

**GOITRE TOWER ANTHRACITE
LIMITED**

Report and Financial Statements

31 December 2003

**Deloitte & Touche LLP
Cardiff**



REPORT AND FINANCIAL STATEMENTS 2003

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

G N Davies
T O'Sullivan OBE (Chairman)
K Davies
G R Davies
A Shott
G Parker
T B Roberts OBE (non-executive)
B Morgan (non-executive)
M J Higgins (non-executive)

SECRETARY

K Davies

REGISTERED OFFICE

Treherbert Road
Hirwaun
Aberdare
Mid Glamorgan
CF44 9UF

BANKERS

Barclays Bank Plc
National Westminster Bank Plc

SOLICITORS

Morgan Cole
Edwards Geldard

AUDITORS

Deloitte & Touche LLP
Cardiff

CHAIRMAN'S STATEMENT

As you will see from the accounts, our performance was adversely affected by mining difficulties early in the year as a result of which production was well below target. This resulted in decreased sales and revenue.

The industry in the UK is faced with increasing costs and competition and, during 2003, costs were substantially cut back to reflect the decreased revenue arising from lost production. Insurance continues to be a major concern with major insurance companies no longer offering cover for mining companies.

Our programme of development work continued throughout 2003 and the V44 panel has come into production recently. Drivage of V51 is making good progress.

In March, we were successful in our application for Investment Aid from the DTI, as a result of which we anticipate receiving £2.2m of grant in respect of the period for March 2003 – March 2005.

Our contract with Innogy has continued to run well and we have recently signed a new contract to run until September 2005 at improved prices.

The mild winter not surprisingly affected demand for products, but 2004 is currently showing an improved trend and the contract in place with Evans & Reid has helped to smooth out the highs and lows of demand.

Our safety record continues to improve and we shall be working closely with new insurers to continue this trend.

We are now in Tower's tenth year of production since we started back in 1995. This period has been one of substantial change and many major companies have fallen by the wayside.

I believe we should all take some pride in what we have achieved, and would express my thanks to the Board and all of you for your continued efforts in the past year.

T O'Sullivan OBE
Chairman

GOITRE TOWER ANTHRACITE LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

ACTIVITIES

The principal activity of the group is coal mining carried out in Wales.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

Results for 2003 were affected by mining difficulties in the V49 panel, which substantially reduced production levels for the year.

Market conditions and another mild winter again affected demand for product and prices.

Our three-year contract with Aberthaw came to an end in March 2004 and has been renewed for the next 18 months at improved prices.

We have substantially reduced costs where possible during the year to take account of the many difficulties described above.

Coaling in the V44 panel commenced in May and development to our next panel, V51, is progressing well.

DIVIDENDS

The directors do not recommend the payment of a dividend (2002 - £nil).

DIRECTORS AND THEIR INTERESTS

The present membership of the Board is set out on page 1. G Parker was appointed as a director on 10 March 2004. The other directors served throughout the year. R D Davies has resigned as a director since the year-end, on 10 March 2004.

The directors' interests in the ordinary shares of the company at 31 December 2003 and 1 January 2003 were:

	31 December 2003 No.	1 January 2003 or on appoint- ment No.
G N Davies	8,000	8,000
T O'Sullivan OBE (Chairman)	8,000	8,000
K Davies	8,000	8,000
R D Davies	8,000	8,000
G R Davies	2,111	2,111
A Shott	8,000	8,000
G Parker	8,000	8,000
T B Roberts OBE (non-executive)	-	-
B Morgan (non-executive)	-	-
M J Higgins (non-executive)	-	-

DONATIONS

During the year, the group made the following donations: charitable purposes £9,870 (2002 - £9,472).

EMPLOYEES

The group is aware of the importance of keeping its employees informed on matters which may affect them and has continued its policy in this respect, with the production of a company newsletter and regular meetings of shareholder employees.

DIRECTORS' REPORT (continued)

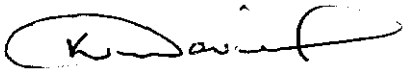
DISABLED PERSONS

The group supports the employment of disabled persons wherever possible and by retention of those who become disabled during their employment, and generally through training, career development and promotion.

AUDITORS

A resolution to reappoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

A handwritten signature in black ink, appearing to read 'K Davies', enclosed within a large, loopy circular flourish.

K Davies
Secretary

Date 29 June 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GOITRE TOWER ANTHRACITE LIMITED

We have audited the financial statements of Goitre Tower Anthracite Limited for the year ended 31 December 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 24. 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 audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, 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 affairs of the company and the group as at 31 December 2003 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Cardiff

29 June 2004

GOITRE TOWER ANTHRACITE LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	Note	2003 £'000	2002 £'000
TURNOVER: continuing operations	2	25,237	25,743
Cost of sales		<u>(25,472)</u>	<u>(26,676)</u>
Gross loss		(235)	(933)
Administrative expenses		(2,569)	(2,228)
Other operating income	4	<u>2,355</u>	<u>2,628</u>
OPERATING LOSS		(449)	(533)
Interest receivable		123	143
Interest payable and similar charges	6	<u>(5)</u>	<u>(27)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	5	(331)	(417)
Tax on loss on ordinary activities	7	<u>37</u>	<u>131</u>
RETAINED LOSS FOR THE FINANCIAL YEAR	19	<u><u>(294)</u></u>	<u><u>(286)</u></u>

There are no recognised gains and losses for the current or prior year other than as stated above.

GOITRE TOWER ANTHRACITE LIMITED

CONSOLIDATED BALANCE SHEET
31 December 2003


	Note	£'000	2003 £'000	2002 £'000
FIXED ASSETS				
Intangible assets	9		143	143
Tangible assets	10		5,748	6,334
Investments	11		563	474
			<u>6,454</u>	<u>6,951</u>
CURRENT ASSETS				
Stocks	12	2,688		2,971
Debtors	13	5,196		5,770
Investments	14	1,236		1,741
Cash at bank and in hand		3,285		3,837
		<u>12,405</u>		<u>14,319</u>
CREDITORS: amounts falling due within one year	15	(4,980)		(7,072)
NET CURRENT ASSETS			<u>7,425</u>	<u>7,247</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			13,879	14,198
PROVISIONS FOR LIABILITIES AND CHARGES	17		(4,107)	(4,132)
NET ASSETS			<u>9,772</u>	<u>10,066</u>
CAPITAL AND RESERVES				
Called up share capital	18		2,162	2,162
Share premium account	19		223	223
Profit and loss account	19		7,387	7,681
TOTAL EQUITY SHAREHOLDERS' FUNDS			<u>9,772</u>	<u>10,066</u>

These financial statements were approved by the Board of Directors on 29 June 2004
Signed on behalf of the Board of Directors

G N Davies)


Directors

T O'Sullivan OBE)



GOITRE TOWER ANTHRACITE LIMITED

COMPANY BALANCE SHEET 31 December 2003

	Note	2003 £'000	2002 £'000
FIXED ASSETS			
Investments	11	9,200	9,200
CURRENT ASSETS			
Debtors	13		
Due within one year		366	347
Due after one year		912	912
Cash at bank and in hand		155	174
		1,433	1,433
CREDITORS: amounts falling due within one year	15	(2,074)	(2,074)
NET CURRENT LIABILITIES		(641)	(641)
TOTAL ASSETS LESS CURRENT LIABILITIES		8,559	8,559
CREDITORS: amounts falling due after more than one year	16	(6,150)	(6,150)
NET ASSETS		2,409	2,409
CAPITAL AND RESERVES			
Called up share capital	18	2,162	2,162
Share premium account	19	223	223
Profit and loss account	19	24	24
TOTAL EQUITY SHAREHOLDERS' FUNDS		2,409	2,409

These financial statements were approved by the Board of Directors on 29 June 2004
Signed on behalf of the Board of Directors

G N Davies)

G. N. Davies
Directors

T O'Sullivan OBE)

T. O'Sullivan

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2003

	Note	£'000	2003 £'000	£'000	2002 £'000
Net cash inflow from operating activities	20		755		1,888
Returns on investments and servicing of finance					
Interest received		123		143	
Interest paid		(5)		(5)	
Interest element of finance lease rental payments		-		(22)	
Net cash inflow from returns on investments and servicing of finance			118		116
Taxation					
UK corporation tax paid (including advance corporation tax)		(1,054)		-	
Tax paid			(1,054)		-
Capital expenditure and financial investment					
Payments to acquire intangible fixed assets		-		(50)	
Payments to acquire tangible fixed assets		(787)		(1,440)	
Payments to acquire own shares		(89)		(36)	
Net cash outflow from capital expenditure and financial investment			(876)		(1,526)
Equity dividends paid			-		(271)
Net cash (outflow)/inflow before use of liquid resources and financing			(1,057)		207
Management of liquid resources					
Decrease/(increase) in 7-day deposits			505		(34)
Financing					
Capital element of finance lease rental payments		-		(17)	
Net cash outflow from financing			-		(17)
(Decrease)/increase in cash in the year	21		(552)		156

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiaries, Tower Colliery Limited, Tower Energy Resources Limited and Welsh Dragon Coal Limited.

The Joint Venture, Principality Fuel Company Limited, has been excluded from consolidation on grounds of immateriality.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

Acquisitions

On the acquisition of a business, fair values are attributed to the group's share of net tangible assets. Where the cost of acquisition exceeds the values attributable to such net assets, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition. Prior to the implementation of FRS 10, purchased goodwill was written off directly to reserves and has not been reinstated.

Depreciation

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Land and buildings	-	8.33% per annum
Plant and machinery	-	8.33% - 33.33% per annum
Development expenditure	-	Underground development costs of a long-term nature are separately identified and written-off over their expected commercial lives once commissioned.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Insurance receipts

Insurance receipts are credited against the cost to which they relate.

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

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

Restoration expenses

Provision is made over the working life of coal production sites to cover the obligated costs of progressive and terminal site restoration.

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

Pension costs

The group operates a defined contribution pension scheme for all qualified employees, the assets of which are held in individually administered funds. Pension costs are charged to the profit and loss account as incurred.

Leases

Assets held under finance lease and hire purchase contracts are capitalised at their fair value on the inception of the lease and depreciated over the estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

Rentals are charged to the profit and loss account in equal amounts over the lease term.

2. TURNOVER

Turnover represents amounts derived from the provision of goods and services which fall within the group's ordinary activities after deduction of trade discounts and value added tax. The turnover and pre-tax loss, all of which arise in the United Kingdom, are attributable to one activity.

	2003 £'000	2002 £'000
Turnover comprises		
Sales to external companies	25,237	25,743

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2003 £'000	2002 £'000
Directors' emoluments		
Other emoluments (excluding employers' national insurance)	296	286
Pension contributions	10	12
	306	298
	No.	No.
Number of directors who are members of a defined contribution pension scheme	6	7
	£'000	£'000
Highest paid director		
Emoluments	59	59

GOITRE TOWER ANTHRACITE LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

The highest paid director is not a member of the pension scheme.

	2003 £'000	2002 £'000
Employee costs (including directors)		
Wages and salaries	9,157	8,951
Social security costs	940	883
Other pension costs	487	548
	<u>10,584</u>	<u>10,382</u>
Average number of persons employed (including directors)	No.	No.
General administration	25	25
Mining	303	306
	<u>328</u>	<u>331</u>

4. OTHER OPERATING INCOME

In respect of the year 2003, the company has credited a subsidy due from the DTI of £900,000 (2002 - £2,628,000) to the profit and loss account. £900,000 (2002 - £1,852,000) of this amount is included in debtors.

5. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2003 £'000	2002 £'000
The loss on ordinary activities before taxation is after charging		
Auditors' remuneration		
- Audit fees	14	14
- Other services	9	9
Depreciation - owned assets	1,373	1,321
- leased assets	-	13
	<u></u>	<u></u>
And after crediting		
Subsidy income	900	2,628
Exceptional income	1,455	-
	<u></u>	<u></u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000	2002 £'000
Bank loans, overdrafts and other loans repayable within five years	5	5
Finance lease and hire purchase contracts	-	22
	<u>5</u>	<u>27</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2003 £'000	2002 £'000
Current taxation		
United Kingdom corporation tax:		
Current tax on income for the year at 30% (2002 - 30%)	-	187
Total current tax		
Deferred tax	(37)	(56)
	(37)	131

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	£'000	£'000
Loss on ordinary activities before tax	(331)	(417)
Tax on loss on ordinary activities before tax at 30%	99	125
Factors affecting charge for the year		
Expenses not deductible for tax purposes	(20)	(18)
Capital allowances in excess of depreciation	(29)	80
Trade losses not utilised	(50)	-
Current tax charge for year	-	187

8. PROFIT OF PARENT COMPANY

As permitted by Section 230 of the Companies Act, the profit and loss account of the parent company is not presented as part of these accounts. The parent company profit for the financial year amounted to £nil (2002 - £1,000).

GOITRE TOWER ANTHRACITE LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2003

9. INTANGIBLE FIXED ASSETS

	Goodwill £
Cost	
At 1 January 2003 and at 31 December 2003	143

The goodwill relates to the purchase of assets by Welsh Dragon Coal Limited and Tower Energy Resources Limited, both of which are wholly owned subsidiaries of Goitre Tower Anthracite Limited.

10. TANGIBLE FIXED ASSETS

The Group	Long-term development expenditure £'000	Land and buildings £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2003	4,562	1,523	13,550	19,635
Additions	368	81	338	787
At 31 December 2003	4,930	1,604	13,888	20,422
Accumulated depreciation				
At 1 January 2003	3,073	414	9,814	13,301
Charge for the year	472	69	832	1,373
At 31 December 2003	3,545	483	10,646	14,674
Net book value				
At 31 December 2003	1,385	1,121	3,242	5,748
At 31 December 2002	1,489	1,109	3,736	6,334

During the year, the estimated useful economic lives of assets have been re-assessed and the effect of this re-assessment was a reduction in the depreciation charge of £31,000.

GOITRE TOWER ANTHRACITE LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2003

11. INVESTMENTS

	Investment in own shares £'000	Shares in Joint venture £'000	The Group Total £'000	The Company Shares in subsidiary £'000
Cost and net book value				
At 1 January 2003	424	50	474	9,200
Additions	89	-	89	-
At 31 December 2003	513	50	563	9,200

The company has the following wholly owned subsidiaries:

Name	Country of incorporation/ registration and operation	Activity
Goitre Insurance Services Limited	Guernsey	Insurance
Tower Colliery Limited	England and Wales	Coal mining
Welsh Dragon Coal Limited	England and Wales	Coal distribution
Tower Energy Resources Limited	England and Wales	Coal supplier

All of the above investments are unlisted.

The company's investment in the Joint Venture, Principality Fuel Company Limited, has not been incorporated under the gross equity method as it is immaterial to the group.

At 31 December 2003, the capital and reserves amounted to £62,345 (2002 - £60,748) and its profit for the year then ended was £1,597 (2002 - £5,275). It is held at cost in the consolidated balance sheet.

The investment in own shares relates to shares in Goitre Tower Anthracite Limited owned by Goitre Tower Anthracite Limited Employees' Trust.

12. STOCKS

	The Group	
	2003 £'000	2002 £'000
Raw materials and consumables	1,267	1,325
Finished goods held for re-sale	1,421	1,646
	2,688	2,971

GOITRE TOWER ANTHRACITE LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2003

13. DEBTORS

	The Group 2003 £'000	The Company 2003 £'000	The Group 2002 £'000	The Company 2002 £'000
Trade debtors	3,877	-	3,009	-
Amounts owed by subsidiary undertakings	-	912	-	912
Other debtors	1,185	366	2,598	347
Prepayments and accrued income	134	-	163	-
	<u>5,196</u>	<u>1,278</u>	<u>5,770</u>	<u>1,259</u>

Amounts owed by subsidiary undertakings to the company are due after more than one year.

14. CURRENT ASSET INVESTMENTS

	The Group 2003 £'000	The Company 2003 £'000	The Group 2002 £'000	The Company 2002 £'000
Cash held on 7-day deposit	<u>1,236</u>	<u>-</u>	<u>1,741</u>	<u>-</u>

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group 2003 £'000	The Company 2003 £'000	The Group 2002 £'000	The Company 2002 £'000
Other loans	2,050	2,050	2,050	2,050
Trade creditors	1,102	24	1,755	24
Corporation tax	105	-	1,081	-
Other creditors including taxation and social security	1,307	-	1,202	-
Accruals and deferred income	416	-	984	-
	<u>4,980</u>	<u>2,074</u>	<u>7,072</u>	<u>2,074</u>
Other creditors including taxation and social security includes				
Taxation and social security	<u>1,242</u>	<u>-</u>	<u>1,021</u>	<u>-</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 2003

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group 2003 £'000	The Company 2003 £'000	The Group 2002 £'000	The Company 2002 £'000
Amounts owed to subsidiary undertaking	-	6,150	-	6,150

17. PROVISIONS FOR LIABILITIES AND CHARGES

The Group	At 1 January 2003 £'000	Charged/ (Credited) to profit and loss account £'000	At 31 December 2003 £'000
Restoration and subsidence provisions	3,176	12	3,188
Medical claims	900	-	900
Deferred taxation	56	(37)	19
	<u>4,132</u>	<u>(25)</u>	<u>4,107</u>

The amounts of deferred taxation provided in the accounts are as follows:

	2003 £'000	2002 £'000
Capital allowances in excess of depreciation	<u>19</u>	<u>56</u>

Restoration and subsidence provisions will be utilised should mining cease or subsidence occur.

Medical claims provisions will be utilised when due.

18. CALLED UP SHARE CAPITAL

	2003 £'000	2002 £'000
Authorised		
2,600,000 'A' ordinary shares of £1 each	2,600	2,600
1,400,000 'C' ordinary shares of £1 each	<u>1,400</u>	<u>1,400</u>
	<u>4,000</u>	<u>4,000</u>
Allotted, fully paid		
1,961,635 'A' ordinary shares of £1 each	1,962	2,042
200,000 'C' ordinary shares of £1 each	<u>200</u>	<u>120</u>
	<u>2,162</u>	<u>2,162</u>

All ordinary shares have equal rights to dividends and repayment of capital. 'C' ordinary shares have no voting rights.

GOITRE TOWER ANTHRACITE LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2003

19. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

	Issued share capital £'000	Share premium account £'000	Profit and loss account £'000	Total 2003 £'000	Total 2002 £'000
The Group					
At beginning of year	2,162	223	7,681	10,066	10,352
Loss attributable to members of the group	-	-	(294)	(294)	(286)
At end of year	<u>2,162</u>	<u>223</u>	<u>7,387</u>	<u>9,772</u>	<u>10,066</u>
The Company					
At beginning of year	2,162	223	24	2,409	2,408
Profit attributable to members of the company	-	-	-	-	1
At end of year	<u>2,162</u>	<u>223</u>	<u>24</u>	<u>2,409</u>	<u>2,409</u>

20. RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2003 £'000	2002 £'000
Operating loss	(449)	(533)
Depreciation	1,373	1,334
Decrease/(increase) in stocks	283	(1,484)
Decrease in debtors	574	856
(Decrease)/increase in creditors	(1,038)	1,678
Increase in provisions	12	37
Net cash inflow from operating activities	<u>755</u>	<u>1,888</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 2003

21. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	£'000	2003 £'000	£'000	2002 £'000
(Decrease)/increase in cash in the year	(552)		156	
Debt repayments	-		17	
Cash (inflow)/outflow from increase in liquid resources	(505)		34	
Movement in net (debt)/funds in the year		(1,057)		207
Net funds at 1 January		3,528		3,321
Net funds at 31 December		2,471		3,528

22. ANALYSIS OF CHANGE IN NET FUNDS

	At 1 January 2003 £'000	Cash flow £'000	Other non-cash changes £'000	At 31 December 2003 £'000
Cash at bank and in hand	3,837	(552)	-	3,285
Debt due within one year	(2,050)	-	-	(2,050)
Current asset investments	1,741	(505)	-	1,236
	3,528	(1,057)	-	2,471

23. PENSIONS

The group operates a defined contribution pension scheme for all qualified employees. The assets of the scheme are held in individually administered funds. The cost of pensions for the company in the year was £487,000 (2002 - £548,000).

24. CONTINGENT LIABILITY

The DTI subsidy income referred to in note 4 is in certain circumstances subject to reclaim.