'B' Ordinary shares of £1 each	450	450
50 'C' Ordinary shares of £1 each	50	50
	<hr/>	<hr/>
	1,000	1,000
	<hr/>	<hr/>
Allotted, issued and fully paid:		
500 'A' Ordinary shares of £1 each	500	500
450 'B' Ordinary shares of £1 each	450	450
50 'C' Ordinary shares of £1 each	50	50
	<hr/>	<hr/>
	1,000	1,000
	<hr/>	<hr/>

The above share classes rank pari passu in all respects.

18. Statement of movements on reserves

Group	Share premium £	Profit and loss account £
At 1 January 2003	49,500	190,816
Share issues	-	-
Loss for the year	-	(197,660)
	<hr/>	<hr/>
At 31 December 2003	49,500	(6,844)
	<hr/>	<hr/>
Company	£	£
At 1 January 2003	49,500	(20,324)
Share issues	-	-
Loss for the year	-	(111,536)
	<hr/>	<hr/>
At 31 December 2003	49,500	(131,860)
	<hr/>	<hr/>

The group cannot distribute dividends until the bank loan is fully repaid.

HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)

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NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003

19. Reconciliation of movement in shareholders' funds

	2003	2002
	£	£
Opening shareholders' funds	241,316	-
(Loss)/Profit for the financial year/period	(197,660)	190,816
Shares issued	-	50,500
	<u> </u>	<u> </u>
Closing shareholders' funds	<u>43,656</u>	<u>241,316</u>

20. Reconciliation of operating (loss)/profit to net cash outflow from operating activities

	2003	2002
	£	£
Operating (loss)/profit	(62,753)	261,213
Amortisation charges	158,915	37,741
Depreciation charges	24,460	2,514
Increase in stock	(170,856)	(570,192)
Increase in debtors	(761,804)	(1,743,100)
Increase in creditors	596,438	2,006,592
	<u> </u>	<u> </u>
Net cash outflow from operating activities	<u>(215,600)</u>	<u>(5,232)</u>

21. Analysis of changes in net debt

	1 January	Cash	31 December
	2003	flows	2003
	£	£	£
Cash at bank and in hand	4,400	35,297	39,697
Bank overdrafts	(140,274)	(707,609)	(847,883)
	<u> </u>	<u> </u>	<u> </u>
Total net debt	<u>(135,874)</u>	<u>(672,312)</u>	<u>(808,186)</u>

HUDSON ELECTRONIC SYSTEMS LIMITED
(FORMERLY HUDSON ENGINEERING SERVICES LIMITED)

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NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003

22. Reconciliation of net cash flow to movement in net debt

	2003 £	2002 £
Increase in cash in the year	(35,297)	(4,400)
Cash inflow from increase in debt	707,609	140,274
	<hr/>	<hr/>
Change in net debt resulting from cash flows	672,312	135,874
Net debt at 1 January	135,874	-
	<hr/>	<hr/>
Net debt at 31 December	<u>808,186</u>	<u>135,874</u>

23. Financial commitments

At 31 December 2003, the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Others	
	2003	2002	2003	2002
	£	£	£	£
Expiry date:				
Within one year	-	-	23,498	81,650
Between two and five years	21,450	-	492,374	221,226
In over five years	9,938	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>31,388</u>	<u>-</u>	<u>515,872</u>	<u>302,876</u>

24. Control

No one party has overall control of the group.