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RSL Steeper Group Limited

Report and Financial Statements

28 February 2005

Ernst & Young

Registered No: 4782018

Directors
S P Webster
A C Miller
D Whittaker
A M Thornton
R A Cross
A D Gallagher
M Patel
M E Pinto

Secretary
Laytons Secretaries Limited

Auditors
Ernst & Young LLP
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London
SE1 2AF

Bankers
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155 Bishopsgate
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ME2 4DP

Directors' report

The directors present their report and financial statements of the group for the year ended 28 February 2005.

Results and dividends

The results of the group for the year ended 28 February 2005 are shown in the group profit and loss account. The loss for the year after taxation was £94,861. The directors do not recommend the payment of a dividend.

Principal activities and review of the business

On 5 March 2004 RSL Steeper Group Limited acquired the entire issued share capital of Meditech Group Limited for £8,391,626. The principal activity of the group in the period since the acquisition was the supply of prosthetic, orthotic and assistive technology services and products, previous to the acquisition the company was dormant.

The results for the year are set out in the Group Profit and Loss Account. The Directors are pleased to report that the group has had a successful trading year.

The growth in the provision of Orthotic clinical services and products continues to improve the balance of different business areas within the group and was helped by the acquisition of a number of Orthotic contracts from Remploy with whom we successfully continue to work.

Future developments

The future development of the business will focus on continuing to grow the provision of Orthotic service and related products since we believe there is significant opportunity to deliver improved value to our customers in this area. There are also opportunities to expand our activities in the provision of Assistive Technology which are expected to deliver growth in the short to medium term and will further help to balance the overall business conducted by the group.

Employee involvement

The group's broad range of communications, which include a newsletter and direct briefings by management ensures that employees are informed of developments affecting the group's business and performance.

Disabled persons

It is the group's policy where possible to employ disabled persons, whether previously employed in the group or not, and to promote the careers of disabled persons.

Political and charitable contributions

During the year the group made charitable donations of £2,316.

Research and development

The group is actively engaged in research and development programmes and maintains a separate department for this purpose which is supplemented by the use of sub-contracted specialists for certain projects.

Directors' report

Directors and their interests

The directors who served the company during the year were as follows:

S P Webster
M Patel (appointed 5 April 2004)
A C Miller (appointed 7 January 2005)
M E Pinto (appointed 5 March 2004)
A M Thornton
R A Cross
A D Gallagher
D Whittaker (appointed 5 April 2004)

The following directors had beneficial interests in the shares of the company and loan notes:

	Ordinary shares 28 February 2005		*8% unsecured loan notes 28 February 2005*
	'A' shares	*'B' shares*	
	£	£	£
S P Webster	4,938	10,000	494,625
M Patel	–	3,015	–
A C Miller	1,471	–	147,316
R A Cross	324	1,472	32,447
A M Thornton	540	1,256	54,079
A D Gallagher	540	1,256	54,079
D Whittaker	4,157	–	27,040

ME Pinto has an interest in a company which holds 5,522 ordinary 'A' shares. He also holds £553,071 of the 8% unsecured loan notes.

M Patel also has an interest in two companies which together hold 5,399 ordinary 'A' shares and £540,791 of the 8% unsecured loan notes.

Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 28 February 2005, the company had an average of 45 days purchases outstanding in trade creditors.

Auditors

Ernst & Young LLP were appointed by the directors as the company's first auditors during the year. A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

for
29/6/05

Laytons Secretaries Limited
Secretary

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 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; 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 which 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 RSL Steeper Group Limited

We have audited the group's financial statements for the year ended 28 February 2005 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, 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.

Independent auditors' report

to the members of RSL Steeper Group Limited (continued)

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 28 February 2005 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

6 December 2005.

Group profit and loss account

for the year ended 28 February 2005

	Notes	*Year ended 28 February 2005 £*
Turnover	2	27,892,144
Cost of sales		(21,694,600)
Gross profit		6,197,544
Administrative expenses		(5,159,856)
Operating profit	3	1,037,688
Profit on disposal of tangible fixed assets		2,540
Interest receivable and similar income	6	58,229
Interest payable and similar charges	7	(977,985)
Profit on ordinary activities before taxation		120,472
Taxation	8	(215,333)
Loss for the financial year		(94,861)

Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss of £94,861 attributable to the shareholders for the year ended 28 February 2005.

Group balance sheet

at 28 February 2005

	Notes	2005 £
Fixed assets		
Intangible assets	10	8,602,291
Tangible assets	11	584,646
		9,186,937
Current assets		
Stocks	13	2,671,352
Debtors	14	3,466,481
Cash at bank and in hand		1,066,708
		7,204,541
Creditors: amounts falling due within one year	15	(4,605,846)
Net current assets		2,598,695
Total assets less current liabilities		11,785,632
Creditors: amounts falling due after more than one year	16	(11,880,483)
Net liabilities		(94,851)
Capital and reserves		
Called up share capital	21	10
Profit and loss account	22	(94,861)
Equity shareholders' funds	22	(94,851)

Director

29/11/05

Balance sheet

at 28 February 2005

	Notes	2005 £	2004 £
Fixed assets			
Investments	12	8,391,626	–
Current assets			
Debtors	14	4,679,637	1
Cash at bank and in hand		949,378	–
		5,629,015	1
Creditors: amounts falling due within one year	15	(2,818,549)	–
Net current assets		2,810,466	1
Total assets less current liabilities		11,202,092	1
Creditors: amounts falling due after more than one year	16	(11,880,483)	–
Net (liabilities)/assets		(678,391)	1
Capital and reserves			
Called up share capital	21	10	1
Profit and loss account	22	(678,401)	–
Equity shareholders' funds	22	(678,391)	1

Director

29/11/05

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Group statement of cash flows

for the year ended 28 February 2005

	Notes	*Year ended 28 February 2005 £*
Net cash inflow from operating activities	23(a)	429,008
Returns on investments and servicing of finance		
Interest payable on bank borrowings		(384,356)
Interest payable on loan stock		(1,027)
Other interest payable		(12,211)
Interest received		58,229
Net cash outflow from returns on investments and servicing of finance		(339,365)
Taxation		
Corporation tax paid		(41,589)
Capital expenditure		
Payments to acquire tangible fixed assets		(252,101)
Payments to acquire intangible fixed assets		(91,575)
Proceeds from sale of tangible fixed assets		2,840
Net cash outflow from capital expenditure		(340,836)
Acquisitions		
Purchase of subsidiary undertaking		(5,505,390)
Net cash acquired with subsidiary undertaking		271,043
Net cash outflow from acquisitions		(5,234,347)
Net cash outflow before financing		(5,527,129)
Financing		
Cash inflow from new bank loan repayable by 2011		5,500,000
Repayment of bank loans		(2,600,000)
Repayment of unsecured 8% loan stock		(521,081)
Issue of 8% unsecured loan stock		4,214,909
Increase in share capital		9
Net cash inflow from financing		6,593,837
Increase in cash		1,066,708

Group statement of cash flows

for the year ended 28 February 2005

Reconciliation of net cash flow to movement in net debt

	Notes	*Year ended 28 February 2005* £
Increase in cash		1,066,708
Cash inflow from increase in debt		(6,593,828)
Change in net debt resulting from cash flows		(5,527,120)
Non cash movements		(2,886,236)
Loans and loan stock acquired with subsidiary undertaking		(2,471,081)
Movement in net debt in the year		(10,884,437)
Net debt at 1 March		–
Net debt at 28 February	23(b)	(10,884,437)

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Notes to the financial statements

at 28 February 2005

1. Accounting policies

Basis of preparation

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

Consolidation

The group financial statements consolidate the financial statements of the company and all its subsidiary undertakings drawn up to 28 February each year. No profit and loss account is presented for RSL Steeper Group Limited as permitted by section 230 of the Companies Act 1985.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of value added tax.

Goodwill

Goodwill arising on acquisition is capitalised and written off over its estimated useful economic life of twenty years.

The carrying value of goodwill is reviewed for impairment in the period if events or changes in circumstances indicate the carrying value may not be recoverable.

Tangible fixed assets

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

Depreciation

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

Freehold building	-	50 years straight line
Plant and machinery	-	12½% per annum straight line
Fixtures and fittings	-	12½% per annum straight line
Computer equipment	-	20% per annum straight line
Motor vehicles	-	33⅓% per annum straight line
Leasehold additions	-	10% per annum straight line or remaining life of lease

Fixed asset investments

The carrying values of fixed asset investments are reviewed for impairment in the period if events or changes in circumstances indicate that the carrying value may not be recoverable.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Assembled items have been valued at the cost of materials and direct labour expended thereon, together with an amount for attributable overheads.

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Notes to the financial statements

at 28 February 2005

1. Group accounting policies (continued)

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions:

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

- 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 an undiscounted 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.

Operating lease agreements

Rentals paid under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

Research and development

Research and development expenditure is written off to the profit and loss account in the period in which it is incurred, except the development costs of new products, where it is reasonably expected that specific commercial success and future benefits will arise. Any expenditure carried forward is amortised over two years after the product is launched or at the latest within three years of the costs being incurred. The carrying values of capitalised development costs are reviewed for impairment in periods if events or changes in circumstances indicate the carrying may not be recoverable.

Pension costs

Pension contributions in respect of a subsidiary defined contribution scheme are charged to the profit and loss account as incurred.

Foreign currencies transactions

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the accounting 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.

2. Turnover

Turnover is attributable to the continuing principal activity of the group, and represents the amount receivable for goods and services supplied to customers but excludes value added tax.

An analysis of turnover and pre-tax result on activities by geographical markets has not been stated for competitive reasons.

Notes to the financial statements

at 28 February 2005

3. Operating profit

This is stated after charging:

		Year ended 28 December 2005 £
Auditors' remuneration	- audit services	45,000
	- non-audit services	32,000
Amortisation of intangibles	- of goodwill	481,628
	- of development expenditure	101,100
Depreciation		211,480
Operating lease rentals	- land and buildings	206,957
	- plant and machinery	309,414
Closure and reorganisation costs		154,547
Research and development expenditure		86,688

4. Directors' emoluments

The directors' aggregate emoluments in respect of qualifying services were:

	2005 £
Aggregate emoluments	443,532
Value of company pension contributions to money purchase schemes	21,678
	465,210

Emoluments of highest paid director:

	2005 £
Total emoluments	107,693
Value of company pension contributions to money purchase schemes	13,307
	121,100

The number of directors for whom pension contributions are made by the company was as follows:

	2005 No.
Money purchase schemes	3

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Notes to the financial statements

at 28 February 2005

5. Staff costs

	Year ended 28 February 2005 £
Wages and salaries	11,555,758
Social security costs	1,172,425
Other pension costs	174,315
	12,902,498

The average weekly number of employees during the year was as follows:

	Year ended 28 February 2005 No.
Management and administration	90
Clinicians and technicians	350
	440

6. Interest receivable

	Year ended 28 February 2005 £
Bank interest receivable	57,848
Other interest	381
	58,229

7. Interest payable

	Year ended 28 February 2005 £
Interest payable on bank borrowings	385,409
Interest payable on loan stock	580,365
Other interest payable	12,211
	977,985

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Notes to the financial statements

at 28 February 2005

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	Year ended 28 February 2005 £
Current tax:	
UK corporation tax on the profit for the year	83,087
Adjustment in respect of prior years	(67,141)
Total current tax (note 8(b))	15,946
Deferred tax:	
Origination and reversal of timing differences	199,387
Tax on profit on ordinary activities	215,333

(b) Factors affecting current tax charge for the year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	Year ended 28 February 2005 £
Profit on ordinary activities before tax	120,472
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	36,142
Effects of:	
Disallowable expenses	148,992
Depreciation in arrears of capital allowances	(9,043)
Other timing differences	(80,305)
Adjustments in respect of prior years	(67,141)
Utilisation of tax losses	(12,699)
Current tax for the year (note 8(a))	15,946

Notes to the financial statements

at 28 February 2005

8. Tax (continued)

(c) Deferred tax

The deferred tax asset included in the balance sheet is as follows:

	2005
	£
Decelerated capital allowances	61,476
Other timing differences	37,875
	99,351

	2005
	£
Arising from acquisition	298,738
Profit and loss account movement during the year	(199,387)
At 28 February	99,351

Deferred tax of £101,764 is not provided at 28 February 2005 since the recognition criteria as set out in FRS19 have not been met.

9. Result attributable to members of parent company

The loss dealt with in the financial statements of the parent company was £678,401.

10. Intangible fixed assets

Group	*Goodwill*	*Development expenditure*	*Total*
	£	*£*	*£*
Cost:			
Acquisition of group undertaking	1,367,053	126,100	1,493,153
Additions	7,600,291	91,575	7,691,866
At 28 February 2005	8,967,344	217,675	9,185,019
Amortisation:			
Provided during the year	481,628	101,100	582,728
Net book value:			
At 28 February 2005	8,485,716	116,575	8,602,291

Notes to the financial statements

at 28 February 2005

11. Tangible fixed assets

Group

	Freehold land and buildings	*Long leasehold land and buildings*	*Plant, Machinery and equipment*	*Fixtures and fittings*	*Motor vehicles*	*Total*
	£	£	£	£	£	£
Cost:						
Acquisition of subsidiary undertaking	17,100	99,401	307,471	107,453	12,900	544,325
Additions	–	45,949	190,272	15,880	–	252,101
Disposals	–	–	–	(706)	–	(706)
At 28 February 2005	17,100	145,350	497.743	122,627	12,900	795,720
Depreciation:						
Charge for the year	400	25,921	126,552	53,447	5,160	211,480
Disposals	–	–	–	(406)	–	(406)
At 28 February 2005	400	25,921	126,552	53,041	5,160	211,074
Net book value:						
At 28 February 2005	16,700	119,429	371,191	69,586	7,740	584,646

12. Investments

Company

	Investment in subsidiary undertakings
	£
Cost:	
Acquired during the year	8,391,626
At 28 February 2005	8,391,626

In the opinion of the directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which they are stated in the balance sheet.

Details of the investments in which the group and the company (unless indicated) holds 20% or more of the nominal values of the class of share capital are as follows.

Name of company	*Holding*	*% held*	*Nature of business*
Subsidiary undertakings			
Meditech Group Limited	£1 ordinary shares	100%	Intermediate holding Company
Rehabilitation Services Limited	£1 ordinary shares	100% ‡	Supply of prosthetic services
Meditech IT Limited	£1 ordinary shares	100% ‡	Non-trading

Notes to the financial statements

at 28 February 2005

12. Investments (continued)

Name of company	*Holding*	*% held*	*Nature of business*
Subsidiary undertakings			
Insearch Limited	1p 'A' ordinary	100% ‡	Dormant
	10p 'B' ordinary	100% ‡	
	90p deferred ordinary	100% ‡	
Hugh Steeper Limited	10p ordinary shares	100% ‡	Provision of rehabilitation products and services
	8.4% Cumulative Preference shares of £1 each	100% ‡	

‡ Held by a subsidiary undertaking.

On 5 March 2004 the company acquired Meditech Group Limited for a consideration of £8,391,626. The investment in Meditech Group Limited has been included in the balance sheet at its fair value at the date of acquisition.

Analysis of the acquisition of Meditech Group Limited:

Net assets at date of acquisition:

	Book and fair value to group £
Intangible fixed assets	1,493,154
Tangible fixed assets	544,325
Current assets	6,148,130
Creditors within one year	(4,740,643)
Creditors due after one year	(2,653,631)
Net assets	791,335
Goodwill arising on acquisition	7,600,291
	8,391,626
Discharged by:	
Cash	5,036,505
New loan notes issued	2,886,236
Costs associated with the acquisition	468,885
	8,391,626

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Notes to the financial statements

at 28 February 2005

13. Stocks

Group	*2005*
	£
Finished goods	947,062
Work in progress	534,926
Raw materials	1,189,364
	2,671,352

14. Debtors

	Group	*Company*	*Company*
	2005	*2005*	*2004*
	£	*£*	*£*
Trade debtors	2,357,975	–	–
Amounts owed by group undertakings	–	4,063,854	–
Other debtors	47,658	189,360	1
Prepayments and accrued income	961,497	426,423	–
Deferred taxation	99,351	–	–
	3,466,481	4,679,637	1

Amounts falling due after more than one year included in the above are:

	Group	*Company*	*Company*
	2005	2005	2004
	£	£	£
Deferred taxation	99,351	–	–

15. Creditors: amounts falling due within one year

	Group	*Company*
	2005	*2005*
	£	*£*
Bank loans (note 17)	650,000	650,000
Trade creditors	1,898,550	–
Amounts owed to group undertakings	–	2,154,070
Corporation tax	61,561	–
Other taxes and social security costs	584,340	–
Other creditors	85,654	14,479
Accruals and deferred income	1,325,741	–
	4,605,846	2,818,549

Notes to the financial statements

at 28 February 2005

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

	Group 2005 £	Company 2005 £
Bank loans (note 17)	4,200,000	4,200,000
8% unsecured loan notes	7,101,145	7,101,145
Interest on 8% unsecured loan notes	579,338	579,338
	11,880,483	11,880,483

The 8% unsecured loan notes and associated interest are repayable in 2011.

17. Loans

Details of loans not wholly repayable within five years:

Group and Company	2005 £
Bank loan at 2.5% per annum above LIBOR, repayable:	
in half yearly instalments of £325,000 for the first three years	
in half yearly instalments of £400,000 for the next year	
in half yearly instalments of £450,000 for the next two years	
in half yearly instalments of £475,000 for the final year	4,850,000
Less amounts included in creditors: amounts falling due within one year	(650,000)
	4,200,000
Amounts repayable:	
in one year or less	650,000
between two and five years	3,250,000
more than five years	950,000
	4,850,000

On 5 March 2004 a £5,500,000 bank loan was agreed with Bank of Scotland at 2.50% per annum above LIBOR. The loan was repayable over seven years, with a repayment profile as detailed above. Repayments of £325,000 per half year commenced on 31 August 2004.

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

18. Pensions

A group 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 unpaid contributions outstanding at the year end included in other creditors (note 15) are £10,567.

Notes to the financial statements

at 28 February 2005

19. Operating lease commitments

At 28 February 2005 the group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2005 £	*Other 2005 £*
Due within 1 year	40,979	42,812
Due within 2-5 years	146,722	252,841
Due after 5 years	22,000	–
	209,701	295,653

20. Contingent liabilities

A group company has entered into indemnities and guarantees under contracts with the National Health Service should claims arise within one year of supply of goods.

An unlimited cross guarantee exists between RSL Steeper Group Limited, Meditech Group Limited, Insearch Limited, Meditech IT Limited, Rehabilitation Services Limited and Hugh Steeper Limited in respect of bank borrowings. The net group borrowings guaranteed as at 28 February 2005 amount to £3,796,528.

21. Share capital

	Authorised 2005 £	*Authorised 2004 £*
Ordinary 'A' shares of £0.0001 each	976,182	1,000,000
Ordinary 'B' shares of £0.0001 each	23,818	–
	1,000,000	1,000,000

			Allotted, called up and fully paid	
			2005	*2004*
	2005	*2004*	*2005*	*2004*
	No.	*No.*	*£*	*£*
Ordinary 'A' shares of £0.0001 each	76,680	13,768	8	1
Ordinary 'B' shares of £0.0001p each	16,999	–	2	–
			10	1

On 5 March 2004, the authorised share capital of the company was sub-divided into 976,182 'A' shares and 23,818 'B' shares. During the year the company allotted 62,912 'A' shares and 16,999 'B' shares of £0.0001 each. The 'A' and 'B' shares rank pari passu in all respects except that holders of 'B' shares do not have voting rights.

Notes to the financial statements

at 28 February 2005

22. Reconciliation of movements in shareholders' funds

Group	*2005*
	£
Increase in ordinary share capital	10
Loss for the year	(94,861)
Closing shareholders' deficit	(94,851)

Company	*2005*	*2004*
	£	*£*
At 1 March	1	–
Increase in ordinary share capital	9	1
Loss for the year	(678,401)	–
At 28 February	(678,391)	1

23. Notes to the statement of cash flows

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

	2005
	£
Operating profit	1,037,688
Depreciation of tangible fixed assets	211,480
Amortisation of intangible fixed assets	582,728
Increase in stocks	(51,389)
Increase in operating debtors and prepayments	(621,281)
Decrease in operating creditors and accruals	(730,218)
Net cash inflow from operating activities	429,008

(b) Analysis of net debt

	At 1 March 2004	*Cash flow*	*Acquisitions (excluding cash and overdraft)*	*Other non cash changes*	*At 28 February 2005*
	£	*£*	*£*	*£*	*£*
Cash at bank and in hand	–	1,066,708	–	–	1,066,708
	–	1,066,708	–	–	1,066,708
Short term loans	–	(50,000)	(600,000)	–	(650,000)
Long term loans	–	(2,850,000)	(1,350,000)	–	(4,200,000)
Loan stock	–	(3,693,828)	(521,081)	(2,886,236)	(7,101,145)
	–	(5,527,120)	(2,471,081)	(2,886,236)	(10,884,437)

Non-cash changes

Part of the consideration for the purchase of subsidiary undertakings that occurred during the year comprised unsecured 8% loan notes.

Notes to the financial statements

at 28 February 2005

24. Related party transactions

At the year end the directors' combined interest (excluding M Patel and M Pinto – see below) in unsecured loan notes of 8% were as follows:

	Loan notes issued 5 March 2004	*Interest*	*At 28 February 2005*
	£	£	£
8% unsecured loan notes	748,520	61,066	809,586

M Patel has an interest in two companies which together were issued loan notes with a value of £500,000 on 5 March 2004 which accrued interest from that date until the year end of £40,791 and therefore have a total principal and accrued interest value of £540,791 at 28 February 2005.

M Pinto has an interest in a company which was issued loan notes with a value of £511,353 on 5 March 2004 which accrued interest from that date until the year end of £41,718 and therefore have a total principal and accrued interest value of £553,071 at 28 February 2005.