

THE FETHER MILES GROUP LIMITED

COMPANY NO. 3332902

FINANCIAL STATEMENTS

for the period ended

31 MARCH 1998



**Goodman Jones
29/30 Fitzroy Square,
London, W1P 6LQ.**

Reference JRF/3708/LMP

THE FETHER MILES GROUP LIMITED

DIRECTORS

K.B. Fether
R. Miles
S.T.M. Murphy

SECRETARY

R. Miles

REGISTERED OFFICE

29/30 Fitzroy Square
London
W1P 6LQ

AUDITORS

Goodman Jones
29/30 Fitzroy Square
London
W1P 6LQ

PRINCIPAL BANKERS

Barclays Bank plc
Soho Square Business Centre
27 Soho Square
London
W1A 4WA

THE FETHER MILES GROUP LIMITED
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 1998

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THE FETHER MILES GROUP LIMITED

REPORT OF THE DIRECTORS

FINANCIAL STATEMENTS

The directors present their report and the audited financial statements for the period ended 31 March 1998.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the group are product and environmental design and modelmaking.

The company was incorporated as Bodygrand Limited on 13 March 1997 and changed to its present name on 3 July 1997.

On 24 July 1997 the company acquired the assets and liabilities of Bodygrand Limited (formerly The Fether Miles Group Limited) including its investments in FM Modelmakers Limited and FM Design Limited.

The directors are pleased to report a pre-tax profit for the period to 31 March 1998 of £114,535 and accordingly look to the future with confidence.

YEAR 2000 ISSUE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own year 2000 issues.

The directors are currently identifying the extent of the problem within The Fether Miles Group and are preparing an inventory of affected systems and identifying the action required to solve the specific problems found.

All future purchases and upgrading of equipment and software are required to be year 2000 compliant and all current equipment is being tested to ensure that the company is fully compliant by the year 2000.

DIVIDENDS

The directors do not recommend payment of a dividend.

THE FETHER MILES GROUP LIMITED

REPORT OF THE DIRECTORS (continued)

DIRECTORS AND THEIR INTERESTS

The directors at the balance sheet date and their interests in the company at that date and at the beginning of the year (or on appointment if later), were as follows:

		<u>Number of shares</u>
	<u>Class of share</u>	<u>1998</u>
K.B. Fether	Ordinary shares	795
R. Miles	Ordinary shares	605
S.T.M. Murphy	Ordinary shares	-

The initial directors of the company were Chalfen Nominees Limited and Chalfen Secretaries Limited. Upon the resignation of the initial directors on 3 April 1997, the above named directors were appointed.

DIRECTORS AND THEIR RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of the affairs of the company and of the group 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;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group or 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 of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

TAXATION STATUS

The company is a close company as defined by the Income and Corporation Taxes Act 1988.

AUDITORS

The auditors, Goodman Jones, Chartered Accountants, are willing to be reappointed in accordance with section 385 of the Companies Act 1985.

By order of the Board

Date: 27.1.99

Secretary



THE FETHER MILES GROUP LIMITED

AUDITORS REPORT TO THE MEMBERS OF CLINIC GROUP LIMITED

We have audited the financial statements on pages 4 to 19 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

Respective responsibilities of the directors and auditors

As described in the Directors' Report the group's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and report our opinion to you.

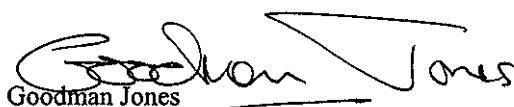
Basis of opinion

We conducted our audit in accordance with 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 group'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 misstatements, 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 of the group as at 31 March 1998 and of the group's profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


Goodman Jones

Registered Auditors
Chartered Accountants
29/30 Fitzroy Square
London
W1P 6LQ

Date: 28 January 1999

THE FETHER MILES GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31 MARCH 1998

	<u>NOTES</u>	<u>1998</u> £
TURNOVER		897,961
Cost of sales		(510,448)
GROSS PROFIT		387,513
Administrative expenses		(279,606)
Other operating income		28,875
OPERATING PROFIT	3	136,782
Income from investments	4	8,792
Interest payable	5	(31,039)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		114,535
Tax on profit on ordinary activities	8	(25,893)
PROFIT FOR THE FINANCIAL PERIOD	20	88,642

All of the group's activities were acquired during the above financial period.

The group has no recognised gains or losses other than those dealt with in the profit and loss account.

The notes on pages 8 to 19 form a part of these accounts.

THE FETHER MILES GROUP LIMITED


CONSOLIDATED BALANCE SHEET AT 31 MARCH 1998

	<u>NOTES</u>	<u>1998</u>	
		£	£
FIXED ASSETS			
Tangible assets	10		387,541
CURRENT ASSETS			
Stocks	12	9,660	
Debtors	13	254,058	
Cash at bank and in hand		173,383	
		<hr/>	
		437,101	
CREDITORS: Amounts falling due within one year	14	(175,224)	
		<hr/>	
NET CURRENT ASSETS			261,877
TOTAL ASSETS LESS CURRENT LIABILITIES			<hr/>
			649,418
CREDITORS: Amounts falling due after more than one year	15		(380,731)
			<hr/>
			268,687
			<hr/>
CAPITAL AND RESERVES			
Called up share capital	18		1,750
Merger reserve	19		178,295
Profit and loss account	20		88,642
			<hr/>
			268,687
			<hr/>

The financial statements were approved by the board on
and signed on its behalf by

27.1.99

Directors


K. B. Fether

The notes on pages 8 to 19 form a part of these accounts.

THE FETHER MILES GROUP LIMITED

BALANCE SHEET AT 31 MARCH 1998

	<u>NOTES</u>	1998
		£
FIXED ASSETS		
Tangible assets	10	327,537
Investments	11	38,238
		<hr/> 365,775
CURRENT ASSETS		
Debtors	13	38,879
Cash at bank and in hand		172,200
		<hr/> 211,079
CREDITORS: Amounts falling due within one year	14	<hr/> (176,865)
NET CURRENT LIABILITIES		<hr/> 34,214
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 399,989
CREDITORS: Amounts falling due after more than one year	15	<hr/> (370,286)
		<hr/> 29,703
CAPITAL AND RESERVES		
Called up share capital	18	1,750
Profit and loss account		27,953
		<hr/> 29,703

The financial statements were approved by the board on
and signed on its behalf by

27.1.99

Directors

[Signature]
K. B. Fether

The notes on pages 8 to 19 form a part of these accounts.

THE FETHER MILES GROUP LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 31 MARCH 1998

	<u>NOTES</u>	<u>1998</u> £
CASH FLOW FROM OPERATING ACTIVITIES	21	35,899
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	22	(22,247)
CAPITAL EXPENDITURE	22	(380,697)
Cash flow before use of liquid resources and financing		(367,045)
FINANCING	22	
Issue of shares		180,045
Increase in debt		401,517
		581,562
INCREASE IN CASH IN THE PERIOD		<u>214,517</u>

**RECONCILIATION OF NET CASH FLOW TO
MOVEMENT IN NET DEBT (Note 23)**

INCREASE IN CASH IN THE PERIOD	214,517
Cash inflow from increase in debt	<u>(401,517)</u>
Change in net debt resulting from cash flows	(187,000)
Movement in net debt in the period	(187,000)
New finance leases	(45,182)
Net Debt at 31 March 1998	<u>(232,182)</u>

The notes on pages 8 to 19 form a part of these accounts.

THE FETHER MILES GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 1998

1. ACCOUNTING POLICIES

1.1 Basis of Accounting

The financial statements are prepared under the historical cost convention.

1.2 Basis of Consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and both of its subsidiary undertakings made up to 31 March 1998. The acquisitions in the period have been consolidated on an acquisitions basis, taking advantage of merger relief under section 131 of the Companies Act 1985.

1.3 Turnover

Turnover represents the total invoice value, excluding value added tax, of goods sold and services rendered during the period.

1.4 Depreciation

Depreciation is provided using the following rates and bases to reduce by annual instalments the cost of the tangible assets over their estimated useful lives:-

Fixtures and equipment	3 & 5 years Straight line
Motor vehicles	3 years Straight line

No depreciation is provided on long leasehold buildings as it is the company's policy to maintain these so as to extend their useful lives.

1.5 Stock

Time work in progress is valued at the lower of cost and estimated net realisable value plus an appropriate proportion of overheads.

Bought in work in progress is valued at the lower of cost and estimated net realisable value.

1.6 Deferred taxation

Deferred tax is provided where there is a reasonable probability of the amount becoming payable in the foreseeable future.

1.7 Leasing and hire purchase

Assets acquired under finance leases or hire purchase contracts are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Finance charges and interest are taken to the profit and loss account in constant proportion to the remaining balance of capital repayments or net obligations outstanding.

Rentals payable under operating leases are taken to the profit and loss account on a straight line basis over the lease term.

THE FETHER MILES GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 1998

1.8 Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the accounting date. Transactions in foreign currencies are recorded at the date of the transactions. All differences are taken to the profit and loss account.

1.9 Pensions

Pension contributions are charged to the profit and loss account so as to spread the cost of the pensions over the employees' working lives with the company. These contributions are invested separately from the company's assets.

2. PROFIT FOR THE FINANCIAL PERIOD

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements.

The consolidated profit for the year includes a profit after tax of £27,953 which is dealt with in the financial statements of the parent company.

3. OPERATING PROFIT

1998

£

The operating profit is stated
after charging:-

Depreciation	39,229
Auditors' remuneration	7,768
Operating Leases - Land and Buildings	3,600

4. INCOME FROM INVESTMENTS

1998

£

Bank and other interest	8,792
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THE FETHER MILES GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 1998

5. <u>INTEREST PAYABLE</u>	1998 £
Hire purchase	4,958
On bank loans and overdrafts and on loans repayable in full within five years	26,081
	31,039
 6. <u>DIRECTORS AND EMPLOYEES</u>	 1998 £
<u>Staff costs</u>	
Wages and salaries	361,016
Social security costs	35,814
Other pension costs	7,142
	403,972
The average monthly number of employees during the year was as follows:	Number
Administration and marketing	3
Modelmakers	4
Design	7
	14
Directors' emoluments for the period	£86,440
 7. <u>PENSION COSTS</u>	
The company operates a group personal pension plan. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £7,141.	
 8. <u>TAX ON PROFIT ON ORDINARY ACTIVITIES</u>	 1998 £
The taxation charge based on the profit before tax comprises:-	
U.K. corporation tax at 21%	25,893

THE FETHER MILES GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 1998

9. TANGIBLE FIXED ASSETS

Group

<u>Cost</u>	<u>Additions</u>	<u>Disposals</u>	<u>End of period</u>
	£	£	£
Freehold property	316,083	-	316,083
Plant and machinery	15,599	-	15,599
Fixtures & fittings	81,122	(191)	80,931
Motor vehicles	14,075	-	14,075
	<u>426,879</u>	<u>(191)</u>	<u>426,688</u>

Depreciation

	<u>Charge for year</u>	<u>Adjustment for disposals</u>	<u>End of period</u>
	£	£	£
Plant and machinery	3,966	-	3,966
Fixtures & fittings	28,695	(82)	28,613
Motor vehicles	6,568	-	6,568
	<u>39,229</u>	<u>(82)</u>	<u>39,147</u>

	<u>End of period</u>
	£
Net Book Value at 31 March 1998	<u>387,541</u>

Included above are assets held under finance leases or hire purchase contracts as follows :-

	<u>1998</u>
	£
Net book values at 31 March 1998:	
Plant and machinery	7,583
Furniture, fixtures and equipment	27,762
	<u>35,345</u>
Depreciation charge for the period:	
Plant and machinery	2,438
Furniture, fixtures and equipment	19,848
	<u>22,286</u>

Net obligations under finance leases and hire purchase contracts are secured on the assets acquired.

THE FETHER MILES GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 1998

9. TANGIBLE FIXED ASSETS

Company

<u>Cost</u>	<u>Additions</u> £	<u>Disposals</u> £	<u>End of period</u> £
Freehold property	316,083	-	316,083
Fixtures and equipment	15,360	(191)	15,169
	<u>331,443</u>	<u>(191)</u>	<u>331,252</u>

Depreciation

	<u>Charge for year</u> £	<u>Adjustment for disposals</u> £	<u>End of period</u> £
Fixtures and equipment	3,797	(82)	3,715
	<u>3,797</u>	<u>(82)</u>	<u>3,715</u>

	<u>End of period</u> £
Net Book Value at 31 March 1998	<u>327,537</u>

THE FETHER MILES GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 1998

11. INVESTMENTS

<u>Company</u>	Shares In Subsidiaries £
Investments in subsidiaries:-	
<u>Cost</u>	
Addition in the period	38,238
<u>Net book value</u>	
At end of period	38,238

<u>Group undertakings</u>	<u>Description and proportion of share capital owned</u>	<u>Country of incorporation</u>	<u>Nature of business</u>
F.M. Design Limited	Ordinary 100%	Great Britain	Designers
F.M. Modelmakers Limited	Ordinary 100%	Great Britain	Modelmakers

12. STOCKS

	Group 1998 £	Company 1998 £
Short term work in progress	9,660	-

13. DEBTORS

	Group 1998 £	Company 1998 £
Trade debtors	204,362	-
Other debtors	41,065	36,106
Prepayments and accrued income	8,631	2,773
	254,058	38,879

THE FETHER MILES GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 1998

14. <u>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</u>	<u>Group 1998</u> £	<u>Company 1998</u> £
Trade creditors	91,855	20,096
Amounts owed to group companies	-	129,542
Taxes and social security costs	14,813	-
Corporation tax	25,893	7,493
Net obligations under finance lease and hire purchase contracts	14,170	-
Other creditors	10,664	10,664
Accruals and deferred income	17,829	9,070
	<u>175,224</u>	<u>176,865</u>

15. <u>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</u>	<u>Group 1998</u> £	<u>Company 1998</u> £
Loan	286,135	286,135
Subordinated loans	84,151	84,151
Net obligations under finance lease and hire purchase contracts	10,445	-
	<u>380,731</u>	<u>370,286</u>

The subordinated loans are in respect of directors' loan accounts and Fether and Partners Limited, a company controlled by some of the directors. The loans are subordinated in favour of all other creditors and are interest free.

16. <u>BORROWINGS</u>	<u>Group 1998</u> £	<u>Company 1998</u> £
The company's borrowings are repayable as follows:		
In one year, or less or on demand	10,664	10,664
Between one and two years	11,780	11,780
Between two and five years	42,061	42,061
In five years or more	316,445	316,445
	<u>380,950</u>	<u>380,950</u>

Security

The loan is secured by a fixed and floating charge on the assets of the company.

THE FETHER MILES GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 1998

**17. NET OBLIGATIONS UNDER FINANCE LEASES
AND HIRE PURCHASE CONTRACTS**

<u>Net obligations under finance leases and hire purchase contracts</u>	<u>Group 1998</u> £	<u>Company 1998</u> £
Repayable within one year	16,716	-
Repayable between one and two years	8,802	-
Repayable between two and five years	2,909	-
	<u>28,427</u>	<u>-</u>
Finance charges and interest allocated to future accounting periods	(3,812)	-
	<u>24,615</u>	<u>-</u>
Included in current liabilities	(14,170)	-
	<u>10,445</u>	<u>-</u>

18. SHARE CAPITAL

<u>Authorised</u>	<u>Group 1998</u> £	<u>Company 1998</u> £
Equity interests:		
10,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
<u>Allotted, called up and fully paid</u>		
Equity interests:		
1,750 ordinary shares of £1 each	<u>1,750</u>	<u>1,750</u>

The company's authorised share capital was increased from 1,000 Ordinary £1 shares to 10,000 Ordinary £1 shares on 3 April 1997.

On 24 June 1997 the company issued 1,748 Ordinary £1 shares as consideration for the acquisition of the investments in FM Design Limited and FM Modelmakers Limited, the freehold property and other assets and liabilities of Bodygrand Limited (formerly The Fether Miles Group Limited).

THE FETHER MILES GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 1998

19. MERGER RESERVE

Group 1998 £	Company 1998 £
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Merger reserve arising in the year

<u>178,295</u>	<u>-</u>
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The merger reserve arises on consolidation of the the group's subsidiary companies and is equal to the excess of net assets acquired over the consideration paid. This treatment follows section 131 of the Companies Act 1985.

20. PROFIT AND LOSS ACCOUNT

	Group 1998 £
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Profit for the period

	<u>88,642</u>
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Balance carried forward

	<u><u>88,642</u></u>
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21. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Group 1998 £
--	-----------------------------

Operating profit

	136,782
--	---------

Depreciation

	39,229
--	--------

Profit on disposal of fixed assets

	(891)
--	-------

Increase in stocks

	(9,660)
--	---------

Increase in debtors

	(254,058)
--	-----------

Increase in creditors due within one year

	124,497
--	---------

	<u><u>35,899</u></u>
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THE FETHER MILES GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 1998

**22. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED
IN THE CASH FLOW STATEMENT**

**Group
1998
£**

Returns on investment and servicing of finance

Interest received	8,792
Interest paid	(31,039)
	<u>(22,247)</u>

Capital expenditure

Payments to acquire tangible fixed assets	(381,697)
Proceeds on disposal of tangible fixed assets	1,000
	<u>(380,697)</u>

Financing

Receipts from issue of shares	180,045
Repayment of capital on hire purchase contracts	20,567
Debt due beyond one year	
Receipts from long term loans	380,950
	<u>581,562</u>

23. ANALYSIS OF CHANGES IN NET FUNDS

	<u>Cash flows</u>	<u>Other movements</u>	<u>End of period</u>
	£	£	£
Cash at bank and in hand	173,383	-	173,383
Debt due within one year	(10,664)	-	(10,664)
Debt due after one year	(370,286)	-	(370,286)
Finance leases	20,567	(45,182)	(24,615)
	<u>(187,000)</u>	<u>(45,182)</u>	<u>(232,182)</u>

THE FETHER MILES GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 1998

24. MAJOR NON CASH TRANSACTIONS

During the period the group entered into finance lease arrangements in respect of certain fixed assets with a capital value on inception of £45,182

25. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group 1998 £
Profit for the financial period	88,642
Shareholders' funds at 31 March 1998	<u>88,642</u>
Represented by:	
Equity interests	<u>88,642</u>

26. CONTROL

The group is under the control of K.B. Fether and R. Miles.

27. RELATED PARTY DISCLOSURES

The directors have taken advantage of the exemption within FRS 8 relating to transactions with fellow group members, given to those groups preparing consolidated accounts.

THE FETHER MILES GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 1998

28. ACQUISITION

On 24 June 1997 as part of a corporate reconstruction to facilitate a management buy-out of The Design Clinic Limited, The Fether Miles Group Limited was placed into members voluntary liquidation. The investments in FM Design Limited, FM Modelmakers and all of the assets and liabilities of The Fether Miles Group Limited, except the investment in The Design Clinic Limited, were acquired by Bodygrand Limited.

On 3 July 1997 Bodygrand Limited and The Fether Miles Group Limited swapped names.

The consideration for the acquisition was the issue of 1,748 Ordinary £1 shares with legal costs of £37,796.

The book value of assets and liabilities acquired at the date of acquisition were as follows:

	£
Fixed assets	330,088
Investments in subsidiaries.	2,000
Debtors	99,382
Cash at bank and in hand	9,116
Creditors: Amounts falling due within one year	(131,068)
Creditors: Amounts falling due after more than one year	(306,210)
	<u> </u>

No adjustment has been made in respect of fair value since the directors are of the opinion that the book value of assets and liabilities acquired, with the exception of investments in subsidiaries, is equal to their fair value.

The company has taken advantage of merger relief and the holding company has shown its investment in subsidiaries at nominal value and thus no fair value adjustment is required.