



**ATESTA GROUP LIMITED
AND SUBSIDIARIES**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
31 AUGUST 2003**

COMPANY NUMBER: SC161800

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
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 2003

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 2003.

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	243,122
Dividends	(137,523)
Minority interests	(1,394)
Retained profit for the year	<u>104,205</u>

The directors recommend the payment of a proposed final dividend to the holders of the 'A' Ordinary shares of £48,132 equating to £0.18635 per share (2002 -£72,302 equating to £0.27992 per share) and a proposed final dividend to the holders of the Ordinary shares of £89,390.60 equating to £0.18635 per share (2002 - £134,275.38 equating to £0.27992 per share).

On 1st September 2002 the Group combined the activities of its three trading subsidiary undertakings into a single company and created a new business structure comprising two principal business groups, Analytical and Consultancy. This has integrated more closely business activities of a similar nature in order to harmonise systems and procedures, to create larger groups of skilled scientific resources, to optimise facilities and to avoid duplication of investment.

Turnover increased during the year to 31 August 2003 by 5.5%, but profitability reduced due to lower margins on certain contracts and because of increased costs, notably insurance premiums and national insurance contributions. The level of staff turnover has also been higher than normal, as competition between firms for qualified technical staff increased during the year. The impact of these factors was felt most in the second half of the year and has continued into the start of the new financial year.

Directors and their interests

The interests of the directors and their families in the shares of the Company as at 31 August 2003 and 31 August 2002 were as follows:

	Ordinary Shares of £0.25 each	
	2003 Number	2002 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 15 to the accounts.

ATESTA GROUP LIMITED AND SUBSIDIARIES

REPORT OF THE DIRECTORS

For the year ended 31 August 2003

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:

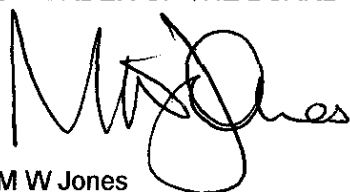
- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- Prepare the accounts 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

Grant Thornton 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
5 November 2003

We have audited the financial statements of Atesta Group Limited for the year ended 31 August 2003, which comprise the principal accounting policies, consolidated profit and loss account, the balance sheets, the cash flow statement and notes 1 to 22 on pages 10 to 26. 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 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 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.

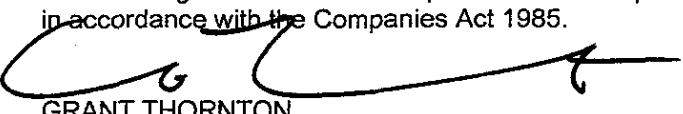
Basis of opinion

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 2003 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
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Nottingham
10 November 2003

ATESTA GROUP LIMITED AND SUBSIDIARIES

PRINCIPAL ACCOUNTING POLICIES

31 August 2003

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 2003.

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 £471,554 (2002 - £103,202).

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

31 August 2003

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 2003

	Notes	2003 £	2002 £
Turnover	1	12,706,651	12,044,904
Cost of sales		<u>(6,669,371)</u>	<u>(6,158,565)</u>
Gross profit		6,037,280	5,886,339
Net operating expenses	2	<u>(5,309,833)</u>	<u>(4,852,072)</u>
Operating profit		727,447	1,034,267
Interest payable and similar charges	3	<u>(292,393)</u>	<u>(332,347)</u>
Profit on ordinary activities before taxation		435,054	701,920
Tax on profit on ordinary activities	5	<u>(191,932)</u>	<u>(365,817)</u>
Profit on ordinary activities after taxation		243,122	336,103
Minority interests		<u>(1,394)</u>	<u>(1,847)</u>
Profit for the financial year		241,728	334,256
Dividends	6	<u>(137,523)</u>	<u>(206,578)</u>
Retained profit for the year	16	<u>104,205</u>	<u>127,678</u>

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 2003

	Notes	2003 £	2002 £
Fixed assets			
Intangible assets			
Goodwill	7	809,589	920,840
Negative goodwill	7	(462,988)	(527,973)
		<u>346,601</u>	<u>392,867</u>
Tangible assets	8	4,534,154	4,627,179
		<u>4,880,755</u>	<u>5,020,046</u>
Current assets			
Stocks	10	254,341	316,112
Debtors - due within one year	11	3,368,714	2,842,753
- due after more than one year	11	1,281,000	1,455,000
		<u>4,904,055</u>	<u>4,613,865</u>
Creditors: Amounts falling due within one year	12	<u>(4,181,775)</u>	<u>(3,607,407)</u>
Net current assets		<u>722,280</u>	<u>1,006,458</u>
Total assets less current liabilities		<u>5,603,035</u>	<u>6,026,504</u>
Creditors: Amounts falling due after more than one year	13	<u>(2,792,626)</u>	<u>(3,312,656)</u>
Provisions for liabilities and charges	14	<u>(442,100)</u>	<u>(450,200)</u>
Net assets		<u>2,368,309</u>	<u>2,263,648</u>
Capital and reserves			
Called-up equity share capital	15	184,497	184,497
Share premium account	16	518,328	518,328
Profit and loss account	16	316,541	212,336
Capital reserve	16	1,335,491	1,335,491
Shareholders funds	17	<u>2,354,857</u>	<u>2,250,652</u>
Minority interests	18	<u>13,452</u>	<u>12,996</u>
Total capital employed		<u>2,368,309</u>	<u>2,263,648</u>

The financial statements were approved by the Board of Directors on 5 November 2003

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 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	8	2,201	3,605
Investments	9	2,081,594	2,081,594
		<u>2,083,795</u>	<u>2,085,199</u>
Current assets			
Debtors - due within one year	11	235,462	1,877,828
- due after more than one year	11	1,247,467	-
Creditors: Amounts falling due within one year	12	<u>(723,887)</u>	<u>(836,033)</u>
Net current assets		<u>759,042</u>	<u>1,041,795</u>
Total assets less current liabilities		<u>2,842,837</u>	<u>3,126,994</u>
Creditors: Amounts falling due after more than one year	13	<u>(1,684,967)</u>	<u>(2,236,200)</u>
Net assets		<u>1,157,870</u>	<u>890,794</u>
Capital and reserves			
Called-up equity share capital	15	184,497	184,497
Share premium account	16	518,328	518,328
Profit and loss account	16	455,045	187,969
Total capital employed		<u>1,157,870</u>	<u>890,794</u>

The financial statements were approved by the Board of Directors on 5 November 2003

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 2003

	Notes	2003 £	2002 £
Net cash inflow from operating activities	19a)	1,564,369	1,895,861
Returns on investments and servicing of finance	19b)	(498,971)	(399,740)
Taxation		(154,807)	(37,509)
Capital expenditure and financial investment	19c)	(300,247)	(397,548)
Acquisitions and disposals	19d)	-	(826,180)
Cash inflow before management of liquid resources and financing		610,344	234,884
Financing	19e)	(1,035,716)	(266,498)
(Decrease) in cash in the year	19f)	(425,372)	(31,614)

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 2003

1 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2003 £	2002 £
Depreciation and amounts written off		
- intangible fixed assets	46,266	21,104
- tangible fixed assets		
- owned	663,502	501,307
- on finance lease	203,589	322,670
Rentals under operating leases		
- property	421,258	508,223
- plant and machinery	60,502	50,352
Auditors' remuneration		
- audit services	18,500	19,250
- non-audit services	8,575	14,800
Staff costs (note 4)	6,800,998	6,484,671

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

2 NET OPERATING EXPENSES

	2003 £	2002 £
Administrative expenses:		
- existing operations	5,309,833	4,837,202
- acquisitions made during the year	-	14,870
	5,309,833	4,852,072

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £	2002 £
Loan stock interest		
- existing operations	135,023	149,303
- acquisitions	-	10,976
Bank loans and overdrafts		
- existing operations	100,764	97,941
- acquisitions	-	14,487
Finance leases and hire purchase contracts		
- existing operations	56,606	59,640
	292,393	332,347

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2003

4 STAFF COSTS

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

	2003 £	2002 £
Employee costs during the year amounted to:		
Wages and salaries	6,051,141	5,691,678
Social security costs	448,171	396,603
Other pension costs (note 20d)	301,686	396,390
	<u>6,800,998</u>	<u>6,484,671</u>

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

	2003 Number	2002 Number
Total employees	<u>324</u>	<u>301</u>

The remuneration of the directors was as follows:

	2003 £	2002 £
Emoluments	319,359	206,690
Company contributions to pension schemes	23,893	21,965
Fees paid to third parties in respect of directors' services	20,250	16,450
	<u>363,502</u>	<u>245,105</u>

The remuneration of the highest paid director was as follows:

	2003 £	2002 £
Emoluments	135,653	110,269
Company contributions to pension schemes	16,186	17,190
	<u>151,839</u>	<u>127,459</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:

	2003 Number	2002 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 2003

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

	2003 £	2002 £
UK Corporation tax	200,980	255,508
Adjustment in respect of prior years	(948)	(2,641)
Total current tax	200,032	252,867
Origination and reversal of timing differences	(8,100)	112,950
Total deferred tax	(8,100)	112,950
Tax on profit on ordinary activities	191,932	365,817

Tax reconciliation:

	2003 £	2002 £
Profit on ordinary activities before tax	435,054	701,920
Tax on profit on ordinary activities - standard rate 30%	130,516	210,576
Effects of:		
Expenses not deductible for tax	72,811	84,212
Capital allowances in excess of depreciation	(21,541)	(58,744)
Short-term timing differences	40,104	41,061
Utilisation of losses	-	(855)
Adjustment for small companies rate of Corporation Tax	(20,910)	(20,742)
Adjustments in respect of prior periods	(948)	(2,641)
	200,032	252,867

6 DIVIDENDS

	Company	
	2003 £	2002 £
'A' Ordinary shares: final £0.18635 per share (2002 - £0.27992 per share)	48,132	72,302
Ordinary shares: final £0.18635 per share (2002 - £0.27992 per share)	89,391	134,276
	137,523	206,578

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2003

7 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 2002 and 31 August 2003	1,112,518	(649,853)	462,665
Amortisation			
At 1 September 2002	191,678	(121,880)	69,798
Provided in the year	111,251	(64,985)	46,266
At 31 August 2003	302,929	(186,865)	116,064
Net book value			
At 31 August 2003	809,589	(462,988)	346,601
At 1 September 2002	920,840	(527,973)	392,867

8 TANGIBLE FIXED ASSETS

Group The movement in the year was as follows:

	Freehold property £	Plant and machinery, fixtures and fittings, and computers £	Motor vehicles £	Total £
Cost				
At 1 September 2002	335,000	6,107,883	828,233	7,271,116
Additions	-	662,155	122,016	784,171
Disposals	-	(13,000)	(84,317)	(97,317)
At 31 August 2003	335,000	6,757,038	865,932	7,957,970
Depreciation				
At 1 September 2002	15,775	2,143,607	484,555	2,643,937
Provided in the year	6,700	694,104	166,287	867,091
Disposals	-	(8,775)	(78,437)	(87,212)
At 31 August 2003	22,475	2,828,936	572,405	3,423,816
Net book value				
At 31 August 2003	312,525	3,928,102	293,527	4,534,154
At 1 September 2002	319,225	3,964,276	343,678	4,627,179

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2003

8 TANGIBLE FIXED ASSETS (CONTINUED)

The net book value of fixed assets includes £1,243,542 (2002 - £1,434,288) 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 (2002 - £3,447,130), which were accounted for at fair value on acquisition.

Company The movement in the year was as follows:

	Plant and machinery £
Cost	
At 1 September 2002 and 31 August 2003	5,990
Depreciation	
At 1 September 2002	2,385
Provided in the year	1,404
At 31 August 2003	3,789
Net book value	
At 31 August 2003	2,201
At 1 September 2002	3,605

9 FIXED ASSET INVESTMENTS

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

	Company	
	2003	2002
	£	£
Subsidiary undertakings at cost	291,594	291,594
Unsecured loan stock in subsidiary undertakings	1,790,000	1,790,000
	2,081,594	2,081,594

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	99.57%
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 2003

10 STOCKS

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Consumables	138,585	172,115	-	-
Work-in-progress	115,756	143,997	-	-
	254,341	316,112	-	-

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.

11 DEBTORS

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Amounts falling due within one year:				
Trade debtors	2,727,894	2,327,827	-	-
Other debtors	380,060	242,450	925	388
Amounts owed by Group undertakings	-	-	12,220	1,601,277
Dividend receivable	-	-	217,417	270,263
Prepayments and accrued income	260,760	272,476	-	-
Deferred tax asset	-	-	4,900	5,900
	3,368,714	2,842,753	235,462	1,877,828
Amounts falling due after more than one year:				
Amounts owed by Group undertakings	-	-	1,247,467	-
Employers proportion of pension surplus treated as a prepayment (note 20d)	1,281,000	1,455,000	-	-
	1,281,000	1,455,000	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 2003

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Bank loans and overdrafts	1,269,070	792,410	365,725	135,314
Payments received on account	-	66,917	-	-
Trade creditors	1,154,941	931,844	-	-
Amounts owed to Group undertakings	-	-	10,000	183,952
Obligations under finance leases and hire purchase contracts	434,946	379,026	-	-
Other creditors				
- UK corporation tax payable	300,984	255,508	65,959	29,532
- VAT	343,151	334,076	41,515	24,523
- social security and PAYE	150,324	143,477	6,254	5,242
Proposed dividends	137,523	206,578	137,523	206,578
Accruals and deferred income	342,103	300,067	48,178	53,388
Loan stock	48,733	197,504	48,733	197,504
	<u>4,181,775</u>	<u>3,607,407</u>	<u>723,887</u>	<u>836,033</u>

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

13 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Obligations under finance leases and hire purchase contracts	403,952	416,456	-	-
Bank loans (security – see note 12)	1,141,207	1,260,000	437,500	600,000
Loan stock	1,247,467	1,636,200	1,247,467	1,636,200
	<u>2,792,626</u>	<u>3,312,656</u>	<u>1,684,967</u>	<u>2,236,200</u>

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%.

ATESTA GROUP LIMITED AND SUBSIDIARIES

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For the year ended 31 August 2003

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

Borrowings are repayable as follows:

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Within one year				
Bank and other borrowings	1,317,803	989,914	414,458	332,818
Finance leases	434,946	379,026	-	-
After one and within two years				
Bank and other borrowings	563,532	462,066	198,733	162,066
Finance leases	297,547	280,272	-	-
After two and within five years				
Bank and other borrowings	1,537,642	1,259,134	1,198,734	899,134
Finance leases	106,405	136,184	-	-
After five years				
Bank and other borrowings	287,500	1,175,000	287,500	1,175,000
	<u>4,545,375</u>	<u>4,681,596</u>	<u>2,099,425</u>	<u>2,569,018</u>

14 PROVISIONS FOR LIABILITIES AND CHARGES

	Group	
	2003	2002
	£	£
Provisions:		
Deferred tax	<u>442,100</u>	<u>450,200</u>

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	
	2003	2002	2003	2002
	£	£	£	£
Accelerated capital allowances	442,300	410,350	(4,900)	(5,900)
Other timing differences	(200)	39,850	-	-
Trading losses	-	-	-	-
	<u>442,100</u>	<u>450,200</u>	<u>(4,900)</u>	<u>(5,900)</u>

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For the year ended 31 August 2003

14 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

The movement on deferred taxation comprises:

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Beginning of year	450,200	337,250	(5,900)	-
Charged / (credited) to profit and loss, in respect of:				
- accelerated capital allowances	31,950	51,000	1,000	(5,900)
- other timing differences	(40,050)	(46,150)	-	-
- trading losses	-	1,000	-	-
- adjustment to opening balance at higher rates	-	107,100	-	-
End of year	442,100	450,200	(4,900)	(5,900)

The deferred tax asset in the Company is included in Debtors and disclosed in note 11.

15 CALLED-UP EQUITY SHARE CAPITAL

	Group and Company	
	2002	2001
	£	£
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.

ATESTA GROUP LIMITED AND SUBSIDIARIES

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For the year ended 31 August 2003

15 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2003

16 RESERVES

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

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Distributable				
- profit and loss account	316,541	212,336	455,045	187,969
Non-distributable				
- share premium account	518,328	518,328	518,328	518,328
- capital reserve	1,335,491	1,335,491	-	-
Total reserves	2,170,360	2,066,155	973,373	706,297

The movement in the year was as follows:

Group

	Profit and loss account £	Share premium account £	Capital Reserve £	Total £
Beginning of year	212,336	518,328	1,335,491	2,066,155
Retained profit for the year	104,205	-	-	104,205
End of year	316,541	518,328	1,335,491	2,170,360

Company

	Profit and loss account £	Share premium account £	Total £
Beginning of year	187,969	518,328	706,297
Profit for the year	267,076	-	267,076
End of year	455,045	518,328	973,373

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2003

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Profit for the financial year	104,205	127,678	267,076	(127,008)
Shareholders' funds at beginning of year	2,250,652	2,122,974	890,794	1,017,802
Shareholders' funds at end of year	<u>2,354,857</u>	<u>2,250,652</u>	<u>1,157,870</u>	<u>890,794</u>

18 MINORITY INTERESTS - GROUP

	Equity £
Beginning of year	12,996
Movement in year	456
End of year	<u>13,452</u>

19 NOTES TO CASH FLOW STATEMENT

a) Net cash inflow from operating activities

	2003 £	2002 £
Operating profit	727,447	1,034,267
Loss / (Profit) on disposals	304	(28,756)
Depreciation and amounts written off		
- Intangible assets	46,266	21,104
- Tangible assets	867,091	823,977
Decrease / (Increase) in stocks	61,771	(6,351)
(Increase) / Decrease in debtors	(351,961)	273,973
Increase / (Decrease) in creditors	213,451	(222,353)
Net cash inflow from operating activities	<u>1,564,369</u>	<u>1,895,861</u>

b) Return on investments and servicing of finance

	2003 £	2002 £
Dividends paid	(206,578)	(67,393)
Interest paid	(292,393)	(332,347)
Net cash outflow	<u>(498,971)</u>	<u>(399,740)</u>

19 NOTES TO CASH FLOW STATEMENT (CONTINUED)

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2003

c) Capital expenditure and financial investment

	2003 £	2002 £
Purchase of tangible fixed assets	(310,048)	(452,648)
Sale of tangible fixed assets	9,801	55,100
Net cash outflow	<u>(300,247)</u>	<u>(397,548)</u>

d) Acquisitions and disposals

	2003 £	2002 £
Purchase of business undertakings	<u>-</u>	<u>(826,180)</u>

e) Financing

	2003 £	2002 £
New loan stock	-	341,880
Repayment of loan stock	(537,504)	(197,503)
New bank loan	340,000	473,600
Repayment of bank loan	(407,505)	(460,200)
Debt issue costs	-	-
Repayment of finance leases and hire purchase contracts	<u>(430,707)</u>	<u>(424,275)</u>
Net cash outflow	<u>(1,035,716)</u>	<u>(266,498)</u>

f) Analysis and reconciliation of net debt

	31 August 2002 £	Cash flows £	Other non- cash changes £	31 August 2003 £
Overdraft	(332,210)	(425,372)	-	(757,582)
Bank loans	(1,720,200)	67,505	-	(1,652,695)
Loan stock	(1,833,704)	537,504	-	(1,296,200)
Finance leases	(795,482)	430,707	(479,138)	(843,913)
Net debt	<u>(4,681,596)</u>	<u>610,344</u>	<u>(479,138)</u>	<u>(4,550,390)</u>

ATESTA GROUP LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2003

19 NOTES TO CASH FLOW STATEMENT (CONTINUED)

	2003 £	2002 £
(Decrease) in cash in the year	(425,372)	(31,614)
Cash outflow from change in debt and lease financing	1,035,716	266,498
Change in net debt resulting from cash flows	610,344	234,884
Other non-cash changes	(479,138)	(440,555)
Movement in net debt in year	131,206	(205,671)
Net debt at beginning of year	(4,681,596)	(4,475,925)
Net debt at end of year	(4,550,390)	(4,681,596)

20 GUARANTEES AND OTHER FINANCIAL COMMITMENTS

a) Capital commitments

Neither the Group nor the Company had any capital commitments at 31 August 2003 (2002 - £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 £1,607,052 at 31 August 2003 (2002 - £1,317,096).

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:

	2003		2002	
	Property £	Plant and Machinery £	Property £	Plant and Machinery £
Operating leases which expire				
- within one year	23,308	-	15,508	-
- between one and five years	184,400	-	134,200	-
- after 5 years	202,750	-	257,263	-
	410,458	-	406,971	-

For the year ended 31 August 2003

20 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 is 7.5% until 30 September 2003 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 the Company contribution is 1.0 times the employee contribution until 30 September 2003.

The pension charge for the year was £301,686 (2002 - £396,390), which included a charge of £174,000 (2002 - £182,000) 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 £1,281,000 (2002 - £1,455,000) 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 2003 by a qualified independent actuary. The main assumptions used by the actuary were:

	2003	2002
Inflation	2.7 % p.a.	2.5 % p.a.
Rate of increase in salaries	4.2 % p.a.	4.0 % p.a.
Rate of increase of pensions in payment	2.7 % p.a.	2.5 % p.a.
Rate of increase for deferred pensioners	2.7 % p.a.	2.5 % p.a.
Discount Rate	5.4 % p.a.	5.5 % p.a.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 August 2003

20 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)

d) Pension arrangements

The fair value of the assets at 31 August 2003 was £12.3m (2002 - £11.6m) and the expected long-term rates of return were:

	2003		2002	
	Fair value	Expected rate of return	Fair value	Expected rate of return
	£m	% p.a.	£m	% p.a.
Equities	10.4	8.7	9.5	8.6
Bonds	1.1	4.7	1.4	4.6
Property	0.8	6.7	0.7	6.6
Total	12.3	8.2	11.6	8.0

The deficit before deferred tax was £1.4m (2002 - £0.5m) being the difference between the fair value of the assets and the present value of the Section liabilities on the assumptions at 31 August 2003 of £13.7m (2002 - £12.1m) as shown in the table below.

	2003	2002
	£m	£m
Actuarial value of section liabilities	14.6	12.4
Members' share of deficit	(0.9)	(0.3)
Adjusted value of section liabilities	13.7	12.1
Total market value of assets	12.3	11.6
Deficit in the scheme	(1.4)	(0.5)
Related deferred tax asset	0.4	0.2
Net pension liability	(1.0)	(0.3)

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

	2003	2002
	£m	£m
Current service cost, less employee contributions	(0.5)	(0.6)
Total charged to operating profit	(0.5)	(0.6)
Interest on section liabilities	(0.4)	(0.4)
Expected return on section assets	0.5	0.6
Other finance income	0.1	0.2

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20 GUARANTEES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)

d) Pension arrangements

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

	2003 £m	2002 £m
Actual return less expected return on section assets	-	(1.7)
Experience (loss) / gain on section liabilities	(0.1)	0.5
Changes in the assumptions underlying the section liabilities	(0.5)	(0.5)
Total loss recognised before adjustment for tax	<u>(0.6)</u>	<u>(1.7)</u>

The history of gains and losses has been:

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

The movement in the deficit in the year was:

	2003 £m	2002 £m
(Deficit) / surplus in the section at the beginning of year	(0.5)	1.5
Contributions paid	0.1	0.1
Current service cost	(0.5)	(0.6)
Other finance income	0.1	0.2
Actuarial (loss)	(0.6)	(1.7)
Deficit in the section at end of year	<u>(1.4)</u>	<u>(0.5)</u>

21 RELATED PARTY TRANSACTIONS

During the year, rental charges of £10,800 were paid to the principal shareholder (2002 - £10,800).

22 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.