

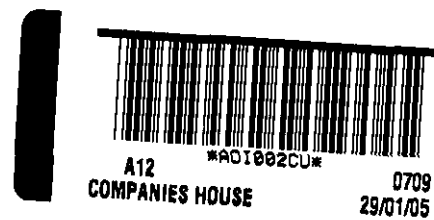
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**REACTION ENGINES LIMITED**

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**ABBREVIATED ACCOUNTS**

**FOR THE YEAR ENDED  
31 MARCH 2004**



**INDEPENDENT AUDITORS' REPORT TO REACTION ENGINES LIMITED**  
**Under section 247B of the Companies Act 1985**

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We have examined the abbreviated accounts of Reaction Engines Limited for the year ended 31 March 2004 set out on pages 2 to 4, together with the financial statements of the company for the year ended 31 March 2004 prepared under section 226 of the Companies Act 1985.

This report is made solely to the company, in accordance with s.247B of the Companies Act 1985. Our work has been undertaken so that we might state to the company those matters we are required to state to it in a special 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, for our work, for this report, or for the opinions we have formed.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors are responsible for preparing the abbreviated accounts in accordance with section 246 of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts prepared in accordance with sections 246 (5) and (6) of the Act to the registrar and whether the accounts to be delivered are properly prepared in accordance with those provisions and to report our opinion to you.

**BASIS OF AUDIT OPINION**

We have carried out the procedures we consider necessary to confirm, by reference to the financial statements, that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts to be delivered are properly prepared. The scope of our work for the purpose of this report did not include examining or dealing with events after the date of our report on the financial statements.

**OPINION**

In our opinion the company is entitled to deliver abbreviated accounts prepared in accordance with sections 246 (5) and (6) of the Companies Act 1985, and the abbreviated accounts on pages 2 to 4 are properly prepared in accordance with those provisions.



**Wellers**

Registered Auditors

Kineton House  
31 Horse Fair  
Banbury  
OX16 0AE

11 January 2005

**ABBREVIATED BALANCE SHEET**  
**As at 31 March 2004**

The abbreviated accounts, which have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 applicable to small companies, were approved by the board on 11 January 2005 and signed on its behalf.

The notes on pages 3 to 4 form part of these financial statements.

NOTES TO THE ABBREVIATED ACCOUNTS  
For the year ended 31 March 2004

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**1. ACCOUNTING POLICIES**

**1.1 Basis of preparation of financial statements**

The full financial statements, from which these abbreviated accounts have been extracted, have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

**1.2 Cash flow**

The financial statements do not include a cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under the Financial Reporting Standard for Smaller Entities (effective June 2002).

**1.3 Turnover**

Turnover comprises the invoiced value of goods and services supplied by the company, exclusive of Value Added Tax and trade discounts.

**1.4 Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Plant and equipment	-	15% reducing balance
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**1.5 Deferred taxation**

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

**1.6 Research and development**

Research and development expenditure is written off in the year in which it is incurred. Development expenditure is written off in the year of expenditure, despite meeting the criteria for deferral to future periods, as described by SSAP 13 "Accounting for research and development". The directors regard this policy as being prudent.

**1.7 Government grants**

Government grants are recognised in the profit and loss account so as to match the grants with the expenditure to which they are expected to contribute. They are recognised only when the conditions of receipt have been complied with and there is reasonable assurance that the grant will be received.

# REACTION ENGINES LIMITED

## NOTES TO THE ABBREVIATED ACCOUNTS For the year ended 31 March 2004

### 2. TANGIBLE FIXED ASSETS

	£
<b>Cost</b>	
At 1 April 2003	50,809
Additions	1,641
	<u>52,450</u>
At 31 March 2004	
<b>Depreciation</b>	
At 1 April 2003	19,766
Charge for the year	4,903
	<u>24,669</u>
At 31 March 2004	
<b>Net book value</b>	
At 31 March 2004	£ 27,781
	<u>£ 31,043</u>
At 31 March 2003	
	<u>£ 31,043</u>

### 3. SHARE CAPITAL

	2004 £	2003 £
<b>Authorised</b>		
1,000,000 Ordinary shares of 1p each	£ 10,000	£ 10,000
<b>Allotted, called up and fully paid</b>		
859,343 Ordinary shares of 1p each	£ 8,593	£ 8,090

During the year, 50,298 of 1p each were issued, fully paid for cash consideration of £140,000. No issue costs were incurred.