

**ATESTA GROUP LIMITED
AND SUBSIDIARIES**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
31 AUGUST 2004**

COMPANY NUMBER: SC161800



**GCT 881DY28M 1384
COMPANIES HOUSE 25/01/05**

ATESTA GROUP LIMITED AND SUBSIDIARIES

DIRECTORS

R M Bailey
E W Bailey
M W Jones
P Middleton
D G Watson
A A Watt

COMPANY SECRETARY

M W Jones

REGISTERED OFFICE

Addiston Mains
Ratho
Midlothian
EH28 8NT

AUDITORS

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants
30 Hounds Gate
Nottingham
NG1 7DH

BANKERS

Clydesdale Bank plc
20 Hanover Street
Edinburgh
EH2 2QW

SOLICITORS

Murray Beith Murray W.S.
39 Castle Street
Edinburgh
EH2 3BH

WEBSITE

www.scientifics.com

ATESTA GROUP LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS

For the year ended 31 August 2004

The directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 31 August 2004.

Principal activity

The principal activity of the Group is the provision of testing, analysis and consulting services.

Business review

The results for the year are as follows:

	£
Profit for the financial year	707,803
Minority interests	(3,352)
Dividends	(293,498)
Retained profit for the year	410,953

The directors recommend the payment of a proposed final dividend to the holders of the 'A' Ordinary shares of £102,724 equating to £0.3977 per share (2003 - £48,132 equating to £0.18635 per share) and a proposed final dividend to the holders of the Ordinary shares of £190,774 equating to £0.3977 per share (2003 - £89,390.60 equating to £0.18635 per share) leaving a retained profit for the year of £410,953 (2003 - £104,205).

Turnover increased during the year by £603,672 (4.8%) and operating profit increased by £292,897 (40.3%). In addition, the Group made an exceptional gain on the sale of its freehold premises at Gloucester of £184,056 after relocation costs and certain reorganisation costs of the materials testing operations at Gloucester, Oldbury and Smethwick.

Directors and their interests

The interests of the directors and their families in the shares of the Company as at 31 August 2004 and as at 31 August 2003 were as follows:

	Ordinary Shares of £0.25 each	
	2004 Number	2003 Number
R M Bailey	479,692	479,692
E W Bailey	-	-
M W Jones	-	-
P Middleton	-	-
D G Watson	-	-
A A Watt	-	-

In addition to the above, P Middleton has a beneficial interest in 2,171 B Ordinary shares in Scientifics Limited, a subsidiary undertaking. The Company has granted share options to certain executive directors as disclosed more fully in Note 16 to the accounts.

ATESTA GROUP LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS

For the year ended 31 August 2004

Health & Safety

The Group is committed to achieving and maintaining high standards of health & safety and to minimise the environmental impact of its business activities. It is the Group's policy to provide and maintain safe working conditions, equipment and systems of work for all employees, contractors, visitors and other people affected by its operations.

Employment policy

It is the policy of the Group to encourage and develop every member of staff to realise their maximum potential. Wherever possible, vacancies are filled from within the Group and adequate opportunities for internal promotion are created. The Group is committed to a systematic training policy. It is also the policy of the Group, where possible, to give sympathetic consideration to disabled persons in their applications for employment within the Group and to protect the interests of existing members of staff who are disabled.

The Group has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the Group. This is achieved through consultations with employee representatives, presentations to all employees and the Group's Intranet.

Directors' responsibilities

Company law requires the directors 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 and of the profit or loss of the Group for that year. In preparing those accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

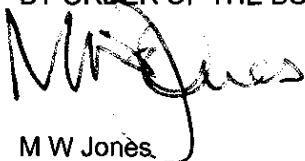
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are responsible for safeguarding the assets of the Company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

Auditors

On 1 July 2004 the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under Section 26(5) of the Companies Act 1989 the directors consented to extend the audit appointment to Grant Thornton UK LLP from 1 July 2004.

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD



M W Jones
Secretary
8 November 2004

We have audited the financial statements of Atesta Group Limited for the year ended 31 August 2004, which comprise the principal accounting policies, consolidated profit and loss account, the balance sheets, the cash flow statement and notes 1 to 23 on pages 10 to 27. 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 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's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the directors' report 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.

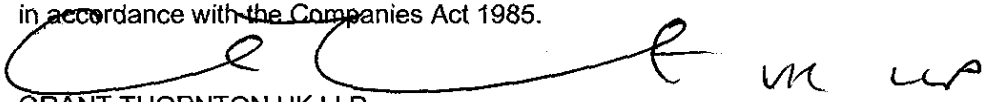
Basis of opinion

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 the Group and Company's affairs as at 31 August 2004 and of the profit for the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Nottingham
8 November 2004

ATESTA GROUP LIMITED AND SUBSIDIARIES

PRINCIPAL ACCOUNTING POLICIES

For the year ended 31 August 2004

BASIS OF PREPARATION

The accounts are prepared under the historical cost convention, including appropriate fair value accounting on acquisition on the basis of professional valuations and in accordance with applicable accounting standards.

TURNOVER

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

BASIS OF CONSOLIDATION

The Group accounts consolidate the accounts of Atesta Group Limited and all its subsidiary undertakings made up to 31 August 2004.

No profit and loss account is presented for Atesta Group Limited, as provided by section 230 of the Companies Act 1985. The Company's pre tax profit for the financial year, determined in accordance with the Act was £591,637 (2003 - £471,554).

TANGIBLE FIXED ASSETS

Fixed assets are shown at original historical cost or subsequent valuation.

Depreciation is provided at rates calculated to write off the cost including fair valuations on acquisition, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Freehold property	– 50 years
Plant and machinery	– 10 years
Fixtures and fittings	– 10 years
Computer equipment	– 3 years
Motor vehicles	– 4 years

INTANGIBLE FIXED ASSETS

Purchased goodwill is amortised on a straight-line basis over its estimated useful economic life of 10 years.

INVESTMENTS

Fixed asset investments are shown at cost less any provision for impairment.

STOCKS

Stocks are stated at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is based on:

Consumables	- purchased cost on a first-in, first-out basis.
Work-in-progress	- cost of materials and labour plus a reasonable proportion of overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

ATESTA GROUP LIMITED AND SUBSIDIARIES

PRINCIPAL ACCOUNTING POLICIES

For the year ended 31 August 2004

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the Group 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 date.

CONTRIBUTIONS TO PENSION FUNDS

Defined contribution scheme

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

Defined benefit scheme

The pension costs charged against profits are based on actuarial methods and assumptions designed to spread the anticipated pension costs over the service lives of the employees in the scheme, so as to ensure that the regular pension cost represents a substantially level percentage of the current and expected future pensionable payroll. Variations from regular cost are spread over the average remaining service lives of current employees in the scheme.

LEASED ASSETS

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease period.

ATESTA GROUP LIMITED AND SUBSIDIARIES

GROUP PROFIT AND LOSS ACCOUNT

For the year ended 31 August 2004

	Notes	2004 £	2003 £
Turnover	1	13,310,323	12,706,651
Cost of sales		<u>(7,045,382)</u>	<u>(6,669,371)</u>
Gross profit		6,264,941	6,037,280
Net operating expenses	2	<u>(5,244,597)</u>	<u>(5,309,833)</u>
Operating profit		1,020,344	727,447
Exceptional Item	3	184,056	-
Interest payable and similar charges	4	<u>(233,932)</u>	<u>(292,393)</u>
Profit on ordinary activities before taxation		970,468	435,054
Tax on profit on ordinary activities	6	<u>(262,665)</u>	<u>(191,932)</u>
Profit on ordinary activities after taxation		707,803	243,122
Minority interests		<u>(3,352)</u>	<u>(1,394)</u>
Profit for the financial year		704,451	241,728
Dividends	7	<u>(293,498)</u>	<u>(137,523)</u>
Retained profit for the year	17	410,953	104,205

There were no recognised gains or losses other than the profit for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

ATESTA GROUP LIMITED AND SUBSIDIARIES

GROUP BALANCE SHEET

At 31 August 2004

	Notes	2004 £	2003 £
Fixed assets			
Intangible assets			
Goodwill	8	698,337	809,589
Negative goodwill	8	(237,008)	(462,988)
		<u>461,329</u>	<u>346,601</u>
Tangible assets	9	4,127,473	4,534,154
		<u>4,588,802</u>	<u>4,880,755</u>
Current assets			
Stocks	11	359,759	254,341
Debtors - due within one year	12	3,066,001	3,368,714
- due after more than one year	12	1,224,000	1,281,000
		<u>4,649,760</u>	<u>4,904,055</u>
Creditors: Amounts falling due within one year	13	(3,863,785)	(4,181,775)
Net current assets		<u>785,975</u>	<u>722,280</u>
Total assets less current liabilities		<u>5,374,777</u>	<u>5,603,035</u>
Creditors: Amounts falling due after more than one year	14	(2,143,298)	(2,792,626)
Provisions for liabilities and charges	15	(449,900)	(442,100)
Net assets		<u>2,781,579</u>	<u>2,368,309</u>
Capital and reserves			
Called-up equity share capital	16	184,497	184,497
Share premium account	17	518,328	518,328
Profit and loss account	17	727,494	316,541
Capital reserve	17	1,335,491	1,335,491
Shareholders funds	18	<u>2,765,810</u>	<u>2,354,857</u>
Minority interests	19	15,769	13,452
Total capital employed		<u>2,781,579</u>	<u>2,368,309</u>

The financial statements were approved by the Board of Directors on 8 November 2004

R M Bailey

Director

The accompanying accounting policies and notes form an integral part of these financial statements.

ATESTA GROUP LIMITED

COMPANY BALANCE SHEET

At 31 August 2004

	Notes	2004 £	2003 £
Fixed assets			
Tangible assets	9	1,305	2,201
Investments	10	2,081,691	2,081,594
		<u>2,082,996</u>	<u>2,083,795</u>
Current assets			
Debtors - due within one year	12	313,921	235,462
- due after more than one year	12	1,198,734	1,247,467
Creditors: Amounts falling due within one year	13	<u>(785,958)</u>	<u>(723,887)</u>
Net current assets		<u>726,697</u>	<u>759,042</u>
Total assets less current liabilities		<u>2,809,693</u>	<u>2,842,837</u>
Creditors: Amounts falling due after more than one year	14	<u>(1,486,234)</u>	<u>(1,684,967)</u>
Net assets		<u>1,323,459</u>	<u>1,157,870</u>
Capital and reserves			
Called-up equity share capital	16	184,497	184,497
Share premium account	17	518,328	518,328
Profit and loss account	17	620,634	455,045
Total capital employed		<u>1,323,459</u>	<u>1,157,870</u>

The financial statements were approved by the Board of Directors on 8 November 2004

R M Bailey

Director

The accompanying accounting policies and notes form an integral part of these financial statements.

ATESTA GROUP LIMITED AND SUBSIDIARIES**GROUP CASH FLOW STATEMENT**

For the year ended 31 August 2004

	Notes	2004 £	2003 £
Net cash inflow from operating activities	20a)	2,104,507	1,564,369
Returns on investments and servicing of finance	20b)	(371,455)	(498,971)
Taxation		(281,851)	(154,807)
Capital expenditure and financial investment	20c)	(54,223)	(300,247)
Acquisitions and disposals	20d)	(97)	-
Cash inflow before management of liquid resources and financing		1,396,881	610,344
Financing	20e)	(1,051,663)	(1,035,716)
Increase / (Decrease) in cash in the year	20f)	345,218	(425,372)

The accompanying accounting policies and notes form an integral part of these financial statements.

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

1 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2004 £	2003 £
Depreciation and amounts written off		
- intangible fixed assets	56,772	46,266
- tangible fixed assets		
- owned	648,598	663,502
- on hire purchase contracts	216,644	203,589
Rentals under operating leases		
- property	414,703	421,258
- plant and machinery	24,891	60,502
Auditors' remuneration		
- audit services	19,000	18,500
- non-audit services	4,550	8,575
Staff costs (note 5)	7,046,573	6,800,998

Turnover, which is entirely attributable to the Group's principal activities, arose almost entirely in the United Kingdom.

2 NET OPERATING EXPENSES

	2004 £	2003 £
Administrative expenses:	5,244,597	5,309,833

3 EXCEPTIONAL ITEM

	2004 £	2003 £
Profit on the disposal of Gloucester freehold premises	184,056	-

4 INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £	2003 £
Loan stock interest	92,560	135,023
Bank loans and overdrafts	90,498	100,764
Finance leases and hire purchase contracts	50,874	56,606
	233,932	292,393

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

5 STAFF COSTS

Particulars of employees (including executive directors) are as shown below.

	2004	2003
	£	£
Employee costs during the year amounted to:		
Wages and salaries	6,259,474	6,051,141
Social security costs	526,839	448,171
Other pension costs (note 21d)	260,260	301,686
	<u>7,046,573</u>	<u>6,800,998</u>

The average monthly number of persons employed by the Group during the year was as follows:

	2004	2003
	Number	Number
Total employees	<u>333</u>	<u>324</u>

The remuneration of the directors was as follows:

	2004	2003
	£	£
Emoluments	285,845	319,359
Company contributions to pension schemes	27,716	23,893
Fees paid to third parties in respect of directors' services	20,250	20,250
	<u>333,811</u>	<u>363,502</u>

The remuneration of the highest paid director was as follows:

	2004	2003
	£	£
Emoluments	113,933	135,653
Company contributions to pension schemes	16,796	16,186
	<u>130,729</u>	<u>151,839</u>

Three directors were remunerated by Atesta Group Limited and three directors were remunerated by a subsidiary undertaking of the Group. The number of directors who were members of Group pension schemes was as follows:

	2004	2003
	Number	Number
Group pension schemes	<u>4</u>	<u>4</u>

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

	2004 £	2003 £
UK Corporation tax	289,477	200,980
Adjustment in respect of prior years	(34,612)	(948)
Total current tax	254,865	200,032
Origination and reversal of timing differences	7,800	(8,100)
Total deferred tax	7,800	(8,100)
Tax on profit on ordinary activities	262,665	191,932

Tax reconciliation:

	2004 £	2003 £
Profit on ordinary activities before tax	970,468	435,054
Tax on profit on ordinary activities - standard rate 30%	291,140	130,516
Effects of:		
Expenses not deductible for tax	70,713	72,811
Capital allowances in excess of depreciation	(29,664)	(21,541)
Short-term timing differences	(1,587)	40,104
Utilisation of losses	(27,646)	-
Adjustment for small companies rate of Corporation Tax	(13,479)	(20,910)
Adjustments in respect of prior periods	(34,612)	(948)
	254,865	200,032

7 DIVIDENDS

	Company	
	2004 £	2003 £
'A' Ordinary shares: final £0.3977 per share (2003 - £0.18635 per share)	102,724	48,132
Ordinary shares: final £0.3977 per share (2003 - £0.18635 per share)	190,774	89,391
	293,498	137,523

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

8 INTANGIBLE FIXED ASSETS

The following are included in the net book value of intangible fixed assets:

	Purchased goodwill £	Negative goodwill £	Total £
Cost			
At 1 September 2003	1,112,518	(649,853)	462,665
Disposals during the year	-	210,000	210,000
At 31 August 2004	<u>1,112,518</u>	<u>(439,853)</u>	<u>672,665</u>
Amortisation			
At 1 September 2003	302,929	(186,865)	116,064
Provided in the year	111,252	(54,480)	56,772
Disposals during the year	-	38,500	38,500
At 31 August 2004	<u>414,181</u>	<u>(202,845)</u>	<u>211,336</u>
Net book value			
At 31 August 2004	<u>698,337</u>	<u>(237,008)</u>	<u>461,329</u>
At 1 September 2003	<u>809,589</u>	<u>(462,988)</u>	<u>346,601</u>

9 TANGIBLE FIXED ASSETS

Group	Freehold property £	Plant and equipment, fixtures and fittings £	Motor vehicles £	Total £
The movement in the year was as follows:				
Cost				
At 1 September 2003	335,000	6,757,038	865,932	7,957,970
Additions	-	495,721	171,766	667,487
Disposals	(210,000)	-	(170,127)	(380,127)
At 31 August 2004	<u>125,000</u>	<u>7,252,759</u>	<u>867,571</u>	<u>8,245,330</u>
Depreciation				
At 1 September 2003	22,475	2,828,936	572,405	3,423,816
Provided in the year	4,600	730,371	130,271	865,242
Disposals	(7,700)	-	(163,501)	(171,201)
At 31 August 2004	<u>19,375</u>	<u>3,559,307</u>	<u>539,175</u>	<u>4,117,857</u>
Net book value				
At 31 August 2004	<u>105,625</u>	<u>3,693,452</u>	<u>328,396</u>	<u>4,127,473</u>
At 1 September 2003	<u>312,525</u>	<u>3,928,102</u>	<u>293,527</u>	<u>4,534,154</u>

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

9 TANGIBLE FIXED ASSETS (CONTINUED)

The net book value of fixed assets includes £1,288,492 (2003 - £1,243,542) in respect of assets held under finance leases and hire purchase contracts. Included in the cost above are fixed assets amounting to £3,447,130 (2003 - £3,447,130), which were accounted for at fair value on acquisition.

Company	Plant and machinery £
The movement in the year was as follows:	
Cost	
At 1 September 2003	5,990
Transfer to Group undertaking	(1,942)
Additions	1,304
At 31 August 2004	<u>5,352</u>
Depreciation	
At 1 September 2003	3,789
Transfer to Group undertaking	(1,242)
Provided in the year	1,500
At 31 August 2004	<u>4,047</u>
Net book value	
At 31 August 2004	<u>1,305</u>
At 31 August 2003	<u>2,201</u>

10 FIXED ASSET INVESTMENTS

The following are included in the net book value of fixed asset investments:

	Company	
	2004 £	2003 £
Subsidiary undertakings at cost	291,691	291,594
Unsecured loan stock in subsidiary undertakings	1,790,000	1,790,000
	<u>2,081,691</u>	<u>2,081,594</u>

The Company has investments in the following subsidiary undertakings:

Subsidiary undertakings	Principal Activity	Percentage Holding
Scientia Ferrovia Limited	Holding Company	100%
Scientifics Limited*	Testing, analysis and consulting services	99.58%
Scientifics Group Services Limited	Testing, analysis and consulting services	100%
Harwell Scientifics Limited	Testing, analysis and consulting services	100%
* Held through a subsidiary undertaking.		

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

11 STOCKS

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Consumables	182,731	138,585	-	-
Work-in-progress	177,028	115,756	-	-
	359,759	254,341	-	-

In the opinion of the directors, there is no material difference between the net book value of stocks as shown above and their estimated replacement cost.

12 DEBTORS

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
<i>Amounts falling due within one year:</i>				
Trade debtors	2,472,930	2,727,894	-	-
Other debtors	257,599	380,060	-	925
Amounts owed by Group undertakings	-	-	55,954	12,220
Corporation tax recoverable	15,478	-	-	-
Dividend receivable	-	-	253,667	217,417
Prepayments and accrued income	319,994	260,760	-	-
Deferred tax asset	-	-	4,300	4,900
	3,066,001	3,368,714	313,921	235,462
<i>Amounts falling due after more than one year:</i>				
Amounts owed by Group undertakings	-	-	1,198,734	1,247,467
Employers proportion of pension surplus treated as a prepayment (note 21d)	1,224,000	1,281,000	-	-
	1,224,000	1,281,000	1,198,734	1,247,467

The recoverability of the deferred tax asset is dependent on future taxable profits in excess of those arising from the reversal of deferred tax liabilities.

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Bank loans and overdrafts	923,518	1,269,070	226,088	365,725
Trade creditors	1,175,038	1,154,941	-	-
Amounts owed to Group undertakings	-	-	10,000	10,000
Obligations under finance leases and hire purchase contracts	422,233	434,946	-	-
Other creditors				
- UK corporation tax payable	289,477	300,984	134,765	65,959
- VAT	345,318	343,151	28,914	41,515
- social security and PAYE	161,619	150,324	1,585	6,254
Proposed dividends	293,498	137,523	293,498	137,523
Accruals and deferred income	204,351	342,103	42,375	48,178
Loan stock	48,733	48,733	48,733	48,733
	3,863,785	4,181,775	785,958	723,887

Bank borrowings are secured by fixed and floating charges over Group and Company assets.

14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Obligations under finance leases and hire purchase contracts	313,577	403,952	-	-
Bank loans (security – see note 13)	630,987	1,141,207	287,500	437,500
Loan stock	1,198,734	1,247,467	1,198,734	1,247,467
	2,143,298	2,792,626	1,486,234	1,684,967

The bank loans bear interest at LIBOR plus 1.75% and the loan stock bears interest at rates of 11.25% and LIBOR plus 2.5%.

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14 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

Borrowings are repayable as follows:

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Within one year				
Bank and other borrowings	972,251	1,317,803	274,821	414,458
Finance leases	422,233	434,946	-	-
After one and within two years				
Bank and other borrowings	686,687	563,532	486,234	198,733
Finance leases	240,665	297,547	-	-
After two and within five years				
Bank and other borrowings	1,143,034	1,537,642	1,000,000	1,198,734
Finance leases	72,912	106,405	-	-
After five years				
Bank and other borrowings	-	287,500	-	287,500
	<u>3,537,782</u>	<u>4,545,375</u>	<u>1,761,055</u>	<u>2,099,425</u>

15 PROVISIONS FOR LIABILITIES AND CHARGES

	Group	
	2004	2003
	£	£
Provisions:		
Deferred tax	449,900	442,100

Provisions for liabilities and charges comprises deferred taxation which has been provided to the extent that the directors have concluded on the basis of reasonable assumptions and the intentions of management that it is probable that part of the liability will crystallise.

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Accelerated capital allowances	448,600	442,300	(3,800)	(4,900)
Other timing differences	1,300	(200)	(500)	-
	<u>449,900</u>	<u>442,100</u>	<u>(4,300)</u>	<u>(4,900)</u>

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For the year ended 31 August 2004

15 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

The movement on deferred taxation comprises:

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Beginning of year	442,100	450,200	(4,900)	(5,900)
Charged / (credited) to profit and loss, in respect of:				
- accelerated capital allowances	6,300	31,950	1,100	1,000
- other timing differences	1,500	(40,050)	(500)	-
End of year	449,900	442,100	(4,300)	(4,900)

The deferred tax asset in the Company is included in Debtors and disclosed in note 12.

16 CALLED-UP EQUITY SHARE CAPITAL

	Group and Company	
	2004	2003
	£	£
Authorised, allotted, called-up and fully paid:		
479,692 Ordinary shares of £0.25 each	119,922	119,922
258,295 'A' Ordinary shares of £0.25 each	64,575	64,575
	184,497	184,497

The rights attaching to the share classes are set out below:

Income

The 'A' ordinary shares carry a right to a cumulative preferential net cash dividend ("the participating dividend") of 10% of the net profit of the Company (as defined in the articles) for the relevant financial year. Participating dividends shall be paid not later than 4 months after the end of each successive accounting reference period of the Company, or not later than 14 days after the date of the auditors' report on the accounts of the Company for such period, whichever is earlier.

The 'A' ordinary shares also carry a right to cumulative preferential cash dividend ("the compensatory dividend") of an amount equal to the 'Excess Remuneration' (as defined in the articles) divided by the number of ordinary shares held by relevant directors on the last day of the relevant financial year.

No dividend shall be paid to the holders of ordinary shares in respect of any financial year unless and until the participating dividend (if any) has been paid in full in respect of that financial year, and in respect of all previous financial years of the Company any compensatory dividend due has been paid in full.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

16 CALLED-UP EQUITY SHARE CAPITAL (CONTINUED)**Conversion**

The holders of the 'A' Ordinary shares may at any time convert the whole of their 'A' Ordinary shares into a like number of Ordinary shares.

Capital

On the return of assets on liquidation or capital reduction, the repayment of capital shall be in the following order:

1. Payment to the holders of 'A' Ordinary shares of £1 per share together with a sum equal to any arrears or accruals of the dividend on the 'A' Ordinary shares calculated to the date of the return of the capital.
2. Payment to the holders of Ordinary shares of £1 per share.
3. The balance of such assets shall be distributed amongst the holders of the 'A' Ordinary shares and Ordinary shares in proportion to the amount paid up or credited as paid up on the 'A' Ordinary shares and Ordinary shares held by them respectively.

Share options

On 29th April 2002, the Company granted options to certain executive directors to purchase shares in the Company subject to and in accordance with the rules of the Atesta Group Limited Enterprise Management Incentive Plan. The options granted were as follows:

	Class of share	Number of shares	Option price
M W Jones	Ordinary 25 pence	9,710	£1
P Middleton	Ordinary 25 pence	9,710	£1
D G Watson	Ordinary 25 pence	9,710	£1
		<u>29,130</u>	

The rules provide that the options may be exercised on the occurrence of a Takeover, Sale or Admission of the Company under the terms set out in the rules but in any event may not be exercised later than the day before the tenth anniversary of the date of grant. The Ordinary and A Ordinary shareholders have waived all and any pre-emption rights under the articles of association in respect of the exercise of the options pursuant to the EMI Plan.

ATESTA GROUP LIMITED AND SUBSIDIARIES

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For the year ended 31 August 2004

17 RESERVES

Of total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise:

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Distributable				
- profit and loss account	727,494	316,541	620,634	455,045
Non-distributable				
- share premium account	518,328	518,328	518,328	518,328
- capital reserve	1,335,491	1,335,491	-	-
Total reserves	2,581,313	2,170,360	1,138,962	973,373

The movement in the year was as follows:

Group

	Profit and loss account £	Share premium account £	Capital Reserve £	Total £
At beginning of year	316,541	518,328	1,335,491	2,170,360
Retained profit for the year	410,953	-	-	410,953
At end of year	727,494	518,328	1,335,491	2,581,313

Company

	Profit and loss account £	Share premium account £	Total £
At beginning of year	455,045	518,328	973,373
Profit for the year	165,589	-	165,589
At end of year	620,634	518,328	1,138,962

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Profit for the financial year	410,953	104,205	165,589	267,076
Shareholders' funds at beginning of year	2,354,857	2,250,652	1,157,870	890,794
Shareholders' funds at end of year	<u>2,765,810</u>	<u>2,354,857</u>	<u>1,323,459</u>	<u>1,157,870</u>

19 MINORITY INTERESTS - GROUP

	Equity £
At beginning of year	13,452
Minority interest in the profit on ordinary activities after taxation	3,352
Dividends paid to minority shareholders	(938)
Purchase of minority interests	(97)
At end of year	<u>15,769</u>

20 NOTES TO CASH FLOW STATEMENT

a) Net cash inflow from operating activities

	2004 £	2003 £
Operating profit	1,020,344	727,447
(Profit) / Loss on disposals	(2,495)	304
Depreciation and amounts written off		
- Intangible assets	56,772	46,266
- Tangible assets	865,242	867,091
(Increase) / Decrease in stocks	(105,418)	61,771
Decrease / (Increase) in debtors	375,191	(351,961)
(Decrease) / Increase in creditors	(105,129)	213,451
Net cash inflow from operating activities	<u>2,104,507</u>	<u>1,564,369</u>

b) Return on investments and servicing of finance

	2004 £	2003 £
Dividends paid	(137,523)	(206,578)
Interest paid	(233,932)	(292,393)
Net cash outflow	<u>(371,455)</u>	<u>(498,971)</u>

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

20 NOTES TO CASH FLOW STATEMENT (CONTINUED)

c) Capital expenditure and financial investment

	2004 £	2003 £
Purchase of tangible fixed assets	(278,199)	(310,048)
Sale of tangible fixed assets	223,976	9,801
Net cash outflow	<u>(54,223)</u>	<u>(300,247)</u>

d) Acquisitions and disposals

	2004 £	2003 £
Purchase of business undertakings	<u>(97)</u>	<u>-</u>

e) Financing

	2004 £	2003 £
Repayment of loan stock	(48,733)	(537,504)
New bank loan	-	340,000
Repayment of bank loan	(510,554)	(407,505)
Repayment of finance leases and hire purchase contracts	(492,376)	(430,707)
Net cash outflow	<u>(1,051,663)</u>	<u>(1,035,716)</u>

f) Analysis and reconciliation of net debt

	31 August 2003 £	Cash flows £	Other non- cash changes £	31 August 2004 £
Overdraft	(757,582)	345,218	-	(412,364)
Bank loans	(1,652,695)	510,554	-	(1,142,141)
Loan stock	(1,296,200)	48,733	-	(1,247,467)
Finance leases	(843,913)	492,376	(384,273)	(735,810)
Net debt	<u>(4,550,390)</u>	<u>1,396,881</u>	<u>(384,273)</u>	<u>(3,537,782)</u>

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

20 NOTES TO CASH FLOW STATEMENT (CONTINUED)

	2004 £	2003 £
Increase / (Decrease) in cash in the year	345,218	(425,372)
Cash outflow from change in debt and lease financing	1,051,663	1,035,716
Change in net debt resulting from cash flows	1,396,881	610,344
Other non-cash changes	(384,273)	(479,138)
Movement in net debt in year	1,012,608	131,206
Net debt at beginning of year	(4,550,390)	(4,681,596)
Net debt at end of year	(3,537,782)	(4,550,390)

21 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) Capital commitments

The Group had capital commitments at 31 August 2004 of £140,565 (2003 - £nil). The Company had no capital commitments at 31 August 2004 (2003 - £nil).

b) Contingent liabilities

The Company and its subsidiaries have provided cross guarantees and letters of set off to their bankers. There was a contingent liability of this Company in respect of the above guarantee of £1,040,917 at 31 August 2004 (2003 - £1,607,052).

c) Lease commitments

The Group leases certain land and buildings on long-term operating leases. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases.

The minimum annual rentals under the foregoing leases are as follows:

Land and Buildings	2004 £	2003 £
Operating leases which expire		
- within one year	25,793	23,308
- between one and five years	180,331	184,400
- after 5 years	202,750	202,750
	408,874	410,458

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

21 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)

d) Pension arrangements

The Company and the Group are collective members of the Scientifics Shared Cost Section of the Railways Pension Scheme, which provides benefits, based on final pensionable salary for employees of the Group. The assets of the scheme are held separately from those of the Company and the Group. Also, the assets and liabilities of the Scientifics Section are identified separately from the remainder of the scheme. The Scientifics Section is closed to new members and the contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. In the following notes all references to the valuation of the scheme refer to the Scientifics Shared Cost Section arrangements for the Group as a whole and not to any single undertaking within the Group.

The last full actuarial valuation was at 31 December 2001. The major assumptions used are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 6.3% per annum and that salary increases would average 4.0% per annum.

At 31 December 2001 the market value of the section's assets was £13,703,000 and the actuarial value of those assets represented 102% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

Contributions are dependent on when employees joined the scheme.

- (a) In respect of those employees that joined the scheme before 1 September 1999 the employee contribution is 5% until 31 December 2006 and 10.4% thereafter. The normal cost of contributions of the Company is 1.5 times the employee contributions, however, based on the current actuarial assessment it is anticipated that no regular contribution will be paid by the Company from 1 March 2000 to 30 November 2005.
- (b) In respect of those employees that joined the scheme on or after 1 September 1999 the employee contribution was 7.5% until 30 September 2003 and is 10.4% thereafter. The Company contribution was 1.0 times the employee contribution until 30 September 2003 and is 1.5 times thereafter.

The pension charge for the year was £260,260 (2003 - £301,686), which included a charge of £57,000 (2003 - £174,000) to write-down the prepayment in respect of accumulated surpluses that are being recognised over 10.8 years, the average remaining service lives of employees. A prepayment of £1,224,000 (2003 - £1,281,000) is included in debtors due after more than one year, being the net of the fair value of the employer's proportion of pension surplus and the excess of accumulated pension costs over the amount funded.

The latest full actuarial valuation at 31 December 2001 was updated to 31 August 2004 by a qualified independent actuary. The main assumptions used by the actuary were:

	2004	2003
Inflation	3.0 % p.a.	2.7 % p.a.
Rate of increase in salaries	4.5 % p.a.	4.2 % p.a.
Rate of increase of pensions in payment	3.0 % p.a.	2.7 % p.a.
Rate of increase for deferred pensioners	3.0 % p.a.	2.7 % p.a.
Discount Rate	5.6 % p.a.	5.4 % p.a.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

21 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)

d) Pension arrangements

The fair value of the assets at 31 August 2004 was £13.7m (2003 - £12.3m) and the expected long-term rates of return were:

	2004		2003	
	Fair value	Expected rate of return	Fair value	Expected rate of return
	£m	% p.a.	£m	% p.a.
Equities	10.6	8.7	10.4	8.7
Bonds	1.4	4.9	1.1	4.7
Property	1.0	6.8	0.8	6.7
Other	0.7	4.0	-	-
Total	13.7	7.9	12.3	8.2

The deficit before deferred tax was £1.6m (2003 - £1.4m) being the difference between the fair value of the assets and the present value of the Section liabilities on the assumptions at 31 August 2004 of £15.3m (2003 - £13.7m) as shown in the table below.

	2004	2003
	£m	£m
Actuarial value of section liabilities	16.3	14.6
Members' share of deficit	(1.0)	(0.9)
Adjusted value of section liabilities	15.3	13.7
Total market value of assets	13.7	12.3
Deficit in the scheme	(1.6)	(1.4)
Related deferred tax asset	0.5	0.4
Net pension liability	(1.1)	(1.0)

In accordance with FRS 17 the amounts that would have been (charged) / credited to profit and loss are:

	2004	2003
	£m	£m
Current service cost, less employee contributions	(0.4)	(0.5)
Total charged to operating profit	(0.4)	(0.5)
Interest on section liabilities	(0.4)	(0.4)
Expected return on section assets	0.6	0.5
Other finance income	0.2	0.1

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2004

21 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)

d) Pension arrangements

In accordance with FRS 17 the amounts that would have been shown in the statement of total recognised gains and losses are:

	2004	2003
	£m	£m
Actual return less expected return on section assets	0.2	-
Experience (loss) / gain on section liabilities	(0.2)	(0.1)
Changes in the assumptions underlying the section liabilities	(0.2)	(0.5)
Total loss recognised before adjustment for tax	(0.2)	(0.6)

The history of gains and losses has been:

	2004	2003	2002
Actual return less expected return on section assets	£ 0.2 m	-	£ (1.7) m
% of section assets	1%	-	15%
Experience (loss) / gain on section liabilities	£ (0.2) m	£ (0.1) m	£ 0.5 m
% of present value of section liabilities	1%	1%	4%
Total actuarial losses recognised	£ (0.2) m	£ (0.5) m	£ (1.7) m
% of section liabilities	1%	4%	14%

The movement in the deficit in the year was:

	2004	2003
	£m	£m
Deficit in the section at the beginning of year	(1.4)	(0.5)
Contributions paid	0.2	0.1
Current service cost	(0.4)	(0.5)
Other finance income	0.2	0.1
Actuarial (loss)	(0.2)	(0.6)
Deficit in the section at end of year before deferred taxation	(1.6)	(1.4)

In accordance with FRS17 the amounts that would have been shown in the Balance Sheet are:

	2004	2003
	£	£
Net assets excluding FRS17 pension liability	2,781,579	2,368,309
Net pension liability	(1,100,000)	(1,000,000)
Less SSAP 24 debtor	(1,224,000)	(1,281,000)
Net assets including FRS17 pension liability	457,579	87,309

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22 RELATED PARTY TRANSACTIONS

During the year, rental charges of £10,800 were paid to the principal shareholder (2003 - £10,800).

23 CONTROLLING INTEREST

By virtue of the shareholding disclosed in the Directors' Report, R M Bailey is considered to have a controlling interest in the Company.