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RTS Innovation Limited

Directors' report and financial
statements

Registered number 4109440

31 December 2003



Contents

| | |
|---|---|
| Directors' report | 1 |
| Statement of directors' responsibilities | 3 |
| Report of the independent auditors to the members of RTS Innovation Limited | 4 |
| Profit and loss account | 5 |
| Balance sheet | 6 |
| Notes | 7 |

Directors' report

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

Results and dividends

The profit and loss account is set out on page 5 and shows the profit for the year.

The directors do not recommend the payment of a dividend.

Principal activities, review of business and future developments

The company's principal activity is nuclear engineering with particular emphasis on decontamination techniques.

The directors are satisfied with the results for the year and believe further progress can be achieved during the current period.

Charitable and political contributions

During the year the company made no charitable or political contributions.

Directors and directors' interests

The directors of the company during the year and their beneficial in the ordinary share capital of the ultimate parent company, Robotic Technology Systems PLC, were as follows:

| | Option price pence | Number of share options held | | | |
|-----------------------------|-----------------------|------------------------------|-------------------|---------------------|-------------------|
| | | Issued by Company | | Issued by ARF | |
| | | 31 December 2003 | 1 January 2003 | 31 December 2003 | 1 January 2003 |
| P B Johnson | 160 | 40,000 | 40,000 | - | - |
| | 160 | 120,000 | 120,000 | | |
| | 95.5 | 494,000 | 494,000 | | |
| | 32 | 100,000 | - | | |
| A Moore | 160 | 9,000 | 9,000 | - | 136,000 |
| | 107 | 30,000 | 30,000 | | |
| | 32 | 50,000 | - | | |
| D P Timmins | 160 | 93,600 | 93,600 | - | - |
| (resigned 26 March 2004) | 160 | 26,400 | 26,400 | | |
| | 95.5 | 290,000 | 290,000 | | |
| | 32 | 100,000 | - | | |
| S J McGowan | 160 | 9,000 | 9,000 | - | 136,000 |
| | 107 | 30,000 | 30,000 | | |
| | 32 | 50,000 | - | | |
| G J Mellor | 160 | 9,000 | 9,000 | - | - |
| | 93 | 15,000 | 15,000 | | |
| | 32 | 15,000 | - | | |
| D Kirk | - | - | - | - | - |
| (appointed 12 January 2004) | | | | | |
| J E Hewitt | 592 | 20,000 | 20,000 | - | - |
| (appointed 1 June 2004) | 107 | 10,000 | 10,000 | | |

The Advanced Robotics Foundation ("ARF") granted option on 2 July 2000, over the above shares that it owns to the directors of the company. The options are exercisable in five equal tranches over a period of 50 months. All options issued by the ultimate parent company are exercisable in five equal tranches over a period of 60 months and be exercised within seven years of date of grant. On 9 April 2003 Mr Moore and Mr McGowan waived all share options granted by ARF.

Directors' report *(continued)*

Directors and directors' interests *(continued)*

On 9 April 2003 Mr Moore and Mr McGowan were each granted options over 50,000 ordinary shares in the parent company and Mr Mellor was granted options over 15,000 ordinary shares in the parent company exercisable at 32 pence per share. Mr Timmins and Mr Johnson were each granted options over 100,000 ordinary shares at the same date. On 10 April 2003 Mr Johnson and Mr Timmins purchased 7,500 and 5,000 ordinary shares respectively at 32 pence per share and subject to performance conditions.

The directors have no other interest required to be disclosed under Schedule 7 of the Companies Act 1985.

Auditors

In accordance with Section 384 of the Companies Act 1985 a resolution for the reappointment of KPMG Audit PLC as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board


G J Mellor
Director

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 of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, 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 company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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 company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

St James' Square
Manchester
M2 6DS
United Kingdom

Report of the independent auditors to the members of RTS Innovation Limited

We have audited the financial statements on pages 5 to 13.

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 auditor's 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 company 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 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 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 the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

22 October 2004

Profit and loss account
for the year ended 31 December 2003

| | <i>Note</i> | 2003 £'000 | 2002 £'000 |
|--|-------------|-----------------------------|-----------------------------|
| Turnover | 2 | 10,554 | 9,515 |
| Cost of sales | | (8,070) | (7,101) |
| Gross profit | | 2,484 | 2,414 |
| Administrative expenses | | (2,174) | (1,999) |
| Operating profit | 3 | 310 | 415 |
| Interest receivable | 6 | 1 | 24 |
| Profit on ordinary activities before taxation | | 311 | 439 |
| Taxation on profit on ordinary activities | 7 | (73) | - |
| Profit on ordinary activities after taxation for the year | | 238 | 439 |

All amounts relate to continuing activities.

All recognised gains and losses in the current and prior year are included in the profit and loss account.

The notes on pages 7 to 13 form part of these financial statements.

Balance sheet
at 31 December 2003

| | <i>Note</i> | 2003 | 2002 |
|--|-------------|----------------|----------------|
| | | £'000 | £'000 |
| Fixed assets | | | |
| Tangible assets | 8 | 135 | 413 |
| Current assets | | | |
| Stocks | 9 | 1,755 | 1,160 |
| Debtors | 10 | 2,213 | 1,256 |
| Cash at bank and in hand | | 896 | 588 |
| | | 4,864 | 3,004 |
| Creditors: amounts falling due within one year | 11 | (3,766) | (1,536) |
| Net current assets | | 1,098 | 1,468 |
| Total assets less current liabilities | | 1,233 | 1,881 |
| Creditors: amounts falling due after more than one year | 12 | - | (886) |
| | | 1,233 | 995 |
| Capital and reserves | | | |
| Called up share capital | 13 | - | - |
| Profit and loss account | | 1,233 | 995 |
| Equity shareholders' funds | | 1,233 | 995 |

These financial statements were approved by the board of directors on 22 October 2004 and were signed on its behalf by:


G J Mellor
Director

The notes on pages 7 to 13 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied.

Cash flow statement

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements (Revised 1996)' not to prepare a cash flow statement on the grounds that at least 90% of the voting rights in the company are controlled within the group headed by Robotic Technology PLC and the company is included in the consolidated financial statements.

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes on sales.

Pre-contract costs

Pre-contract costs are recognised as expenses as incurred and charged to the profit and loss account.

Tangible fixed assets

Depreciation is provided to write off the cost or valuation, less the estimated residual value, of all fixed assets on a straight line basis, except freehold land, over their expected useful economic lives. It is calculated at the following annual rates.

| | |
|---------------------|-------|
| Plant and machinery | - 20% |
| Motor vehicles | - 25% |
| Office equipment | - 20% |

Warranty provisions

Provisions are made for warranty costs based on estimates of liabilities expected to arise.

Deferred taxation

Deferred taxation is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or rights to pay less tax in the future, have occurred by the balance sheet date.

In considering whether deferred tax assets should be recognised, the Directors form a judgement as to recoverability.

Deferred tax is calculated using the rates of tax that have been enacted by the balance sheet date.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated to sterling at the rates of exchange at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Notes (continued)

1 Accounting policies (continued)

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. Cost is calculated as the cost of materials, direct labour and appropriate production overheads. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Profits on long term contracts are recognised as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit recognised is calculated on a basis to reflect the proportion of the work carried out as at the period end by recording turnover and related costs. Provision for losses is made on all contracts in the year they are first foreseen.

Advance and progress payments are included in creditors as payments on account respectively to the extent that they exceed work in progress.

Lease and hire purchase contracts

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account over the period of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital element reduces the amounts payable to the lessor.

Hire purchase contracts are treated identically to finance leases. All other leases are treated as operating leases. Rentals due under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Pensions

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

2 Turnover

| | 2003 £'000 | 2002 £'000 |
|---|--------------------|-------------------|
| <i>Analysis by geographical market:</i> | | |
| United Kingdom | 10,292 | 9,171 |
| Rest of the world | 262 | 345 |
| | <hr/> 10,554 <hr/> | <hr/> 9,515 <hr/> |

Turnover is wholly attributable to the principal activity of the company.

The directors have taken advantage of the exemption provided by Statement of Standard Accounting Practice 25 paragraph 43, from disclosing operating profit before interest and tax and net assets attributable to each class of business and area on the basis that it would be seriously prejudicial to the interests of the Company.

Notes (continued)

3 Operating profit

| | 2003 £'000 | 2002 £'000 |
|--|---------------|---------------|
| <i>Profit on ordinary activities before taxation is stated after charging:</i> | | |
| Hire of other assets – operating leases | 37 | 63 |
| Depreciation of tangible fixed assets | 49 | 163 |
| Auditor's remuneration | 15 | 15 |
| | <hr/> | <hr/> |

4 Staff numbers and costs

The aggregate payroll costs of these persons were as follows:

| | 2003 £'000 | 2002 £'000 |
|-----------------------|---------------|---------------|
| Wages and salaries | 2,281 | 1,942 |
| Social security costs | 258 | 201 |
| Other pension costs | 75 | 53 |
| | <hr/> | <hr/> |
| | 2,614 | 2,196 |
| | <hr/> | <hr/> |

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

| | Number of employees | |
|-------------------------|---------------------|-------|
| | 2003 | 2002 |
| Administration | 9 | 9 |
| Engineering specialists | 60 | 51 |
| | <hr/> | <hr/> |
| | 69 | 60 |
| | <hr/> | <hr/> |

5 Remuneration of directors

| | 2003 £'000 | 2002 £'000 |
|---|---------------|---------------|
| Directors' emoluments | 235 | 242 |
| Company contributions to money purchase pension schemes | 5 | 5 |
| | <hr/> | <hr/> |

There were 2 directors in the company's defined contribution pension scheme during the current and previous year.

Notes (continued)

6 Interest receivable

| | 2003 £'000 | 2002 £'000 |
|--------------------------|---------------|---------------|
| Bank interest receivable | 1 | 24 |

7 Taxation on profit on ordinary activities

| | 2003 £'000 | 2002 £'000 |
|--|---------------|---------------|
| <i>Current tax</i> | | |
| UK corporation tax on profits of the year | 78 | - |
| Total current tax | 78 | - |
| <i>Deferred tax</i> | | |
| Origination and reversal of timing differences | 23 | - |
| Adjustment in respect of prior periods | (28) | - |
| Taxation on profit on ordinary activities | 73 | - |

Factors affecting the tax charge for the current period

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

| | 2003 £'000 | 2002 £'000 |
|---|---------------|---------------|
| <i>Current tax reconciliation</i> | | |
| Profit on ordinary activities before tax | 311 | 439 |
| Current tax at 30% (2002: 30%) | 93 | 132 |
| <i>Effects of:</i> | | |
| Expenses not deductible for tax purposes | 8 | 7 |
| Capital allowances for period in excess of depreciation | (24) | (1) |
| Group relief for which no payment is made | - | (139) |
| Other timing differences | 1 | 1 |
| Total current tax charge (see above) | 78 | - |

At the year end the company has recognised a deferred tax asset of £5,475 (2002 – nil). This is made up of the following items:

| | 2003 £'000 |
|--------------------------------|---------------|
| Accelerated capital allowances | 2 |
| Short term timing differences | 3 |
| | 5 |

Notes (continued)

8 Tangible fixed assets

| | Plant and machinery £'000 | Motor vehicles £'000 | Fixtures and fittings £'000 | Total £'000 |
|---------------------------------|---------------------------------|----------------------------|-----------------------------------|----------------|
| Cost | | | | |
| At 1 January 2003 | 614 | 19 | 216 | 849 |
| Additions | 1 | - | 10 | 11 |
| Transfer to group undertakings | (588) | - | (2) | (590) |
| Disposals | - | (19) | - | (19) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2003 | 27 | - | 224 | 251 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Depreciation | | | | |
| At 1 January 2003 | 361 | 19 | 56 | 436 |
| Charge for the year | 5 | - | 44 | 49 |
| Transfers to group undertakings | (350) | - | - | (350) |
| Disposals | - | (19) | - | (19) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2003 | 16 | - | 100 | 116 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | |
| At 31 December 2003 | 11 | - | 124 | 135 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2002 | 253 | - | 160 | 413 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

9 Stocks and work in progress

| | 2003 £'000 | 2002 £'000 |
|---------------------------|---------------|---------------|
| Contract work in progress | 1,755 | 1,160 |
| | <hr/> | <hr/> |

Included within contract work in progress are the following long term contract balances:

| | 2003 £'000 | 2002 £'000 |
|---|---------------|---------------|
| Recorded costs incurred less provision for losses | 16,357 | 13,801 |
| Cumulative amounts recorded on cost of sales | (14,602) | (12,641) |
| | <hr/> | <hr/> |
| Contract work in progress | 1,755 | 1,160 |
| | <hr/> | <hr/> |

There is no material difference between the replacement cost of stocks and the amounts stated above.

Notes (continued)

10 Debtors

| | 2003 £'000 | 2002 £'000 |
|------------------------------------|---------------|---------------|
| Trade debtors | 1,714 | 720 |
| Amounts owed by group undertakings | 459 | 494 |
| Corporation tax receivable | - | 2 |
| Deferred tax recoverable | 5 | |
| Prepayments and accrued income | 35 | 40 |
| | <u>2,213</u> | <u>1,256</u> |

All amounts shown under debtors fall due for payment within one year.

11 Creditors: amounts falling due within one year

| | 2003 £'000 | 2002 £'000 |
|------------------------------------|---------------|---------------|
| Payments on account | 30 | 12 |
| Trade creditors | 1,198 | 739 |
| Amounts owed to group undertakings | 1,352 | 291 |
| Taxation and social security | 394 | 205 |
| Corporation tax | 78 | - |
| Accruals and deferred income | 714 | 289 |
| | <u>3,766</u> | <u>1,536</u> |

12 Creditors: amounts falling due within one year

| | 2003 £'000 | 2002 £'000 |
|------------------------------------|---------------|---------------|
| Amounts owed to group undertakings | - | 886 |
| | <u>-</u> | <u>886</u> |

Notes (continued)

13 Called up share capital

| | 2003 £'000 | 2002 £'000 |
|---|---------------|---------------|
| Authorised | | |
| Equity: 1,000 Ordinary shares of £1 each | 1 | 1 |
| Allotted, called up and fully paid | | |
| Equity: 1,000 Ordinary shares of £1 each | 1 | 1 |

14 Reconciliation of movements in shareholders' funds

| | 2003 £'000 | 2002 £'000 |
|-------------------------------------|---------------|---------------|
| Profit for the year | 238 | 439 |
| Net addition to shareholders' funds | 238 | 439 |
| Opening shareholders' funds | 995 | 556 |
| Closing shareholders' funds | 1,233 | 995 |

15 Contingent liabilities

The company is party to composite guarantees in relation to the banking facilities of Robotic Technology Systems PLC and its subsidiary undertakings. At the year end there were no liabilities covered by these guarantees.

The company has provided a guarantee for liabilities arising under a United Kingdom VAT grouping with other fellow subsidiaries. At the year end the liabilities covered by this guarantee totalled £559,000 (2002: £nil).

16 Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge represents contributions payable by the company to the fund and amounted to £61,386 (2002: £52,632). There was £12,433 (2002: £10,535) due to the pension scheme at the year end. The average number of employees participating in the scheme during the year was 67 (2002: 58).

17 Related party disclosures

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8 "Related party disclosures" not to disclose transactions with members of the group headed by Robotic Technology Systems PLC on the grounds that at least 90% of the voting rights in the company are controlled within that group and that the group is included in consolidated financial statements.

18 Ultimate parent company and parent undertaking of large group

The company's ultimate parent company is Robotics Technology Systems PLC and the immediate parent undertaking is RTS Thurnall (Holdings) PLC.

Copies of the consolidated financial statements of Robotic Technology Systems PLC are available from Companies House.