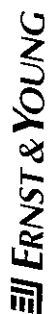


Primagraphics (Holdings) Limited

Report and Financial Statements

30 June 2003

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 ERNST & YOUNG



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Primagraphics (Holdings) Limited

Registered No: 3774448

Directors

R L White
J M Foxton
J D Shave
G Abington
J T Hunter

Secretary

S J Rich

Auditors

Ernst & Young LLP
400 Capability Green
Luton
Beds
LU1 3LU

Bankers

Barclays Bank plc
Bene't Street
P O Box No 2
Cambridge
CB2 3PZ

Registered Office

New Cambridge House
Litlington
Royston
Hertfordshire
SG8 0SS

Directors' report

The directors present their report and the group financial statements for the year ended 30 June 2003.

Results and dividends

The group profit for the year, after taxation, amounted to £ 890,698 (2002: £138,563). The directors do not recommend the payment of a final dividend.

Principal activity and review of the business

The group's principal activity during the year continued to be the design, development and manufacture of computerised equipment for handling and displaying graphics and images.

The directors are pleased to report on a highly satisfactory performance in the group's principal trading subsidiary, Primagraphics Limited. The highlight of the year was the receipt, in August 2002, of a contract to supply a Command and Control upgrade system to AMS Limited, ultimately for installation in the Royal Navy's Type 42 fleet. This order, the largest in the history of Primagraphics Limited, underpinned growth in new order bookings from 2001-02 that exceeded 75%. Revenue from this contract was also a significant contributory factor in the growth in revenue in the year, but revenue from the contract will continue to be derived in the two subsequent financial years.

The strong cash generation engendered by the excellent trading performance allowed the early repayment of the outstanding loans from NatWest Bank and the Industrial Mezzanine Fund, taken out to fund the 1999 Management Buy Out. The 'A' shares held by the Industrial Mezzanine Fund were also repurchased and cancelled, a transaction that was partly funded by the issue of shares to staff via the Employee Benefit Trust. £0.5m of the 'B' loan stock was also redeemed during the year.

The group's investment in new product development continues at a high level. Of several new product announcements in the year, the most significant was the launch of Radar Video Processor (RVP), a suite of cross platform software modules for radar distribution, plot extraction and tracking. This development has served to confirm the group's position as one of the leading international suppliers of digital radar acquisition, scan conversion and processing systems.

The excellent financial performance and the consequent improvement in efficiency are a tribute to the efforts and commitment of the group's highly motivated staff team. The directors extend their thanks to the staff for their outstanding contribution to the achievement of the year's results.

Directors and their interests

The directors at 30 June 2003 and their interests in the share capital of the company were as follows:

		<i>At 30 June 2003</i>	<i>At 30 June 2002</i>
R L White	Ordinary shares	23,650	23,650
	Deferred ordinary shares	86,394	86,394
J M Foxton	Ordinary shares	24,139	24,000
J D Shave	Ordinary shares	24,139	24,000
G Abington	Ordinary shares	12,139	12,000
J T Hunter	Ordinary shares	6,389	3,750

Directors' report

Auditors

A resolution to reappoint Ernst & Young LLP will be put to the members at the forthcoming Annual General Meeting.

By order of the board



Secretary

19 September 2003

Statement of directors' responsibilities in respect of the financial statements

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 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; and
- 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 group and to enable them to ensure that the financial statements 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.

Independent auditors' report**to the members of Primagraphics (Holdings) Limited**

We have audited the group's financial statements for the year ended 30 June 2003 which comprise the Group Profit and Loss Account, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report 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.

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 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 of the group as at 30 June 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.

Ernst & Young LLP
Registered Auditor
Luton

11 September 2003

Group profit and loss account

for the year ended 30 June 2003

	Notes	2003 £	2002 £
Turnover	2	6,792,283	5,004,792
Change in stocks of finished goods and work in progress		9,931	78,365
Other operating income	3	(212,134)	(219,409)
Raw materials and consumables		1,323,215	949,254
Staff costs	5	2,668,758	2,221,087
Depreciation and amortisation	3	208,749	195,968
Other operating charges		1,579,632	1,229,435
		<u>5,578,151</u>	<u>4,454,700</u>
Operating profit	3	1,214,132	550,092
Bank interest receivable		6,253	18,375
Interest payable and similar charges	6	(171,554)	(305,590)
		<u>1,048,831</u>	<u>262,877</u>
Profit on ordinary activities before taxation		1,048,831	262,877
Tax on profit on ordinary activities	7	158,133	124,314
		<u>890,698</u>	<u>138,563</u>
Profit for the financial year	18	890,698	138,563

Statement of total recognised gains and losses

for the year ended 30 June 2002

There are no recognised gains and losses other than the profit for the year.

Group balance sheet

at 30 June 2003

	Notes	2003 £	2002 £
Fixed assets			
Intangible assets	9	1,441,910	1,530,643
Tangible assets	10	188,403	193,782
Investments	11	6,090	6,500
		<u>1,636,403</u>	<u>1,730,925</u>
Current assets			
Stocks	12	672,403	567,438
Debtors	13	1,627,981	1,674,377
Cash at bank and in hand		36,257	430,717
		<u>2,336,641</u>	<u>2,672,532</u>
Creditors: amounts falling due within one year	14	1,527,954	1,416,364
Net current assets		<u>808,687</u>	<u>1,256,168</u>
Total assets less current liabilities		<u>2,445,090</u>	<u>2,987,093</u>
Creditors: amounts falling due after more than one year	15	1,001,592	2,200,982
		<u>1,443,498</u>	<u>786,111</u>
Capital and reserves			
Called up share capital	17	225,894	236,394
Share premium account	18	271,500	127,500
Profit and loss account	18	946,104	422,217
Shareholders funds'			
Equity		1,357,104	677,217
Non-equity		86,394	108,894
		<u>1,443,498</u>	<u>786,111</u>

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Director

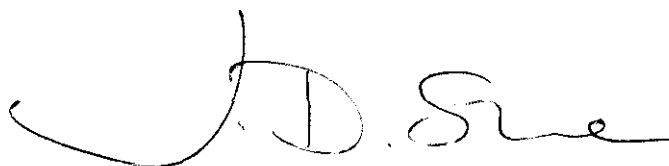
19/09/03

Company balance sheet

at 30 June 2003

	Notes	2003 £	2002 £
Fixed assets			
Investments	11	3,539,737	3,539,737
Current assets			
Debtors	13	–	1,992
Cash at bank and in hand		2,126	876
		2,126	2,868
Creditors: amounts falling due within one year	14	49,744	424,940
Net current liabilities		(47,618)	(422,072)
Total assets less current liabilities		3,492,119	3,117,665
Creditors: amounts falling due after more than one year	15	1,575,286	2,291,678
		1,916,833	825,987
Capital and reserves			
Called up share capital	17	225,894	236,394
Share premium account	18	271,500	127,500
Profit and loss account	18	1,419,439	462,093
Shareholders funds'			
Equity		1,830,439	717,093
Non-equity		86,394	108,894
		1,916,833	825,987

ERNST & YOUNG



Director

19/09/03

Group statement of cash flows

for the year ended 30 June 2003

	Notes	2003 £	2002 £
Net cash inflow from operating activities	19(a)	1,659,759	1,086,172
Returns on investments and servicing of finance			
Interest received		6,253	18,375
Interest paid		(152,934)	(259,807)
		(146,681)	(241,432)
Taxation			
Corporation tax paid		(32,285)	(61,825)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(125,609)	(116,836)
Receipts from sales of tangible fixed assets		7,100	4,100
Receipts from sales of fixed asset investments	19(c)	158,665	7,500
		40,156	(105,236)
Management of liquid resources			
Decrease in current asset investments		–	200,000
Financing			
Repurchase of 'A' ordinary shares		(389,311)	–
Decrease in bank loans		(301,111)	(171,111)
Decrease in debenture loans		(1,320,000)	(380,000)
		(2,010,422)	(551,111)
(Decrease)/increase in cash		(489,473)	326,568

Reconciliation of net cash flow to movement in net debt

for the year ended 30 June 2003

	Notes	2003 £	2002 £
(Decrease)/increase in cash		(489,473)	326,568
Cash outflow from net decrease in loans		1,621,111	551,111
Cash inflow from current asset investments		–	(200,000)
Change in net debt resulting from cash flows	19(b)	1,131,638	677,679
Amortisation of loan issue costs		(31,377)	(93,223)
Movement in net debt		1,100,261	584,456
Net debt at 1 July		(2,160,609)	(2,745,065)
Net debt at 30 June	19(b)	(1,060,348)	(2,160,609)

Notes to the financial statements

at 30 June 2003

1. Accounting policies

Accounting convention

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

Basis of consolidation

The group financial statements consolidate the financial statements of Primagraphics (Holdings) Limited and all its subsidiary undertakings drawn up to 30 June each year. No profit and loss account is presented for Primagraphics (Holdings) Limited as permitted by Section 230 of the Companies Act 1985.

Investments

Investments are included at cost less amounts written off for permanent diminution in value. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life as follows:

Improvements to leasehold property	-	straight line over the period of the lease
Plant and machinery	-	straight line over 3-5 years
Motor vehicles	-	straight line over 4 years
Furniture and equipment	-	straight line over 5 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. Costs includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first out basis.
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Notes to the financial statements

at 30 June 2003

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date, or where applicable at a specific contract rate.

All differences are taken to the profit and loss account.

Operating leases

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Pensions

The group operates defined contribution pension schemes on behalf of employees. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

Capital instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. Turnover is attributable to one continuing activity, the design, development and manufacture of computerised equipment for handling and displaying graphics and images.

An analysis of turnover by geographical market is given below:

	2003 £	2002 £
UK	3,185,006	1,748,212
North America	1,969,003	2,214,752
Europe	369,067	628,196
Rest of the world	1,269,207	413,632
	<u>6,792,283</u>	<u>5,004,792</u>

Notes to the financial statements

at 30 June 2003

3. Operating profit

This is stated after charging/(crediting):

	2003 £	2002 £
Depreciation of owned fixed assets	120,016	107,235
Amortisation of goodwill	88,733	88,733
	<u>208,749</u>	<u>195,968</u>
Operating lease rentals - plant and equipment	3,741	5,818
- land and buildings	325,950	278,314
Auditors' remuneration	14,500	14,500
Rental income	(212,134)	(219,409)
Loss on foreign exchange	30,476	41,454
Research and development costs	583,662	432,546

4. Directors' emoluments

	2003 £	2002 £
Emoluments	<u>410,395</u>	<u>388,680</u>
Company contributions paid to money purchase pension schemes	<u>20,082</u>	<u>18,692</u>

	2003 No.	2002 No.
Members of money purchase pension schemes	<u>4</u>	<u>4</u>

The amounts in respect of the highest paid director are as follows:

	2003 £	2002 £
Emoluments	<u>122,017</u>	<u>113,479</u>
Company contributions paid to money purchase pension schemes	<u>6,462</u>	<u>6,048</u>

Notes to the financial statements

at 30 June 2003

5. Staff costs

	2003 £	2002 £
Wages and salaries	2,273,544	1,901,454
Social security costs	261,795	206,859
Other pension costs	133,419	112,774
	<u>2,668,758</u>	<u>2,221,087</u>

The monthly average number of employees, including directors, during the year was as follows:

	2003 No.	2002 No.
Directors	5	5
Sales and administration	13	11
Technical and development	20	18
Production	11	11
	<u>49</u>	<u>45</u>

6. Interest payable and similar charges

	2003 £	2002 £
Bank loans and overdrafts	11,647	26,590
Interest payable on other loans	159,907	279,000
	<u>171,554</u>	<u>305,590</u>

Notes to the financial statements

at 30 June 2003

7. Tax on profit on ordinary activities

a) The tax charge is made up as follows:

	2003 £	2002 £
UK corporation tax	352,236	124,000
Overseas tax	285	314
	<u>352,521</u>	<u>124,314</u>
Prior periods:		
Research and development tax credit in respect of prior years	(160,490)	–
	<u>192,031</u>	<u>124,314</u>
Total current tax (note 7 b))	192,031	124,314
Deferred taxation:		
Credit for the year	(33,898)	–
	<u>158,133</u>	<u>124,314</u>
Tax on profit on ordinary activities		

b) Factors affecting the tax charge for the year:

	2003 £	2002 £
Profit on ordinary activities before tax	<u>1,048,831</u>	<u>262,877</u>
Profit on ordinary activities multiplied by standard rate of corporation tax of 30%	314,649	78,863
Expenses not deductible for tax purposes (including goodwill amortisation)	34,458	28,570
Depreciation in excess of capital allowances	2,210	9,925
Short term timing differences	172	–
Research and development tax credit in respect of prior years	(160,490)	–
Overseas tax	285	314
Other	747	6,642
	<u>192,031</u>	<u>124,314</u>
Total current tax (note 7 a))		

Notes to the financial statements

at 30 June 2003

7. Tax on profit on ordinary activities (continued)

c) Deferred tax

Deferred tax assets provided in the financial statements and the amounts not provided are as follows:

	<i>Provided</i>		<i>Not provided</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Depreciation in advance of capital allowances	32,327	—	—	36,812
Short term timing differences	1,571	—	—	2,209
Total asset	33,898	—	—	39,021

The movements in deferred tax during the current year are as follows:

	<i>£</i>
At 1 July 2002	—
Credit to profit and loss account	33,898
Deferred tax asset at 30 June 2003	33,898

8. Profit attributable to members of parent company

The profit dealt with in the financial statements of the parent company was £1,324,157 (2002: £684,287).

9. Intangible fixed assets

Group

	<i>Goodwill</i>
	<i>£</i>
Cost:	
At 1 July 2002 and 30 June 2003	1,774,659
Amortisation:	
At 1 July 2002	244,016
Provided during the year	88,733
At 30 June 2003	332,749
Net book value:	
At 30 June 2003	1,441,910
At 1 July 2002	1,530,643

Goodwill is being written off in equal instalments over its estimated economic life of 20 years.

Notes to the financial statements

at 30 June 2003

10. Tangible fixed assets

<i>Group</i>	<i>Improvements to leasehold property £</i>	<i>Plant and machinery £</i>	<i>Motor vehicles £</i>	<i>Furniture and equipment £</i>	<i>Total £</i>
Cost:					
At 1 July 2002	5,710	587,582	137,738	140,620	871,650
Additions	—	62,047	38,668	24,894	125,609
Disposals	—	(55,562)	(38,445)	(8,883)	(102,890)
At 30 June 2003	5,710	594,067	137,961	156,631	894,369
Depreciation:					
At 1 July 2002	2,824	482,648	82,752	109,644	677,868
Provided during the year	571	73,102	30,339	16,004	120,016
Disposals	—	(55,562)	(28,758)	(7,598)	(91,918)
At 30 June 2003	3,395	500,188	84,333	118,050	705,966
Net book value:					
At 30 June 2003	2,315	93,879	53,628	38,581	188,403
At 1 July 2002	2,886	104,934	54,986	30,976	193,782

11. Investments

<i>Group</i>	<i>Own shares £</i>
Cost:	
At 1 July 2002	6,500
Additions	156,000
Disposals	(156,410)
At 30 June 2003	6,090

Primagraphics Employee Benefit Trust holds 3,045 (2002: 3,250) £1 Ordinary shares in Primagraphics (Holdings) Limited at a cost of £6,090 (2002: £6,500).

Dividends on the shares owned by the trust, the purchase of which was funded by an interest free loan to the trust from Primagraphics Limited, are waived. All expenses of the trust are settled directly by Primagraphics Limited and are charged in the financial statements as incurred.

Notes to the financial statements

at 30 June 2003

11. Investments (continued)

<i>Company</i>	<i>Subsidiary undertakings £</i>
Cost:	
At 1 July 2002 and 30 June 2003	3,539,737

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

<i>Name of company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Subsidiary undertaking			
Primagraphics Limited	Ordinary shares	100%	Design, development and manufacture of computerised equipment
Primagraphics (Trustees) Limited	Ordinary shares	100%	Dormant

12. Stocks

	<i>2003 £</i>	<i>Group 2002 £</i>
Raw materials	526,443	411,547
Work in progress	145,960	155,891
	<u>672,403</u>	<u>567,438</u>

13. Debtors

	<i>2003 £</i>	<i>Group 2002 £</i>	<i>2003 £</i>	<i>Company 2002 £</i>
Trade debtors	1,419,124	1,365,516	—	—
Amounts owed by group undertakings	—	—	—	100
Other debtors	17,108	20,542	—	—
Prepayments and accrued income	157,851	288,319	—	1,892
Deferred taxation	33,898	—	—	—
	<u>1,627,981</u>	<u>1,674,377</u>	<u>—</u>	<u>1,992</u>

Notes to the financial statements

at 30 June 2003

14. Creditors: amounts falling due within one year

	2003	Group 2002	2003	Company 2002
	£	£	£	£
Bank overdraft	95,013	—	—	—
Debenture loans (note 16)	—	279,233	—	279,233
Bank loans (note 16)	—	111,111	—	111,111
Trade creditors	299,231	337,451	—	—
Corporation tax	352,235	192,489	—	—
Other taxes and social security costs	116,963	78,332	—	—
Other creditors	236,243	90,273	—	—
Accruals and deferred income	428,269	327,475	49,744	34,596
	<u>1,527,954</u>	<u>1,416,364</u>	<u>49,744</u>	<u>424,940</u>

The bank overdraft is secured by a charge over the group's assets.

15. Creditors: amounts falling due after more than one year

	2003	Group 2002	2003	Company 2002
	£	£	£	£
Debenture loans (note 16)	1,001,592	2,010,982	1,001,592	2,010,982
Bank loans (note 16)	—	190,000	—	190,000
Amounts due to group undertakings	—	—	573,694	90,696
	<u>1,001,592</u>	<u>2,200,982</u>	<u>1,575,286</u>	<u>2,291,678</u>

Notes to the financial statements

at 30 June 2003

16. Loans

Group and company

	2003 £	2002 £
Debenture loans	1,001,592	2,290,215
Bank loans	—	301,111
	<u>1,001,592</u>	<u>2,591,326</u>
Amounts payable:		
In one year or less	—	411,111
Between one and two years	150,000	531,111
Between two and five years	851,592	928,889
	<u>1,001,592</u>	<u>1,871,111</u>
In five years or more – 'B' loan stock	—	751,592
	<u>1,001,592</u>	<u>2,622,703</u>
Less: unamortised issue costs	—	(31,377)
	<u>1,001,592</u>	<u>2,591,326</u>

The loan is secured by a fixed and floating charge over the group's assets.

'B' loan stock of £1,001,592 is repayable by half-yearly instalments of £150,000 commencing on 23 March 2005. Interest is charged at 2.325% above the National Westminster Bank Plc's base rate.

17. Share capital

	2003 £	Authorised 2002 £
150,000 ordinary shares of £1 each	150,000	—
22,500 'A' ordinary shares of £1 each	—	22,500
127,500 'B' ordinary shares of £1 each	—	127,500
86,394 deferred ordinary shares of £1 each	86,394	86,394
	<u>236,394</u>	<u>236,394</u>

Notes to the financial statements

at 30 June 2003

17. Share capital (continued)

	<i>Allotted, called up and fully paid</i>	
	2003	2002
	£	£
139,500 ordinary shares of £1 each	139,500	–
22,500 'A' ordinary shares of £1 each	–	22,500
127,500 'B' ordinary shares of £1 each	–	127,500
86,394 deferred ordinary shares of £1 each	86,394	86,394
	<u>225,894</u>	<u>236,394</u>

On 21 March 2003, the company repurchased 22,500 'A' ordinary shares for a total consideration of £389,311. At that time, the authorised 'A' and 'B' ordinary shares were redesignated as ordinary shares of £1 each. 12,000 ordinary shares of £1 each were issued for a consideration of £13 per share.

A brief summary of the rights of each current class of shares is as follows:

Voting	Ordinary shares carry one vote per share. Deferred shares carry no voting rights.
Dividends	On a distribution, holders of the ordinary shares receive the first £100,000,000 so distributed in any financial year. Any amounts in excess of this value are distributed between holders of the ordinary shares and deferred shares in the ratio of 95:5.
Capital	On a return of assets on liquidation or capital reduction, the assets of the company are to be applied as follows:
	i) First in paying holders of the ordinary shares the issue price thereof plus any arrears of dividends;
	ii) Second in paying holders of the deferred shares the issue price thereof plus any arrears of dividends; and
	iii) The balance to be distributed equally amongst all classes of shares in proportion to the amounts paid up.

18. Reconciliation of shareholders' funds and movement on reserves

<i>Group</i>	<i>Share capital</i>	<i>Share premium account</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	£	£	£	£
At 1 July 2001	236,394	127,500	283,654	647,548
Profit for the year	–	–	138,563	138,563
At 1 July 2002	236,394	127,500	422,217	786,111
Repurchase of 'A' shares	(22,500)	–	(366,811)	(389,311)
Issue of ordinary shares	12,000	144,000	–	156,000
Profit for the year	–	–	890,698	890,698
At 30 June 2003	<u>225,894</u>	<u>271,500</u>	<u>946,104</u>	<u>1,443,498</u>

Notes to the financial statements

at 30 June 2003

18. Reconciliation of shareholders' funds and movement on reserves (continued)

<i>Company</i>	<i>Share capital £</i>	<i>Share premium account £</i>	<i>Profit and loss account £</i>	<i>Total shareholders' funds £</i>
At 1 July 2001	236,394	127,500	(222,194)	141,700
Profit for the year	–	–	684,287	684,287
At 1 July 2002	236,394	127,500	462,093	825,987
Repurchase of 'A' shares	(22,500)	–	(366,811)	(389,311)
Issue of ordinary shares	12,000	144,000	–	156,000
Profit for the year	–	–	1,324,157	1,324,157
At 30 June 2003	225,894	271,500	1,419,439	1,916,833

19. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	<i>2003 £</i>	<i>2002 £</i>
Operating profit	1,214,132	550,092
Depreciation	120,016	107,235
Amortisation of goodwill	88,733	88,733
Decrease in debtors	80,294	138,877
Increase in creditors	259,932	30,823
Loss on disposal of tangible fixed assets	3,872	2,837
Profit on disposal of fixed asset investments	(2,255)	(4,500)
(Increase)/decrease in stocks	(104,965)	172,075
Net cash inflow from operating activities	1,659,759	1,086,172

Notes to the financial statements

at 30 June 2003

19. Notes to the statement of cash flows (continued)

(b) Analysis of changes in net debt

	<i>At 1 July 2002 £</i>	<i>Cash flow £</i>	<i>Other movements £</i>	<i>At 30 June 2003 £</i>
Cash at bank and in hand	430,717	(394,460)	–	36,257
Bank overdraft	–	(95,013)	–	(95,013)
Loans	(2,591,326)	1,621,111	(31,377)	(1,001,592)
	<u>(2,160,609)</u>	<u>1,131,638</u>	<u>(31,377)</u>	<u>(1,060,348)</u>

(c) Significant non-cash transactions

During the year 12,000 ordinary shares were issued to Primagraphics Employee Benefit Trust (PEBT) - see note 11. Cashflows to the group, including PEPT, subsequently arose in the sale of these shares by PEPT.

20. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £12,509 (2002: £nil).

21. Pension commitments

The group operates defined contribution pension schemes for the benefit of the employees and directors. The assets of the schemes are administered by trustees in funds independent from those of the group.

The total contributions paid in the year amounted to £133,419 (2002: £112,774). There was an amount outstanding of £555 as at the year end (2002: £nil).

22. Other financial commitments

At 30 June 2003 the group had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>	
	<i>2003</i>	<i>2002</i>
	<i>£</i>	<i>£</i>
Operating leases which expire:		
In two to five years	324,667	320,000

23. Transactions with directors

During the year the group paid rent, at open market value, in the normal course of business to a pension plan for the benefit of R L White totalling £320,000 (2002: £275,815). At the balance sheet date there were no amounts due to or from the pension plan.

Mr R L White and Mr J M Foxton hold £407,789 and £176,045 respectively of the 'B' loan stock issued by the company.

24. Controlling party

In the directors' opinion the group has no ultimate controlling party.