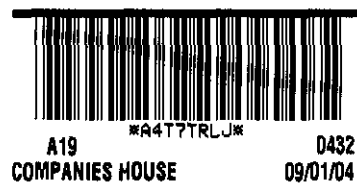


Advanced Composites Group Holdings Limited

**Directors' report and consolidated
financial statements**

Registered number 3621275

31 August 2003



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Directors' report

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

Principal activities

The principal activities of the group comprise the manufacture and supply of impregnated composite materials and the manufacture of tooling, components and product prototypes from composite materials.

Business review

Group sales increased by 7.6% with a strong contribution from the USA business.

Better materials usage together with strong cost controls enabled these sales to be achieved with a corresponding 3.4% growth in costs resulting in an improvement in profitability (PBT% sales) from 7.04% to 10.8%.

The group continues to develop business in market segments such as aerospace, automotive and wind energy and is actively engaged in developing new product lines to enhance performance in existing markets and to facilitate entry into new markets.

Results and dividend

The profit and loss account for the year is attached. The directors propose a dividend for the year of £1,035,000 (2002: £690,000).

Research and development

The directors consider that the future of the group depends upon the technical superiority of its products and service and they are committed to enhancing this superiority by continuing programmes of research and development.

It is group policy to take a prudent view of expenditure incurred on research and development programmes, all of which is written off in the period in which it is incurred, except to the extent that it is recoverable from grant funding. During the year £482,000 (2002: £692,000) was expended on research and development programmes, net of income derived from the research.

Patents, trademarks and other intellectual property

The group has made substantial investments throughout its history by developing its own intellectual property and, where possible, protecting it by patents.

All these costs have been written off in the period in which the expenditure was incurred. The directors are of the opinion that the patents, trademarks and other intellectual property rights owned by the group have a considerable value which is not reflected in the accounts, and is not readily quantifiable.

Directors

The current directors of the company, and those who held office during the period, are as follows:

AB Moore
RG Ford
P English
HA Potts
JP Mabbitt
M Malitskie (appointed 6 January 2003)

Directors' report *(continued)*

The interests of directors in the shares of the company are as follows:

	31 August 2003			On appointment or at 31 August 2002		
	Ordinary	Ordinary 'A'	Ordinary 'B'	Ordinary	Ordinary 'A'	Ordinary 'B'
AB Moore	105,649	254,004	-	105,649	254,004	-
HA Potts	22,720	54,625	-	20,596	49,520	-
JP Mabbitt	34,754	83,536	-	34,754	83,556	-
M Malitskie	14,690	35,310	-	-	-	-

Mr RG Ford is a director of MTI Partners Limited (see note 17).

Mr P English is a director of Foresight Technology VCT plc (see note 17).

Employees

Employee participation and involvement in matters which affect their interests continues to be developed. Equal consideration is given to applications for employment from disabled people, having regard to their particular aptitudes and abilities.

Health, safety and the environment

The group has a continuing commitment to health and safety issues. A positive stance is maintained towards environmental issues and the group is committed to compliance with all applicable laws and regulations.

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings is not materially different to their net book value.

Quality systems

The group has Civil Aviation Authority certification and is approved by many major aerospace and defence companies.

ISO 9001 : 2000 and AS9100 (REV.A) certification has also been approved and the group operates an active Total Quality Management System.

Auditors

A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



M Malitskie
Secretary

Composites House
 Sinclair Close
 Heanor Gate Industrial Estate
 Heanor
 Derbyshire

29 October 2003

Statement of directors' responsibilities

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 group and of the profit or loss for that year. 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, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



KPMG LLP

St Nicholas House
Park Row
Nottingham
NG1 6FQ

Independent auditors' report to the members of Advanced Composites Group Holdings Limited

We have audited the financial statements on pages 5 to 24.

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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

Basis of audit 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 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 August 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

*Chartered Accountants
Registered Auditor*

29 October 2003

Consolidated profit and loss account
for the year ended 31 August 2003

	<i>Note</i>	2003 £000	2002 £000
Turnover	2	34,699	32,260
Cost of sales		(22,665)	(21,232)
		<hr/>	<hr/>
Gross profit		12,034	11,028
Administrative expenses		(8,200)	(8,520)
		<hr/>	<hr/>
Operating profit		3,834	2,508
Interest payable and similar charges	3	(83)	(236)
		<hr/>	<hr/>
Profit on ordinary activities before taxation	4	3,751	2,272
Tax on profit on ordinary activities	7	(1,167)	(587)
		<hr/>	<hr/>
Profit on ordinary activities after taxation		2,584	1,685
Dividends	8	(1,035)	(690)
		<hr/>	<hr/>
Retained profit for the financial year	19	1,549	995
		<hr/>	<hr/>

In both the current and preceding year, the group made no material acquisitions and had no discontinued operations.

Consolidated statement of total recognised gains and losses
for the year ended 31 August 2003

	2003 £000	2002 £000
Profit for the financial year	2,584	1,685
Exchange adjustments on foreign currency investments	(21)	(92)
	<hr/>	<hr/>
Total recognised gains and losses for the year	2,563	1,593
	<hr/>	<hr/>

Consolidated balance sheet
as at 31 August 2003

	<i>Note</i>	£000	2003 £000	£000	2002 £000
Fixed assets					
Intangible assets	9		1,771		1,884
Tangible assets	10		4,912		4,678
Investments	11		1		1
			<hr/>		<hr/>
			6,684		6,563
Current assets					
Stocks	12	3,193		2,774	
Debtors	13	7,283		6,378	
Cash at bank and in hand		1,293		392	
		<hr/>		<hr/>	
		11,769		9,544	
Creditors: amounts falling due within one year	14	(7,064)		(5,453)	
		<hr/>		<hr/>	
Net current assets			4,705		4,091
			<hr/>		<hr/>
Total assets less current liabilities			11,389		10,654
Creditors: amounts falling due after more than one year	15	(1,344)		(2,169)	
Provisions for liabilities and charges	16	(487)		(455)	
		<hr/>		<hr/>	
			(1,831)		(2,624)
			<hr/>		<hr/>
Net assets			9,558		8,030
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	17		1,150		1,150
Share premium account	18		3,185		3,185
Profit and loss account	19		5,223		3,695
			<hr/>		<hr/>
Equity shareholders' funds	20		9,558		8,030
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 29 October 2003 and were signed on its behalf by:



AB Moore
Director

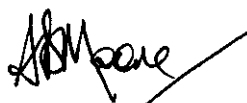



M Malitskie
Director

Company balance sheet
as at 31 August 2003

	<i>Note</i>	£000	2003 £000	£000	2002 £000
Fixed assets					
Investments	<i>11</i>		3,594		3,594
Current assets					
Debtors	<i>13</i>	1,040		754	
Cash at bank and in hand		1,023		1,208	
		<u>2,063</u>		<u>1,962</u>	
Creditors: amounts falling due within one year	<i>14</i>	<u>(1,179)</u>		<u>(1,113)</u>	
Net current assets			<u>884</u>		<u>849</u>
Net assets			<u><u>4,478</u></u>		<u><u>4,443</u></u>
Capital and reserves					
Called up share capital	<i>17</i>		1,150		1,150
Share premium	<i>18</i>		3,185		3,185
Profit and loss account	<i>19</i>		143		108
Equity shareholders' funds	<i>20</i>		<u><u>4,478</u></u>		<u><u>4,443</u></u>

These financial statements were approved by the board of directors on 29 October 2003 and were signed on its behalf by:


AB Moore
Director


M Malitskie
Director

Consolidated cash flow statement
for the year ended 31 August 2003

	<i>Note</i>	2003 £000	2002 £000
Net cash inflow from operating activities	21	4,133	2,515
Returns on investments and servicing of finance	22	(83)	(236)
Taxation paid		(905)	(674)
Capital expenditure net of disposals	22	(832)	(423)
Equity dividends paid		(690)	-
Cash inflow before financing		<u>1,623</u>	<u>1,182</u>
Financing	22	(727)	(528)
Increase in cash in the year		<u><u>896</u></u>	<u><u>654</u></u>

Reconciliation of net cash flow to movement in net debt

	<i>Note</i>	2003 £000	2002 £000
Increase in cash in the year		896	654
Cash used to repay debt and lease financing	23	727	528
Change in net debt resulting from cash flows	23	<u>1,623</u>	<u>1,182</u>
Foreign currency movement	23	15	4
New hire purchase contracts	23	-	(130)
New loans	23	-	(434)
Movement in net debt in the year		<u>1,638</u>	<u>622</u>
Net debt brought forward		(2,136)	(2,758)
Net debt carried forward	23	<u><u>(498)</u></u>	<u><u>(2,136)</u></u>

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of accounting

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Advanced Composites Group Holdings Limited and its subsidiaries to 31 August 2003. The acquisition method of accounting has been adopted. In accordance with Section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the holding company only has not been included within the financial statements.

The group has a 50% share in a joint venture company, Advanced Composite Master Materials Limited ('ACMM') (see note 11) which under the terms of Financial Reporting Standard 9 has the form but not the substance of a joint venture. The consolidated financial statements incorporate directly the group's transactions with the joint venture and the group's assets, liabilities and cash flows.

Group turnover

Group turnover represents sales, excluding value added tax, by group companies excluding inter-company transactions.

Fixed assets and depreciation

Fixed assets, other than freehold land, are depreciated over their anticipated useful lives at the following annual rates:

Freehold buildings	2%
Improvements to leasehold property	Over the period of the lease
Plant and machinery	6.6% to 15%
Fixtures, fittings and office equipment	15%
Motor vehicles	25%
Computer equipment	33%

Goodwill

Goodwill represents the difference between the amount paid for investments in subsidiaries and the fair value of the assets of those subsidiaries at the date of acquisition. Goodwill is amortised over the directors' estimate of the useful economic life.

Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes attributable overheads where appropriate. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Provision is made for obsolete, slow-moving or defective items as appropriate.

Included within work in progress are certain grant funded projects. To the extent that costs on these projects are recoverable from the grant providers, the costs are included within work in progress. Where progress payments exceed the cost of the related work included in work in progress, the balance is recorded in creditors as payments on account.

Notes (continued)

1 Accounting policies (continued)

Investments

Fixed asset investments are valued at cost except where there is evidence of a permanent diminution in value.

Deferred taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Research and development

Expenditure on research and development is written off against profits as incurred, except to the extent that it is recoverable from grant funding. Where the research and development is grant funded, the grant and the related expenditure is accounted for as described above.

Foreign currencies

The results of the US subsidiary undertaking, Advanced Composites Group, Inc., have been translated at the average exchange rates during the year. This subsidiary's assets and liabilities, denominated in US Dollars, have been translated at the mid-market rate on the balance sheet date. Exchange differences arising on the translation of the net investment in, and reserves of, this subsidiary at the year end rates are dealt with as movements on reserves.

Other exchange differences are dealt with in the profit and loss account. Transactions in foreign currencies are translated at the rate ruling at the date of the transaction and balances held at the year end are translated at the closing rate at the year end.

Patents and trade marks

Registration and agents' fees in respect of patents and trade marks are written off as incurred.

Leases and hire purchase contracts

Tangible fixed assets acquired under finance leases and hire purchase contracts are capitalised at estimated fair value at the date of inception of each lease or contract. The total finance charges are allocated over the period of the lease in such a way as to give a reasonably constant charge on the outstanding liability.

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis.

Pension schemes

Pension contributions to the group's defined benefit scheme are charged to the profit and loss account so as to spread the cost of providing pension benefits over the service lives of employees. The assets of the scheme are held separately from those of the group.

The group also operates a defined contribution scheme and contributes to personal pension plans of overseas employees. Pension cost charges in the financial statements represent contributions payable in the accounting period.

Notes (continued)

2 Turnover

	2003 £000	2002 £000
<i>The geographical split of turnover is as follows:</i>		
United Kingdom	13,536	14,916
United States of America	9,335	7,110
Rest of Europe	10,756	9,249
Rest of the world	1,072	985
	<hr/> 34,699 <hr/>	<hr/> 32,260 <hr/>

3 Interest payable and similar charges

	2003 £000	2002 £000
Amounts payable on bank overdrafts and loans	98	167
Amounts payable on hire purchase contracts	5	10
Amounts payable on other loans	11	15
Foreign currency exchange (gains)/losses	(31)	44
	<hr/> 83 <hr/>	<hr/> 236 <hr/>

4 Profit on ordinary activities before taxation

	2003 £000	2002 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Depreciation	578	465
Profit on sale of fixed assets	(12)	-
Amortisation of goodwill	113	110
Auditors' remuneration:		
Group		
- audit	49	43
- non-audit	17	22
Company		
- audit	5	5
Operating lease rentals		
- plant and machinery	127	159
- other	156	156
Research and development costs	482	692
	<hr/> 482 <hr/>	<hr/> 692 <hr/>

Notes (continued)

5 Remuneration of directors

	2003 £000	2002 £000
Directors' emoluments	554	552
Amounts paid to third parties in respect of directors' services	41	41
	<u>595</u>	<u>593</u>

The emoluments of the highest paid director were £198,000 (2002: £171,000) which include the group's pension contributions of £10,000 (2002: £10,000) made to the defined benefit scheme on his behalf. The amount of his accrued pension at the year end was £13,000 (2002: £10,000).

	Number of directors 2003	2002
<i>Retirement benefits accrued to the following numbers of directors under:</i>		
Defined benefit schemes	3	3
	<u>3</u>	<u>3</u>

6 Staff numbers and costs

The average number of persons employed by the group, including directors, during the year was as follows:

	2003 Number	2002 Number
Production	132	133
Non-production and administration	156	142
	<u>288</u>	<u>275</u>

	2003 £000	2002 £000
<i>The aggregate payroll costs of these people were:</i>		
Wages and salaries	6,676	6,560
Social security costs	517	515
Other pension costs	347	266
	<u>7,540</u>	<u>7,341</u>

Notes (continued)

7 Tax on profit on ordinary activities

	2003 £000	2002 £000
<i>The tax charge comprises:</i>		
Corporation tax at 30% (2002: 30%)	789	587
(Over)/under provision in prior year	(24)	36
	<hr/>	<hr/>
Foreign tax	765 370	623 (45)
	<hr/>	<hr/>
Total current tax charge	1,135	578
Deferred tax (note 16)	32	9
	<hr/>	<hr/>
	<u>1,167</u>	<u>587</u>

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2002: lower) than the standard rate of corporation in the UK of 30% (2002: 30%). The differences are explained below:

	2003 £000	2002 £000
<i>Current tax reconciliation:</i>		
Profit on ordinary activities before tax	3,751	2,272
	<hr/>	<hr/>
Current tax at 30% (2002: 30%)	1,125	682
	<hr/>	<hr/>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	79	48
Capital allowances for the period in excess of depreciation	(21)	(47)
Other timing differences	(24)	(32)
Research and development claim	(37)	(95)
Effect of tax charged at different rates	37	(14)
Adjustments to tax charge in respect of previous periods	(24)	36
	<hr/>	<hr/>
Total current tax charge	1,135	578
	<hr/>	<hr/>

8 Dividends

	2003 £000	2002 £000
Proposed dividend on all types of ordinary share of 9p per share (2002: 6p per share)	1,035	690
	<hr/>	<hr/>

Notes (continued)

9 Intangible assets

Goodwill arising on consolidation of subsidiary companies is calculated as follows:

	Goodwill £000
<i>Cost</i>	
At 1 September 2002 and 31 August 2003	2,264
<i>Amortisation</i>	
At 1 September 2002	380
Charge for the year	113
At 31 August 2003	493
<i>Net book value</i>	
At 31 August 2003	1,771
At 31 August 2002	1,884

The goodwill is amortised over 20 years on a straight line basis being the directors estimate of its useful economic life.

10 Tangible fixed assets

Group	Freehold land and buildings £000	Leasehold buildings improve- ments £000	Motor vehicles, plant and machinery £000	Fixtures, fittings, office and computer equipment £000	Total £000
<i>Cost</i>					
At beginning of year	2,508	39	2,426	714	5,687
Additions	163	-	569	116	848
Disposals	-	-	(55)	-	(55)
Exchange adjustments	(23)	-	(39)	-	(62)
At end of year	2,648	39	2,901	830	6,418
<i>Accumulated depreciation</i>					
At beginning of year	180	10	488	331	1,009
Charge for the year	77	8	380	113	578
Disposals	-	-	(51)	-	(51)
Exchange adjustments	(3)	-	(27)	-	(30)
At end of year	254	18	790	444	1,506
<i>Net book value</i>					
At 31 August 2003	2,394	21	2,111	386	4,912
At 31 August 2002	2,328	29	1,938	383	4,678

Notes (continued)

10 Tangible fixed assets (continued)

Freehold land and buildings includes an amount of £316,000 (2002: £241,000) in respect of land which is not depreciated.

The net book value of assets held under hire purchase contracts was as follows:

	Group	
	2003 £000	2002 £000
Plant and machinery	56	173

Depreciation charged on assets held under hire purchase contracts in the year amounted to £14,000 (2002: £17,000).

11 Fixed asset investments

Group	Shareholding of ordinary share capital	Country of incorporation and registration	2003 £000	2002 £000
<i>Other investments</i>				
Advanced Composite Master Materials Limited	50%	England	1	1

The shares in Advanced Composite Master Materials Limited are owned by Advanced Composites Group Limited. The accounting treatment is disclosed in note 1.

Company	Shareholding of ordinary share capital	Country of incorporation and registration	2003 £000	2002 £000
<i>Shares in subsidiary undertakings</i>				
Advanced Composites Group Limited	100%	England	3,594	3,594

The share capital of Advanced Composites Group Limited comprises:

	Number	Number
Ordinary shares of £1 each	209,212	209,212
Cumulative preference shares of £1 each	1,000,000	1,000,000

In addition to the above shareholding, Advanced Composites Group Limited itself owns 100% of the issued share capital of Advanced Composites Limited (incorporated in England) and Advanced Composites Group, Incorporated (incorporated in the USA).

The principal activities of the group trading companies during the year, all of which are included in the consolidation, were as follows:

Advanced Composites Group Limited	Manufacture and supply of impregnated composite materials, the manufacture of composite tooling and components and the supply of tooling block and ancillary materials.
Advanced Composites Limited	Administrative and technical support, including research and development, to other group companies.
Advanced Composites Group, Incorporated	Manufacture of impregnated materials used for the manufacture of composite tooling and components. Supply of tooling block and ancillary materials.

Notes (continued)

12 Stocks

	Group
	2003 £000
	2002 £000
Raw materials	1,844
Work in progress	551
Finished goods	798
	<u>3,193</u>
	<u>2,774</u>

13 Debtors

	Group	Company
	2003 £000	2002 £000
	2003 £000	2002 £000
Trade debtors	6,848	5,825
Amounts owed by group undertakings	-	-
Other debtors	223	314
Prepayments	212	239
	<u>7,283</u>	<u>6,378</u>
	<u>1,040</u>	<u>754</u>

14 Creditors: amounts falling due within one year

	Group	Company
	2003 £000	2002 £000
	2003 £000	2002 £000
Bank loans and overdrafts (note 15)	398	301
Payments on account	352	172
Trade creditors	3,529	3,086
Amounts owed to group undertakings	-	-
Other creditors	46	56
Other tax and social security	157	138
Hire purchase contracts (note 15)	49	58
Corporation tax	486	256
Accruals and deferred income	1,012	696
Proposed dividends	1,035	690
	<u>7,064</u>	<u>5,453</u>
	<u>1,179</u>	<u>1,113</u>

The UK bank borrowings are secured by a mortgage debenture over the UK assets, by various mortgages over certain fixed assets of the UK companies and by various guarantees between the companies in the group.

The US bank borrowings are secured upon the present and future assets of the US subsidiary, and by a cross guarantee from its immediate parent company, Advanced Composites Group Limited.

Notes (continued)

15 Creditors: amounts falling due after more than one year

	2003 £000	Group 2002 £000
Bank loans	1,343	2,114
Hire purchase contracts	1	55
	<u>1,344</u>	<u>2,169</u>

(a) Bank loans

	Due within one year £000	Due between 1 and 2 years £000	Due between 2 and 5 years £000	Due after 5 years £000	Total £000
Bank loan 1	26	-	-	-	26
Bank loan 2	35	36	72	-	143
Bank loan 3	16	16	47	1	80
Bank loan 4	101	103	310	171	685
USA bank loan	126	-	-	-	126
USA building loans	39	41	132	233	445
USA machinery loan	49	51	130	-	230
	<u>392</u>	<u>247</u>	<u>691</u>	<u>405</u>	<u>1,735</u>

Bank loan 1 is repayable over 5 years at an interest rate of 1.5% over the bank base rate.

Bank loan 2 is repayable over 10 years at a fixed interest rate of 9.79%.

Bank loan 3 is repayable over 10 years at an interest rate of 2.5% over the bank base rate.

Bank loan 4 is repayable over 10 years at an interest rate of 1.5% over the bank base rate.

The US bank loan is repayable in December 2003 and is at a variable rate of interest (the Wall Street Journal ('WSJ') Prime variable rate).

The US building loans are payable over 15 years. The interest rates are a combination of the WSJ Prime variable rate and a fixed rate of 6%.

The US machinery loan is repayable over 7 years at a variable rate of interest (the WSJ Prime variable rate).

These loans are secured on the assets of the group; see note 14 for details.

(b) Hire purchase contracts

Obligations under hire purchase contracts to finance fixed assets are repayable over varying periods by monthly or quarterly instalments as follows:

	2003 £000	Group 2002 £000
Within one year	49	58
In the second to fifth years	1	55
	<u>50</u>	<u>113</u>

Notes (continued)

16 Provisions for liabilities and charges

Group	Deferred taxation £000	Pension scheme £000	Total £000
At beginning of year	370	85	455
Charged to the profit and loss account	32	-	32
	<hr/>	<hr/>	<hr/>
At end of year	402	85	487
	<hr/>	<hr/>	<hr/>

(a) Deferred taxation

The deferred taxation provision, being the full potential liability, comprises:

	2003 £000	2002 £000
Accelerated capital allowances	402	370
	<hr/>	<hr/>

(b) Pension scheme

The pension scheme provision will be released over the average remaining service lives of the UK employees.

17 Share capital

Group and company	2003 £000	2002 £000
<i>Authorised, allotted and called up</i>		
3,378,125 ordinary shares of 10p each	338	338
2,471,875 'A' ordinary shares of 10p each	247	247
5,650,000 convertible 'B' ordinary shares of 10p each	565	565
	<hr/>	<hr/>
	1,150	1,150
	<hr/>	<hr/>

All classes of shares have equal rights in a distribution of profits of the company. The voting rights of all classes of shares are equal.

In the event of a distribution of assets, the convertible 'B' ordinary shares rank ahead of the other classes of shares in respect of repayment of capital. After all share capital has been repaid, all three classes of shares rank equally in the distribution of any surplus of assets.

Notes (continued)

17 Share capital (continued)

The shares in the company are held as follows:

	Ordinary	'A' ordinary	Convertible 'B' ordinary
MTIP Nominees Limited *	1,394,125	173,707	3,178,125
Foresight Technology VCT plc **	929,416	115,805	2,118,750
RM Sloman	432,792	1,040,541	-
AB Moore	105,649	254,004	-
Derbyshire County Council Pension Fund	105,016	-	252,484
Derbyshire First Investments Limited	45,682	9,191	100,641
Others	365,445	878,627	-
	<u>3,378,125</u>	<u>2,471,875</u>	<u>5,650,000</u>

* represented on the board of directors by MTI Partners Limited.

** represented on the board of directors.

Convertible 'B' ordinary shares

These shares must be converted to 'B' ordinary shares and deferred shares (if appropriate) no later than 31 December 2005. The basis of conversion is prescribed within the Memorandum and Articles of Association of the company. The 'B' ordinary shares so issued will carry the same rights as the convertible 'B' ordinary shares.

Deferred shares

Deferred shares would have no right to participate in any dividend declared by the company and no right to receive notice of or attend or vote at any general meeting of the company.

On a return of assets, the shares have only the right to receive the amount paid up on the shares provided there is a surplus of assets in excess of £100 million.

18 Share premium

Group and company

	£000
At beginning and end of year	<u>3,185</u>

Notes (continued)

19 Profit and loss account

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
At beginning of year	3,695	2,792	108	71
Movements in the year:				
Retained profit for the year	1,549	995	35	37
Exchange adjustments on foreign currency investments	(21)	(92)	-	-
At end of year	<u>5,223</u>	<u>3,695</u>	<u>143</u>	<u>108</u>

Included within the profit and loss reserves are £1,347,000 relating to the US subsidiary, Advanced Composites Group Inc. Any remittance from the US subsidiary may be liable to withholding tax.

20 Reconciliation of movements in shareholders' funds

	Group		Company	
	2003	2002	2003	2002
	£000	£000	£000	£000
Profit for the year	2,584	1,685	1,070	727
Dividend proposed	(1,035)	(690)	(1,035)	(690)
	<u>1,549</u>	<u>995</u>	<u>35</u>	<u>37</u>
Exchange adjustments on foreign currency investments	(21)	(92)	-	-
Net addition to shareholders' funds	1,528	903	35	37
Opening shareholders' funds	8,030	7,127	4,443	4,406
Closing shareholders' funds	<u>9,558</u>	<u>8,030</u>	<u>4,478</u>	<u>4,443</u>

21 Reconciliation of operating profit to net cash flow from operating activities

	2003	2002
	£000	£000
Operating profit	3,834	2,508
Depreciation charge	578	465
Profit on sale of fixed assets	(12)	-
Amortisation of goodwill	113	110
(Increase)/decrease in stocks	(431)	180
Increase in debtors	(939)	(1,176)
Increase in creditors	990	428
Net cash inflow from operating activities	<u>4,133</u>	<u>2,515</u>

Notes (continued)

22 Analysis of cash flow information

	2003 £000	2002 £000
Returns on investments and servicing of finance		
Interest paid net of foreign exchange gains and losses	(78)	(226)
Interest element of hire purchase contract repayments	(5)	(10)
	<u>(83)</u>	<u>(236)</u>
Capital expenditure net of disposals		
Purchase of tangible fixed assets	(848)	(423)
Receipts from the sale of tangible fixed assets	16	-
	<u>(832)</u>	<u>(423)</u>
Financing		
Repayment of other loans	(664)	(455)
Repayment of hire purchase contracts	(63)	(73)
	<u>(727)</u>	<u>(528)</u>

23 Analysis of net debt

	At 1 Sep 02 £000	Cash flows £000	Foreign currency movement £000	At 31 Aug 03 £000
Cash at bank and in hand	392	902	(1)	1,293
Bank overdraft	-	(6)	-	(6)
	<u>392</u>	<u>896</u>	<u>(1)</u>	<u>1,287</u>
Debt due within one year	(301)	(96)	5	(392)
Debt due after one year	(2,114)	760	11	(1,343)
Hire purchase contracts	(113)	63	-	(50)
	<u>(2,528)</u>	<u>727</u>	<u>16</u>	<u>(1,785)</u>
Net debt	<u>(2,136)</u>	<u>1,623</u>	<u>15</u>	<u>(498)</u>

24 Contingent liabilities

The company has provided a guarantee to all group companies in relation to the bank borrowings of each company. At 31 August 2003, the outstanding liability under this guarantee was £1,514,000 (2002: £2,129,000). A guarantee for £50,000 has been provided to HM Customs & Excise with recourse for twice the nominal amount.

Notes (continued)

25 Leasing commitments

Group

The minimum annual lease payments to which the group was committed, all of which are non-cancellable operating leases, will expire as follows:

	2003		2002	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	-	142	-	168
Between one and five years	-	94	-	134
More than five years	126	-	126	-
	<u>126</u>	<u>236</u>	<u>126</u>	<u>302</u>

26 Capital commitments

Capital expenditure contracted for at the year end amounted to £962,000 (2002: £261,000).

27 Pension schemes

The group operates two pension schemes, a defined benefit scheme (which was closed to new entrants with effect from 1 July 2001) and a defined contribution stakeholder scheme (which became available from September 2001).

The assets of the defined benefit scheme are held separately from those of the group, being invested by independent fund managers. Contributions to the scheme are charged to the profit and loss account so as to spread the costs of pensions over employees' working lives with the group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The latest full valuation was at 1 June 2002. At this date the scheme had a deficit of liabilities over assets of £489,000.

The assumptions which have the most significant effect on the results of the valuation are:

Rate of interest	6.0% per annum
Rate of increase in earnings	4.0% per annum
Rate of inflation	3.0% per annum
Pension increases	2.5% per annum

The market value of the scheme's assets at the valuation date was £2,014,000 and the level of funding was 80%.

In accordance with the actuary's recommendations, the funding rates have been increased to recoup this deficit over the remaining average service lifetime of existing members. The group increased its contribution rate to the scheme to 12.1% from 1 September 2003, having previously contributed 10.25%.

The pension cost charge for the defined benefit scheme for the year represents contributions payable by the group to the scheme and amounted to £201,000 (2002: £209,000). Contributions amounting to £26,000 (2002: £28,000) were payable to the scheme at the year end and are included in creditors.

Notes (continued)

27 Pension schemes (continued)

The pension cost charge for the defined contribution scheme for the year represents contributions payable by the group to the scheme and amounted to £37,000 (2002: £12,000). Contributions amounting to £6,000 (2002: £6,000) were payable to the scheme at the year end and are included in creditors.

Additionally, Advanced Composites Group Incorporated makes contributions into personal pension plans of some of its employees. Contributions of £108,000 (2002: £45,000) were made in the year. There were no accrued or prepaid contributions at the year end (2002: £nil).

FRS 17 Retirement benefits

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 1 June 2002 as updated to take account of the requirements of FRS 17 in order to assess the liabilities of the defined benefit scheme as at 31 August 2003. The most recent actuarial valuation was updated by the actuary on an FRS 17 basis as at 31 August 2002 and 31 August 2003. Scheme assets are stated at their market value at 31 August 2003.

The financial assumptions used to calculate the liabilities under FRS 17 are:

Valuation method	Projected unit
Discount rate	5.75%
Inflation rate	2.25%
Increase to deferred benefits during deferment	2.25%
Increases to pensions in payment	2.25%
Salary increase	3.25%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 2003	Value at 2003 £000	Long-term rate of return expected at 2002	Value at 2002 £000
Equities	8.0%	1,620	8.0%	1,207
Bonds	4.6%	527	4.6%	180
Other	4.4%	129	4.4%	435
		<hr/>		<hr/>
Total market value of assets		2,276		1,822
Present value of scheme liabilities		(3,029)		(2,100)
		<hr/>		<hr/>
Deficit in the scheme		(753)		(278)
Related deferred tax asset		226		83
		<hr/>		<hr/>
Net pension liability		(527)		(195)
		<hr/>		<hr/>

The amount of the net pension liability would have a consequential effect on group and company reserves.

Notes (continued)

27 Pension schemes (continued)

The movement in deficit during the year was:

	2003 £000
Deficit in scheme at beginning of year	(278)
Current service cost	(127)
Contributions paid	203
Other finance income	7
Actuarial loss	(558)
	<hr/>
Deficit in the scheme at end of year	(753)
	<hr/>

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

Analysis of other pension costs charged in arriving at operating profit:

	2003 £000
Current service cost	127
	<hr/>

Analysis of amounts included in other finance income:

	2003 £000
Expected return on pension scheme assets	(135)
Interest on pension scheme liabilities	128
	<hr/>
	(7)
	<hr/>

Analysis of amount recognised in statement of total recognised gains and losses:

	2003 %	2003 £000
Actual return less expected return on scheme assets		2
Percentage of year end scheme assets	-	
Experience gains and losses arising on scheme liabilities		(369)
Percentage of present value of year end scheme liabilities	12.2	
Changes in assumptions underlying the present value of scheme liabilities		(191)
Percentage of present value of year end scheme liabilities	6.3	
		<hr/>
Actuarial loss recognised in statement of total recognised gains and losses		(558)
		<hr/>