THE HOTEL AND CATERING TRAINING COMPANY LIMITED

ACCOUNTS FOR THE YEAR ENDED

30 JUNE 2001

Registered Number: 3560828

DIRECTORS' REPORT

The Directors present their Report and Accounts for the year ended 30 June 2001.

Principal activities

The Company's principal activity during the year was the provision of training to the hospitality industry.

Business Review and Outlook

The progress achieved in 1999/00 continued into 2000/01 although the financial performance, particularly in the final quarter, was adversely effected by the new LSC pricing that came into being in April 2001. Nonetheless the Company reported a pre-amortisation Operating Profit of just under £300,000 - an improvement of 19% over the previous year. This was achieved in an environment where the hospitality sector was severely impacted by the foot and mouth epidemic that raged across the country for most of the year - inevitably this had an impact on both recruitment and training in the industry.

Throughout the year emphasis continued to be placed on quality improvements and instilling common work practices across the country. At the same time our focus on developing strong customer relationships, and thus in building a demand-led business, began to bear fruit with the award of exclusive national contracts from, among others, Marriott, Corus and Regal, Old English Inns and Millhouse Inns. The quality of the pipeline gives us confidence that further major accounts will be added to the list in the new financial year.

For the third year running one of our trainees won the national 'Hospitality Modern Apprentice of the Year Award' and another won through to represent the UK in the Skills Olympics held in Seoul in September 2001. While these achievements speak for themselves they would not have come about without the dedicated support and quality of our staff - it is this attribute that will continue to set us apart from our competitors.

As anticipated the dissolution of the TECs, and the emergence of the LSC, brought a considerable, additional burden of work. Although the benefits promised by the creation of a unitary body - standardised pricing and administration, single country-wide policies and accelerated payments - will hopefully be realised over time, the early teething problems experienced in the transition from the TEC to LSC environment have created a far greater than expected distraction for all providers participating in work-based learning. In addition, the majority of providers in the service sectors are experiencing actual price reductions of some 15% compared with 2000/01.

Inevitably this has led to inward focused strategies aimed at delivering cost savings and a large part of our focus in the coming year will be aimed at compensating for the reduction in margins that have accompanied the new LSC pricing regime. Although there are some indications that there is recognition that some aspects of the new pricing need to be reviewed it would be foolish to anticipate this. As a result we are predicting a transitional year in 2001/02.

It is our intention to participate in the consolidation that is prevailing among providers and in the coming year we will seek to accelerate our growth by way of acquisition, thereby improving our net margin through an increased overhead absorption rate.

Overall we expect 2001/02 to be a challenging year, until the turbulence caused by the changes in the funding regime recedes. In general our prospects are inextricably linked to the speed at which the LSC can begin to deliver some of the potential benefits that heralded its creation. In parallel, however, we expect to realise benefits from the investments we have made, over the past couple of years, in marketing and quality improvements.

Results and dividends

Details of the results for the year are given on page 5.

Post balance sheet events

Due deliberation has been given by the Directors to the capital structure of the business and as a result on 28 February 2002 the shareholders resolved that the Cumulative Redeemable Preference shares be converted to Redeemable Preference Shares. This has a positive impact on the Company's profit & loss account by removing the obligation to provide for a preference dividend.

DIRECTORS' REPORT (CONTINUED)

Directors and directors' shareholdings

The Directors of the Company were as follows:

Michael Davies	Non-Executive Director
Paul Thomas	Non-Executive Director
John Brackenbury CBE	Non-Executive Director
Nicholas Rowe	Chief Executive
Roderick Gray	Finance Director

All of the directors served throughout the year with the exception of Roderick Gray who was appointed on 16 January 2002.

No director had any interest in the share capital of the Company at 30 June 2001, or at the date of appointment if later.

Employees

The Company maintains a policy of equal opportunities and is committed to ensuring that all individuals are treated fairly, with respect and are valued.

The Company uses practices and procedures for employee involvement appropriate to their own circumstances and needs. Employees of the Company are regularly consulted by local managers and kept informed of matters affecting them and the overall development of the Company.

It is the policy of the Company to give full and fair consideration to applications made by disabled persons for job vacancies, where particular job requirements are within their ability and where possible arrangements are made for the continuing employment of employees who have become disabled.

Charitable and political contributions

The Company made no donations to charities during the year (2000: £2,000).

Economic and Monetary Union

The Directors continue to review the implications of economic and monetary union and of the introduction of the Euro, although the Directors do not consider that it will significantly affect the Company in the next year.

Statement of directors' responsibilities

Company law requires the Directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. 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
- 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 maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT (CONTINUED)

Corporate governance

There is a commitment to high standards of corporate governance throughout the Company.

The Board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Combined Code are applied by the Company.

Board Structure and Committees

The Board consists of a Non-Executive Chairman, Michael Davies, one full time Executive Director and two other Non-Executive Directors. The Board considers that all the Non-Executive Directors are independent of management, and free of any relationship which could materially interfere with the exercise of their independent judgement.

The Board meets regularly during the year and reserves for its consideration a number of matters including the strategic development of the Company, approval of major items of capital expenditure and any other substantial commitments. The Non-Executive Directors represent a strong independent influence and provide an important balance to the operations of the Board. Board meetings are chaired by Michael Davies. Responsibility for the day-to-day operations of the business is delegated to the Executive Director.

The Board has established an Audit Committee and Remuneration Committee, each consisting of the Chairman and the Non-Executive Directors.

The Audit Committee, which has specific terms of reference, meets at least once a year with the Company's external auditors present. The Committee meets to consider reports from management and from the external auditors covering the financial information to be reported to shareholders and to monitor and review the internal financial control systems in operation throughout the Company.

The Remuneration Committee approves the remuneration of the Executive Director, the Company's policy in relation to senior management remuneration and makes recommendations to the Board on any new Board appointments.

The Board structure is as follows:

Director	Executive capacity	Title	Committee members
Michael Davies	Non-Executive Director	Chairman	Audit and Remuneration Committee
Paul Thomas	Non-Executive Director		Audit and Remuneration Committee
John Brackenbury CBE	Non-Executive Director		Audit and Remuneration Committee
Nicholas Rowe	Executive Director	Chief Executive	
Roderick Gray	Executive Director	Finance Director & Company Secretary	

Auditors

A resolution to re-appoint Solomon Hare as the Auditors and authorise the Directors to agree their remuneration will be proposed at the Annual General Meeting.

On behalf of the Board

Roderick Gray
Company Secretary

28 February 2002

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE HOTEL AND CATERING TRAINING COMPANY LIMITED

We have audited the accounts of The Hotel and Catering Training Company Limited for the year ended 30 June 2001 set out on pages 5 to 19. These accounts have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 2, the Company's Directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts 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 accounts, 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 30 June 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Solomon Hare

Solomon Hare
Chartered Accountants
Registered Auditors
Oakfield House
Oakfield Grove
Clifton
Bristol
BS8 2BN

28 February 2002

PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2001

	Note	2001	2000
		£	£
Turnover	2	9,336,350	9,444,424
Cost of sales		(6,432,924)	(6,324,568)
Gross profit		2,903,426	3,119,856
Administrative expenses		(2,611,833)	(2,730,076)
Exceptional item – Administration expenses	3	-	(205,403)
Other operating income		553	60,630
Operating Profit before amortisation of goodwill		292,146	245,007
Administrative expenses – amortisation of goodwill		(189,528)	(169,372)
Operating Profit	3	102,618	75,635
Interest payable	5	(203,512)	(195,846)
Interest receivable		3,565	-
Loss on ordinary activities before taxation		(97,329)	(120,211)
Taxation	6	-	-
Loss on ordinary activities after taxation		(97,329)	(120,211)
Finance costs – including non-equity	7	(21,058)	(240,661)
Retained loss for the year	19	(118,387)	(360,872)

All of the above relates to continuing activities.

There were no recognised gains or losses recorded during the year other than those shown in the profit and loss account. Accordingly, no statement of total recognised gains and losses has been prepared.

The notes on pages 8 to19 form part of these accounts.

BALANCE SHEET

At 30 June 2001

	Note	2001	2000
		£	£
Fixed assets			
Intangible assets	8	3,237,772	3,062,952
Tangible assets	9	751,852	579,376
		3,989,624	3,642,328
Current assets			
Debtors: Amounts falling due:	10		
within one year		1,217,458	1,439,635
after more than one year		147,797	521,039
Cash at bank and in hand		313,483	159,243
		1,678,738	2,119,917
Creditors: amounts falling due within one year	11	(970,543)	(901,906)
Net current assets		708,195	1,218,011
Total assets less current liabilities		4,697,819	4,860,339
Creditors: amounts falling due after more than one year	12	(2,981,011)	(3,043,764)
Provisions for liabilities and charges	15	(88,330)	(90,768)
Net assets		1,628,478	1,725,807
Capital and reserves			
Called up share capital	17	3,250,000	3,250,000
Profit and loss account	19	(1,621,522)	(1,945,099)
Other reserve	20	-	420,906
Shareholders' funds	18	1,628,478	1,725,807
Attributable to:			
Equity shareholders		(1,445,941)	(1,748,460)
Non-equity shareholders		3,074,419	3,474,267

Approved on behalf of the Board on 28 February 2002 by:

M Davies
Chairman

N Rowe
Chief Executive

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

CASH FLOW STATEMENT

For the year ended 30 June 2001

	Note	2001 £	2000 £
Net cash inflow from operating activities	21	851,883	488,271
Returns on investments and servicing of finance			
Interest received		3,481	-
Interest paid and similar charges		(239,784)	(114,554)
Interest element of hire purchase and finance leases		(661)	(1,475)
Net cash outflow from returns on investments and servicing of finance		(236,964)	(116,029)
Taxation			
UK corporation tax paid		-	-
Net cash outflow from taxation		-	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(335,180)	(557,444)
Sale of tangible fixed assets		5,119	337,869
Net cash outflow from capital expenditure and financial investment		(330,061)	(219,575)
Acquisitions and disposals			
Purchase of business – deferred consideration paid		(125,000)	(125,000)
Net cash outflow from acquisition and disposals		(125,000)	(125,000)
Cash inflow before use of liquid resources and financing		159,858	27,667
Financing			
Capital element of hire purchase and finance leases		(5,618)	(4,800)
Net cash outflow from financing		(5,618)	(4,800)
Increase in cash balances in the year	23	154,240	22,867

All cash flows relate to continuing operations.

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

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

Turnover

Turnover represents the sales value of services provided in the year, net of value added tax, all of which relates to continuing activities and originates wholly from within the United Kingdom.

Tangible fixed assets and depreciation

Depreciation has been provided on a straight-line basis at the following annual rates in order to write off the cost less residual value of each asset over its estimated useful economic life.

Freehold property	-	2% per annum
Leasehold improvements	-	over the term of the respective lease
Software	-	33% per annum
Motor vehicles	-	25% per annum
Office furniture and equipment	-	25% per annum

Deferred taxation

Provision is made for deferred taxation on short term timing differences and all other material timing differences to the extent that it is probable that a liability or asset will crystallise in the future.

Leasing commitments

Assets held under finance leases are included in tangible fixed assets at their fair values and depreciated over the shorter of the lease term or their useful lives. Obligations relating to finance leases, net of finance charges in respect of future periods, are included under creditors due within or after one year as appropriate. The interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balances of capital outstanding.

Payments made under operating leases are charged against profit as incurred.

Goodwill

Goodwill represents the difference between the purchase price of acquired businesses and the fair value of the attributable underlying net assets acquired. Goodwill arising on any acquisition is capitalised and amortised on a straight-line basis through the profit and loss account over 20 years, being the Directors' estimate of its useful economic life in line with the requirements of Financial Reporting Standard 10 "Goodwill and Intangible Assets".

Capital instruments

Capital instruments are recorded at the fair value of the consideration received less issue costs in accordance with Financial Reporting Standard 4. The difference between the net proceeds of the issue and the total amount of payments that the issuer may be required to make is recorded as a finance cost of the instrument.

NOTES TO THE ACCOUNTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

Pension costs

The Company contributes to individual pension schemes for certain company employees. The pension scheme operates outside of company control and contributions to the schemes are charged to the profit and loss account as incurred.

Provisions

Provision is made for the estimated obligation for dilapidations in respect of the company's leasehold properties.

2 TURNOVER

The turnover and loss before taxation are attributable to one activity carried on wholly within the United Kingdom.

3 OPERATING PROFIT

The operating profit is stated after charging/(crediting):

			Year ended 30 June 2001	Year ended 30 June 2000
			£	£
Depreciation of assets held under hire purchase agreements			5,250	5,250
Depreciation of owned assets (including exceptional items – see below)			152,889	499,094
Amortisation of intangible fixed assets			189,528	169,372
Rentals under operating leases:				
	-	land and buildings	316,953	334,894
	-	other	175,117	172,686
Profit on sale of tangible fixed assets			(553)	(57,869)
Auditors' remuneration	-	audit	15,154	14,819
	-	other	16,931	22,154
Exceptional items			-	205,403

The exceptional item during the previous year related to an accelerated depreciation charge made in respect of the company's software.

NOTES TO THE ACCOUNTS (CONTINUED)

4 STAFF COSTS

	2001	2000
Aggregate staff costs, including Directors' remuneration	£	£
Wages and salaries	4,813,632	4,496,798
Pension	62,540	60,800
Social security costs	436,485	406,371
	5,312,657	4,963,969
Staff numbers	No.	No.
The average monthly number of annual full time equivalent employees (including Executive Directors) was:		
Head office	30	22
Branch administration and operations	232	217
	262	239
Directors' emoluments (remuneration and taxable benefits)	£	£
Remuneration of executive directors	143,018	214,462
Contributions to pension schemes	15,780	11,400
Fees of non-executive directors	45,634	45,730
	204,432	271,592

Amounts were charged to the profit and loss account in respect of contributions to a defined contribution pension scheme in respect of one executive director.

5 INTEREST PAYABLE

	2001	2000
	£	£
Interest payable:		
Bank loans	229,190	216,889
Hire purchase and finance lease interest	657	1,475
Finance charges – deferred consideration	(26,335)	(22,518)
	203,512	195,846

6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2001	2000
	£	£
United Kingdom corporation tax on loss on ordinary activities	-	-

Tax losses carried forward at 30 June 2001 amounted to approximately £815,000 (2000: £600,000).

NOTES TO THE ACCOUNTS (CONTINUED)

7 FINANCE COSTS

	2001	2000
	£	£
Issue costs (note 19)	21,058	21,058
Other finance costs (note 20)	-	219,603
	21,058	240,661

In accordance with Financial Reporting Standard 4, and as noted in the accounting policies on pages 8 and 9, issue costs and finance costs in respect of dividends are charged to the profit and loss account over the life of the relevant shares.

8 INTANGIBLE FIXED ASSETS

	2001
Goodwill	Total
	£
Cost	
At 1 July 2000	3,389,244
Increase in deferred consideration	364,348
Balance at 30 June 2001	3,753,592
Amortisation	
At 1 July 2000	(326,292)
Amounts written off in the year	(189,528)
Balance at 30 June 2001	(515,820)
Net book value at 30 June 2001	3,237,772
Net book value at 30 June 2000	3,062,952

The consideration paid for the business included a contingent element relating to the accrued rebate. This represents expected amounts receivable from the vendor of the business in the form of reductions in consideration paid (note 10). The increase in goodwill relates to a revised assessment of the value of the rebate expected to be paid to the company in July 2003 using actual trading information which could only be estimated at 30 June 2000.

NOTES TO THE ACCOUNTS (CONTINUED)

9 TANGIBLE FIXED ASSETS

	Freehold land & buildings	Leasehold improve-ments	Computer software & hardware	Motor vehicles	Office furniture & equipment	Total
	£	£	£	£	£	£
Cost						
At 1 July 2000	311,267	122,448	744,142	44,570	84,168	1,306,595
Additions	6,500	-	279,461	-	49,219	335,180
Disposals	-	-	(4,764)	-	-	(4,764)
At 30 June 2001	317,767	122,448	1,018,839	44,570	133,387	1,637,011
Depreciation						
At 1 July 2000	3,188	81,971	604,833	14,973	22,254	727,219
Charge for year	6,377	12,190	99,227	11,142	29,203	158,139
Disposals	-	-	(199)	-	-	(199)
At 30 June 2001	9,565	94,161	703,861	26,115	51,457	885,159
Net book value						
At 30 June 2001	308,202	28,287	314,978	18,455	81,930	751,852
At 30 June 2000	308,079	40,477	139,309	29,597	61,914	579,376

Tangible fixed assets include software with a net book value at 30 June 2001 of £152,444. The software has been developed to be used in house and the directors believe that it has commercial potential and that aspects of it can be used in future operating systems. During the year the software was piloted and a number of system design improvements were identified which the company will seek to address.

In the circumstances the assessment of the value of the software to the business, and therefore its recoverable amount, is uncertain.

Assets held under hire purchase agreements

The net book value of fixed assets included an amount of £5,687 (2000: £10,937) in respect of assets held under hire purchase agreements at 30 June 2001. The depreciation charged on these assets was £5,250 (2000: £5,250) in the year ended 30 June 2001.

NOTES TO THE ACCOUNTS (CONTINUED)

10 DEBTORS

	2001	2000
	£	£
Due within one year:		
Trade debtors	963,569	1,267,520
Accrued rebate	38,631	82,722
Other debtors	12,790	6,613
Prepayments and accrued income	202,468	82,780
Total debtors due within one year	1,217,458	1,439,635
Due after more than one year:		
Accrued rebate	131,878	504,743
Other debtors	15,919	16,296
	147,797	521,039
	1,365,255	1,960,674

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001	2000
	£	£
Trade creditors	223,342	184,035
Obligations under hire purchase agreements	1,027	5,618
Other creditors	28,482	28,470
Other taxation and social security	142,759	163,897
Deferred consideration	75,000	125,000
Accruals	499,933	394,886
	970,543	901,906

12 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2001	2000
	£	£
Bank loan	3,000,000	3,000,000
Associated finance costs	(18,989)	(28,484)
	2,981,011	2,971,516
Deferred consideration	-	71,221
Obligations under hire purchase agreements	-	1,027
	2,981,011	3,043,764

NOTES TO THE ACCOUNTS (CONTINUED)

12 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (Continued)

The fair value of the deferred consideration is payable as follows:

	£	£
31 July 2001	-	71,221
	-	71,221

13 BORROWINGS REPAYABLE BY INSTALMENTS

	Obligations under finance leases		Bank loan	
	2001	2000	2001	2000
	£	£	£	£
Falling due within one year:	1,027	5,618	-	-
Between one and two years:	-	1,027	-	-
Between two and five years:	-	-	3,000,000	3,000,000
	1,027	6,645	3,000,000	3,000,000
Less: Expenses paid in connection with secured loan	-	-	(18,989)	(28,484)
	1,027	6,645	2,981,011	2,971,516

The bank loan is secured and is subject to a guarantee by ECI Ventures Limited. It carries interest at 1.25% above the LIBOR rate.

14 FINANCIAL COMMITMENTS AND CONTINGENT LIABILITIES

	2001	2000
The company has the following annual commitments under operating leases:	£	£
Expiring within one year: Motor vehicles	8,334	10,960
Expiring between two and five years: Motor vehicles	68,680	57,463
Expiring within one year: Land and buildings	40,429	31,489
Expiring between two and five years: Land and buildings	266,464	218,125
Expiring within one year : Other	147,281	125,713
Expiring within two and five years: Other	19,270	15,560
	550,458	459,310

Capital commitments

There were no significant capital commitments at 30 June 2001.

Contingent liabilities

There were no contingent liabilities at 30 June 2001.

NOTES TO THE ACCOUNTS (CONTINUED)

15 PROVISIONS FOR LIABILITIES AND CHARGES

	2001	2000
	£	£
Deferred taxation	-	-
Vacant property provision	-	630
Dilapidation provision	88,330	90,138
	88,330	90,768

The vacant property provision related to the company's obligations for future costs in respect of vacant leasehold properties. The dilapidation provision relates to the expected liability for dilapidations in respect of the company's leasehold properties.

The movement during the year was as follows:

	Deferred taxation	Vacant property provision	Dilapidation provision	2001 Total	2000 Total
	£	£	£	£	£
At 30 June 2000	-	630	90,138	90,768	235,499
Applied during year	-	-	(15,138)	(15,138)	(67,455)
Release during year	-	(630)	(75,000)	(75,630)	(118,386)
Charged during year	-	-	88,330	88,330	41,110
At 30 June 2001	-	-	88,330	88,330	90,768

Deferred taxation has been provided to the extent that, on the basis of reasonable assumptions, it is probable that the deferred tax liability will crystallise. Deferred taxation provided and not provided is as follows. The unprovided element represents a deferred tax asset.

	Provided		Unprovided	
	2001	2000	2001	2000
	£	£	£	£
Capital allowances	-	-	(22,069)	(49,543)
Short term timing differences	-	-	1,800	(33,430)
Tax losses	-	-	(244,382)	(184,646)
	-	-	(264,651)	(267,619)

16 PENSION COMMITMENTS

The company operates a defined contribution pension scheme, for its directors and employees. The assets of the scheme are held separately from those of the company in independently administered funds. Contributions made to the scheme during the year totalled £62,540 (2000: £60,800).

At 30 June 2001 there was a prepaid amount of £4,695 (2000: £nil).

NOTES TO THE ACCOUNTS (CONTINUED)

17 SHARE CAPITAL

	2001	2000
	£	£
Authorised		
Equity		
10,000 'A' Ordinary Shares of £1 each	10,000	10,000
12,000 'C' Ordinary Shares of £1 each	12,000	12,000
88,000 'B' Ordinary Shares of £1 each	88,000	88,000
Non-equity		
3,205,000 Cumulative Redeemable Preference Shares of £1 each	3,205,000	3,205,000
	3,315,000	3,315,000
Allotted, called up and fully paid		
Equity		
2,000 'C' Ordinary Shares of £1 each	2,000	2,000
88,000 'B' Ordinary Shares of £1 each	88,000	88,000
Non-equity		
3,160,000 Cumulative Redeemable Preference Shares of £1 each	3,160,000	3,160,000
	3,250,000	3,250,000

Subsequent to the year-end, the rights of the preference shares have been varied such that the shares, previously Cumulative Redeemable Preference Shares of £1 each (carrying the right to a fixed cumulative preferential dividend of 8 pence per annum), are now Redeemable Preference Shares of £1 each. Further details are provided in note 25.

The Redeemable Preference Shares shall be redeemed in the following proportions at par as follows:

	No. of Shares
30 June 2004	1,000,000
30 June 2005	1,000,000
30 June 2006	1,205,000
	3,205,000

Subject to the provisions of the Articles of Association, the company may redeem the shares in advance of the above dates or on the listing or sale of the company.

The 'B' Ordinary Shares are entitled, with effect from 1 July 2003, to a cumulative preferential net cash dividend which is 10% of Net Profit of the company.

NOTES TO THE ACCOUNTS (CONTINUED)

17 SHARE CAPITAL (Continued)

All classes of share capital carry detailed rights with regard to transfers as set out in the Company's Memorandum and Articles of Association. In summary, any transfer of shares shall firstly be offered to the holders of the other share capital at the discretion of the Directors at par value. Subject to the approval of certain percentages of certain classes of shares capital, shares may be offered to new directors or employees, thereafter to the classes of capital in specified proportions.

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001	2000
	£	£
Opening shareholders' funds	1,725,807	1,846,018
Loss retained for the financial year	(118,387)	(360,872)
Other reserve (note 20)	-	219,603
Finance costs on share capital (note 7)	21,058	21,058
Closing shareholders' funds	1,628,478	1,725,807

19 PROFIT AND LOSS ACCOUNT RESERVE

	2001	2000
	£	£
Beginning of year	(1,945,099)	(1,605,285)
Loss retained for the financial year	(118,387)	(360,872)
Transfer from other reserve (note 20)	420,906	-
Finance costs transferred to the profit and loss account (note 7)	21,058	21,058
End of year	(1,621,522)	(1,945,099)

20 OTHER RESERVE

	2001	2000
	£	£
Beginning of year	420,906	201,303
Movement during the year	-	219,603
Transfer to profit and loss	(420,906)	-
End of year	-	420,906

This reserve reflected an appropriation in respect of dividends on non-equity shares. As described in note 17, the cumulative redeemable preference shares were entitled to a dividend with effect from 1 July 1999. The cost of this dividend was being charged to the profit and loss account at a constant rate in accordance with the requirements of Financial Reporting Standard 4 "Capital Instruments". As detailed in note 25 to the accounts, the rights of these preference shares have been amended to remove the entitlement to a cumulative dividend. As a result this reserve is no longer required and has been transferred into the profit and loss account reserve.

NOTES TO THE ACCOUNTS (CONTINUED)

21 RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2001	2000
	£	£
Operating profit	102,618	75,635
Depreciation of fixed assets	158,139	504,344
Amortisation of goodwill	189,528	169,372
Profit on sale of tangible fixed assets	(553)	(57,869)
Decrease in debtors	261,184	575,829
Increase/(decrease) in creditors	143,405	(634,309)
Decrease in provisions	(2,438)	(144,731)
Net cash inflow from operating activities	851,883	488,271

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2001	2000
	£	£
Increase in cash in the year	154,240	22,867
Cash inflow from increase in debt and lease financing	5,618	4,800
Changes in net funds resulting from cash flows	159,858	27,667
Amortisation of bank loan charges	(9,495)	(9,495)
New finance leases	-	-
Movement in net debt in the year	150,363	18,172
Net debt at beginning of year	(2,818,918)	(2,837,090)
Net debt at end of year	(2,668,555)	(2,818,918)

NOTES TO THE ACCOUNTS (CONTINUED)

23 ANALYSIS OF CHANGES IN NET DEBT

	At 30 June 2000	Cash flows	Non-cash movements	At 30 June 2001
	£	£	£	£
Cash at bank and in hand	159,243	154,240	-	313,483
	159,243	154,240	-	313,483
Debt due within one year:				
Hire purchase and finance lease obligations	(5,618)	4,591	-	(1,027)
	(5,618)	4,591	-	(1,027)
Debt due after one year:				
Bank loan	(2,971,516)	-	(9,495)	(2,981,011)
Hire purchase and finance lease obligations	(1,027)	1,027	-	-
	(2,972,543)	1,027	-	-
Net debt	(2,818,918)	159,858	(9,495)	(2,668,555)

24 CONTROLLING PARTY AND RELATED PARTY TRANSACTIONS

a) The Directors consider the controlling party of the Company to be ECI Ventures Limited by virtue of its shareholding.

b) During the year there were no related party transactions (2000: none).

25 POST BALANCE SHEET EVENTS

On 28 February 2002 the shareholders of the Company agreed to amend the Company's Articles of Association. These amendments related to the removal of the right of the preference shareholders to receive a cumulative dividend. As at 30 June 2000 arrears of dividends unpaid amounted to £252,800. Any dividend amount on each preference share will in future be determined by the Directors.

The dates of redemption for the preference shares remain unchanged from those disclosed in note 17 to the accounts.

The Company shall be bound to redeem at par all the preference shares that are in issue immediately prior to the listing or sale of the Company. In addition the Company shall pay to each holder of preference shares a pro-rata entitlement to the cash proceeds from a listing or sale.