ARTHUR ANDERSEN

Atesta Group Limited

Accounts 31 August 1998

together with directors' and auditors' reports

Company number: SC161800

Directors and advisors

DIRECTORS	R M Bailey K W Fraser A G Greig (resigned 1 February 1998)
COMPANY SECRETARY	A G Greig
REGISTERED OFFICE	Addiston Mains Ratho Midlothian EH28 8NT
AUDITORS	Arthur Andersen 18 Charlotte Square Edinburgh EH2 4DF
BANKERS	Clydesdale Bank plc Hanover Street Edinburgh
SOLICITORS	Murray Beith Murray W.S. 39 Castle Street Edinburgh EH2 3BH

Directors' report

For the year ended 31 August 1998

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report, for the year ended 31 August 1998.

Principal activity

The principal activity of the group is the provision of research and development using testing, analysis and consulting services.

Business review

The results for the year are as follows:

	£
Profit for the financial year	69,502
Finance costs of non-equity shares	(5,928)
Retained profit for the year	63,574

The directors do not recommend the payment of a dividend to the holder of the Ordinary shares. Dividends of £5,928 (1997 - £4,321) have been accrued in respect of the 'A' Ordinary shares (note 9).

Directors and their interests

The directors who served during the year are listed on page 1.

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

	Ordinary Shares of £0.25 each	
	1998 Shares Number	1997 Shares Number
R M Bailey	217,742	217,742
K W Fraser	-	-

Supplier payment policy

The group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Approximately 36 (1997 - 34) trade creditors days were outstanding at the year end.

Directors' report (continued)

Year 2000

A plan has been developed to ensure that all significant risks to the group's computer systems arising from the Year 2000 date change will be identified well in advance of the critical dates and cost effective action taken to ensure the minimum disruption to the business.

Employment policy

It is the policy of the company to encourage and develop every member of staff to realise their maximum potential. Wherever possible, vacancies are filled from within the company and adequate opportunities for internal promotion are created. The company is committed to a systematic training policy. It is also the policy of the company, where possible, to give sympathetic consideration to disabled persons in their applications for employment within the company, and to protect the interests of existing members of staff who are disabled.

Directors' responsibilities

Company law requires the directors to prepare accounts 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 of the company for that year. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for 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 accounts comply with the Companies Act 1985. They are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Charitable and political contributions

The group made no charitable or political contributions during the year (1997 - £nil).

Auditors

The directors will place a resolution before the Annual General Meeting to re-appoint Arthur Andersen as auditors of the company for the ensuing year.

Addiston Mains
Ratho
Midlothian
EH28 8NT

17 December 1998

By order of the Board

AG Greig

A G Greig
Secretary

Auditors' report

Edinburgh

To the Shareholders of Atesta Group Limited:

We have audited the accounts on pages 5 to 26 which have been prepared under the historical cost convention and the accounting policies set out in note 1.

Respective responsibilities of directors and auditors

As described in the directors report on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at 31 August 1998 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

18 Charlotte Square
Edinburgh
EH2 4DF

17 December 1998

Consolidated profit and loss account

For the year ended 31 August 1998

	Notes	1998 £	1997 (18 months) £
Turnover	2	4,442,895	3,173,122
Cost of sales		(2,594,219)	(2,218,766)
Gross profit		1,848,676	954,356
Net operating expenses	3	(1,598,568)	(769,406)
Operating profit		250,108	184,950
Investment income	4	21,783	13,938
Interest payable and similar charges	5	(167,415)	(115,658)
Profit on ordinary activities before taxation	6	104,476	83,230
Tax on profit on ordinary activities	8	(33,693)	(54,279)
Profit on ordinary activities after taxation		70,783	28,951
Minority interests	21	(1,281)	(1,021)
Profit for the financial year		69,502	27,930
Finance costs of non-equity shares	9	(5,928)	(4,321)
Retained profit for the year	19	63,574	23,609

A statement of movements on reserves is given in note 19.

The profit for the current year and prior period equates to the historic cost profit for the current year and prior period.

As permitted by Financial Reporting Standard 3 "Reporting Financial Performance" the company has not prepared a Statement of Total Recognised Gains and Losses as it has no recognised gains or losses other than the retained profit for the year.

The accompanying notes are an integral part of these consolidated profit and loss accounts.

Balance sheets

31 August 1998

	Notes	Group 1998 £	Group 1997 £	Company 1998 £	Company 1997 £
Fixed assets					
Intangible assets	10	109,725	122,265	-	-
Tangible assets	11	1,500,717	1,248,093	8,193	12,354
Investments	12	-	-	2,019,786	2,019,786
		1,610,442	1,370,358	2,027,979	2,032,140
Current assets					
Stocks	13	150,339	123,375	-	-
Debtors - due within one year	14	1,097,667	1,163,328	958	35,801
- due after more than one year	14	1,634,000	1,598,000	8,000	-
Cash at bank and in hand		61,525	209,253	36,168	58,544
		2,943,531	3,093,956	45,126	94,345
Creditors: Amounts falling due within one year	15	(1,109,255)	(1,011,672)	(588,146)	(417,233)
Net current assets (liabilities)		1,834,276	2,082,284	(543,020)	(322,888)
Total assets less current liabilities		3,444,718	3,452,642	1,484,959	1,709,252
Creditors: Amounts falling due after more than one year	16	(1,568,565)	(1,674,397)	(1,417,511)	(1,610,011)
Provisions for liabilities and charges	17	(121,602)	(88,549)	-	-
Net assets		1,754,551	1,689,696	67,448	99,241
Capital and reserves					
Called-up equity share capital	18	83,747	83,747	83,747	83,747
Share premium account	19	226,203	226,203	226,203	226,203
Profit and loss account	19	87,183	23,609	(242,502)	(210,709)
Capital reserve	19	1,335,491	1,335,491	-	-
Shareholders funds	20	1,732,624	1,669,050	67,448	99,241
Minority interests	21	21,927	20,646	-	-
Total capital employed		1,754,551	1,689,696	67,448	99,241

Balance sheets (continued)

31 August 1998

Shareholders funds can be analysed as:

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Equity interests	1,615,379	1,551,805	(49,797)	(18,004)
Non-equity interests	117,245	117,245	117,245	117,245
	1,732,624	1,669,050	67,448	99,241

Signed on behalf of the Board

R M Bailey Director

17 December 1998

The accompanying notes are an integral part of these balance sheets.

Consolidated cash flow statements

For the year ended 31 August 1998

	Notes	1998	1997 (18 months)
		£	£
Net cash inflow from operating activities	22a)	423,472	362,990
Returns on investments and servicing of finance	22b)	(100,622)	(37,816)
Taxation		-	-
Capital expenditure and financial investment	22c)	(453,645)	(219,253)
Acquisitions and disposals	22d)	-	(2,094,786)
Cash outflow before management of liquid resources and financing		(130,795)	(1,988,865)
Financing	22e)	(16,933)	2,198,118
(Decrease) increase in cash in the year	22f)	(147,728)	209,253

The accompanying notes are an integral part of these consolidated cash flow statements.

Notes to accounts

31 August 1998

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the prior period, is set out below.

a) Basis of accounting

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

b) Basis of consolidation

The group accounts consolidate the accounts of Atesta Group Limited and all its subsidiary undertakings made up to 31 August 1998.

No profit and loss account is presented for Atesta Group Limited, as provided by section 230 of the Companies Act 1985. The company's post tax loss for the financial year, determined in accordance with the Act was £31,793 (18 months ended 31 August 1997 -£210,709).

c) Intangible fixed assets and capital reserve

Goodwill arising on the acquisition of the trade and certain assets of Labtek Environmental Limited, representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired, has been capitalised and is being amortised over a period of 10 years, being the directors estimate of its useful life.

Negative goodwill arising on the acquisition of Scientia Ferrovia Limited has been written off to the capital reserve.

d) Tangible fixed assets

Fixed assets are shown at original historical cost or subsequent valuation.

Depreciation is provided at rates calculated to write off the cost less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

Freehold property	– 50 years
Plant and machinery	– 10 years
Fixtures and fittings	– 10 years
Computer equipment	– 3 years
Motor vehicles	– 4 years

e) Investments

Fixed asset investments are shown at cost less amounts written off. Provisions are made for permanent reductions in value. Provisions for temporary fluctuations in value are not made.

Notes to accounts (continued)

1 Accounting policies (continued)

f) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is based on:

Consumables	-	purchased cost on a first-in, first out basis.
Work-in-progress	-	cost of materials and labour plus a reasonable proportion of overheads based on normal levels of activity.

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

g) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

The taxation liabilities of certain group undertakings are reduced wholly or in part by the surrender of losses by fellow group undertakings. The tax effects arising from group relief are recognised in the accounts of the surrendering undertakings.

Provision is made for deferred taxation using the liability method, to take account of all timing differences except those which, in the opinion of the directors, will probably not reverse. However, the amount of all deferred tax, including that which will probably not reverse, is shown in the notes to the accounts.

h) Pension costs

The expected cost of pensions in respect of the company's defined benefit pension scheme is charged to the profit and loss account so as to spread the cost of pensions over the service lives of employees in the scheme. Variations from the regular cost are spread over the expected remaining service lives of current employees in the scheme. The pension costs are assessed in accordance with the advice of qualified actuaries. An actuarial valuation of the pension scheme was carried out at 9 December 1996, the date of acquisition of Scientia Ferrovia Limited, and the surplus of £1,634,000 (1997 - £1,598,000) which was attributable to the group was recorded as a prepayment within debtors due after more than one year.

The cost of the company's contribution to its money purchase pension scheme is charged to the profit and loss account as incurred.

i) Turnover

Turnover represents net invoiced sales to customers excluding VAT.

Notes to accounts (continued)

1 Accounting policies (continued)

j) Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Further information on charges in the year and future commitments is given in the notes to the accounts.

2 Segmental analysis

Turnover which is entirely attributable to the company's principal activities, arose almost entirely in the United Kingdom.

3 Net operating expenses

	1998 (12 months) £	1997 (18 months) £
Administrative expenses	1,598,568	769,406

4 Investment income

	1998 (12 months) £	1997 (18 months) £
Bank interest	21,783	13,938

5 Interest payable and similar charges

	1998 (12 months) £	1997 (18 months) £
Loan stock interest	85,224	35,848
Bank loans and overdrafts	58,816	67,155
Finance leases and hire purchase contracts	15,875	4,918
Amortisation of debt issue costs	7,500	7,737
	167,415	115,658

Notes to accounts (continued)

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	1998 (12 months) £	1997 (18 months) £
Depreciation and amounts written off		
- intangible fixed assets	12,540	3,190
- tangible fixed assets	208,311	102,575
Rentals under operating leases		
- property	254,190	101,089
- plant and machinery	6,989	2,288
Auditors' remuneration	8,500	8,000
Staff costs (note 7)	2,401,401	1,817,572

In addition to the auditors' remuneration shown above the group paid £2,000 (1997 - £20,000) for other services provided by the auditors.

In the prior period staff costs included £66,500 relating to compensation for loss of office payable to a director of a subsidiary undertaking.

7 Staff costs

Particulars of employees (including executive directors) are as shown below.

	1998 (12 months) £	1997 (18 months) £
Employee costs during the year amounted to:		
Wages and salaries	2,126,624	1,629,719
Social security costs	176,543	113,308
Other pension costs (note 23d)	98,234	74,545
	2,401,401	1,817,572

The average monthly number of persons employed by the group during the year was as follows:

	1998 (12 months) Number	1997 (18 months) Number
Total employees	127	118

Notes to accounts (continued)

7 Staff costs (continued)

The remuneration of the directors was as follows:

	1998 (12 months) £	1997 (18 months) £
Emoluments	65,000	97,500
Company contributions to money purchase pension schemes	9,975	14,963
Fees paid to third parties in respect of directors' services	7,260	19,800
	82,235	132,263

The number of directors who were members of pension scheme was as follows:

	1998 (12 months) Number	1997 (18 months) Number
Money purchase schemes	1	1

8 Tax on profit on ordinary activities

The tax charge comprises:

	1998 (12 months) £	1997 (18 months) £
Corporation tax at 21% (1997 – 28%)	18,778	37,808
Adjustments in respect of prior years	(18,138)	-
Deferred taxation arising from		
- accelerated capital allowances	20,312	3,838
- other timing differences	12,741	12,633
	33,693	54,279

9 Finance costs of non-equity shares

	1998 (12 months) £	1997 (18 months) £
'A' Ordinary shares	5,928	4,321

These dividends will be paid by Atesta Group Limited when dividends have been received from its subsidiary undertakings to replenish the distributable reserves.

10 Intangible fixed assets

The following are included in the net book value of intangible fixed assets:

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Purchased goodwill	109,725	122,265	-	-

The movement in the year was as follows:

	Purchased goodwill
	£
Cost	
At 1 September 1997 and 31 August 1998	125,455
Amounts written off	
At 1 September 1997	3,190
Written off	12,540
At 31 August 1998	15,730
Net book value	
At 1 September 1997	122,265
At 31 August 1998	109,725

Notes to accounts (continued)

11 Tangible fixed assets

Group
The movement in the year was as follows:

	Freehold property £	Plant and machinery, fixtures and fittings, and computer equipment £	Motor vehicles £	Total £
Cost				
At 1 September 1997 and 31 August 1998	125,000	1,116,393	109,275	1,350,668
Additions	-	431,120	53,955	485,075
Disposals	-	(10,045)	(17,270)	(27,315)
At 31 August 1998	125,000	1,537,468	145,960	1,808,428
Depreciation				
At 1 September 1997	1,875	89,196	11,504	102,575
Charge	2,500	170,925	34,886	208,311
Disposals	-	(1,042)	(2,133)	(3,175)
At 31 August 1998	4,375	259,079	44,257	307,711
Net book value				
At 1 September 1997	123,125	1,027,197	97,771	1,248,093
At 31 August 1998	120,625	1,278,389	101,703	1,500,717

The net book value of fixed assets includes £360,584 (1997 - £144,052) in respect of assets held under finance leases and hire purchase contracts.

11 Tangible fixed assets (continued)

Company

The movement in the year was as follows:

	Plant and machinery £	Motor vehicles £	Total £
Cost			
At 1 September 1997 and 31 August 1998	1,614	16,000	17,614
Depreciation			
At 1 September 1997	260	5,000	5,260
Charge	161	4,000	4,161
At 31 August 1998	421	9,000	9,421
Net book value			
At 1 September 1997	1,354	11,000	12,354
At 31 August 1998	1,193	7,000	8,193

The net book value of fixed asset includes £Nil (1997 - £11,000) in respect of assets held under finance leases and hire purchase contracts.

12 Fixed asset investments

The following are included in the net book value of fixed asset investments:

	Company 1998 £	1997 £
Subsidiary undertakings at cost	229,786	229,786
Unsecured loan stock in subsidiary undertakings	1,790,000	1,790,000
	2,019,786	2,019,786

The company has investments in the following subsidiary undertakings:

Subsidiary undertakings	**Principal activity**	**Percentage holding**
Scientia Ferrovia Limited	Holding company	100%
Scientifics Limited*	Research and development using testing, analysis and consulting services	98.92%

* Held through a subsidiary undertaking.

Notes to accounts (continued)

13 Stocks

	Group 1998 £	Group 1997 £	Company 1998 £	Company 1997 £
Consumables	69,869	56,383	-	-
Work-in-progress	80,470	66,992	-	-
	150,339	123,375	-	-

In the opinion of the directors, there is no material difference between the net book value of stocks as shown above and their estimated replacement cost.

14 Debtors

	Group 1998 £	Group 1997 £	Company 1998 £	Company 1997 £
Amounts falling due within one year:				
Trade debtors	957,716	1,040,195	-	-
Amounts owed by group undertakings	-	-	-	35,800
Other debtors	2,283	42,365	1	1
Prepayments and accrued income	137,668	80,768	957	-
	1,097,667	1,163,328	958	27,801
Amounts falling due after more than one year:				
Pension surplus	1,634,000	1,598,000	-	-
Amounts owed by group undertakings	-	-	8,000	-
	1,634,000	1,598,000	8,000	-

Notes to accounts (continued)

15 Creditors: Amounts falling due within one year

	Group 1998 £	Group 1997 £	Company 1998 £	Company 1997 £
Bank loans	200,000	175,000	200,000	175,000
Trade creditors	282,927	190,673	5,733	21,560
Amounts owed to group undertakings	-	-	235,782	75,000
Obligations under finance leases and hire purchase contracts	129,283	57,885	-	4,267
Other creditors				
- UK corporation tax payable	108,287	107,647	-	-
- VAT	122,121	115,779	26,650	3,402
- social security and PAYE	55,429	55,988	2,510	2,516
Dividends accrued on non-equity shares	10,249	4,321	10,249	4,321
Deferred consideration	-	121,000	-	75,000
Accruals and deferred income	200,959	183,379	107,222	56,167
	1,109,255	1,011,672	588,146	417,233

16 Creditors: Amounts falling due after more than one year

	Group 1998 £	Group 1997 £	Company 1998 £	Company 1997 £
Obligations under finance leases and hire purchase contracts	151,054	64,386	-	-
Bank loans	650,000	850,000	650,000	850,000
Loan stock	790,011	790,011	790,011	790,011
Debt issue costs	(22,500)	(30,000)	(22,500)	(30,000)
	1,568,565	1,674,397	1,417,511	1,610,011

The bank loans bear interest at LIBOR plus 1.75% and the loan stock bears interest at 6.25% until 30 November 1998 and 11.25% thereafter.

Notes to accounts (continued)

16 Creditors: Amounts falling due after more than one year (continued)

Borrowings are repayable as follows:

	Group 1998 £	Group 1997 £	Company 1998 £	Company 1997 £
Finance leases				
Between one and two years	151,054	64,386	-	-
Bank loans				
Between one and two years	200,000	200,000	200,000	200,000
Between two and five years	450,000	650,000	450,000	650,000
	650,000	850,000	650,000	850,000
Loan stock				
Between one and two years	197,503	-	197,503	-
Between two and five years	592,508	592,509	592,508	592,509
After five years	-	197,502	-	197,502
	790,011	790,011	790,011	790,011
Total borrowings including finance leases				
Between one and two years	548,557	264,386	397,503	200,000
Between two and five years	1,042,508	1,242,509	1,042,508	1,242,509
After five years	-	197,502	-	197,502
	1,591,065	1,704,397	1,440,011	1,640,011

17 Provisions for liabilities and charges

Provisions for liabilities and charges comprises deferred taxation which has been provided to the extent that the directors have concluded on the basis of reasonable assumptions and the intentions of management that it is probable that part of the liability will crystallise.

	Group 1998 £	Group 1997 £	Company 1998 £	Company 1997 £
Accelerated capital allowances	112,166	91,854	-	-
Other timing differences related to				
- pensions	19,110	8,349	-	-
- current assets and liabilities	(9,674)	(11,654)	-	-
	121,602	88,549	-	-

17 Provisions for liabilities and charges (continued)

The movement on deferred taxation comprises:

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Beginning of year	88,549	-	-	-
Acquisition of subsidiary	-	72,078	-	-
Charged to profit and loss, in respect of				
- accelerated capital allowances	20,312	3,838	-	-
- pensions	10,761	8,349	-	-
- current assets and liabilities	1,980	4,284	-	-
End of year	121,602	88,549	-	-

The company and group have an unrecognised deferred tax asset of £25,500 (1997 - £29,000) relating to tax losses carried forward.

18 Called-up equity share capital

	Group and Company	
	1998	1997
	£	£
Authorised, allotted, called-up and fully paid:		
217,742 Ordinary shares of £0.25 each	54,436	54,436
117,245 'A' Ordinary shares of £0.25 each	29,311	29,311
	83,747	83,747

The rights attaching to the share classes are set out below:

a) Income

The 'A' ordinary shares carry a right to a cumulative preferential net cash dividend ("the participating dividend") of 5% until 1 September 1998, and 10% thereafter, of the net profit of the company (as defined in the articles) for the relevant financial year. Participating dividends shall be paid not later than 4 months after the end of each successive accounting reference period of the company, or not later than 14 days after the date of the auditors' report on the accounts of the company for such period, whichever is earlier, notwithstanding that the first dividend is not payable until 31 August 1998.

The 'A' ordinary shares also carry a right to cumulative preferential cash dividend ("the compensatory dividend") of an amount equal to the 'Excess Remuneration' (as defined in the articles) divided by the number of ordinary shares held by relevant directors on the last day of the relevant financial year.

Notes to accounts (continued)

18 Called-up equity share capital (continued)

a) Income (continued)

No dividend shall be paid to the holders of ordinary shares in respect of any financial year unless and until the participating dividend (if any) has been paid in full in respect of that financial year, and in respect of all previous financial years of the company any compensatory dividend due has been paid in full.

b) Conversion

The holders of the 'A' Ordinary shares may at any time convert the whole of their 'A' Ordinary shares into a like number of Ordinary shares.

c) Capital

On the return of assets on liquidation or capital reduction, the repayment of capital shall be in the following order:

1. Payment to the holders of 'A' Ordinary shares of £1 per share together with a sum equal to any arrears or accruals of the dividend on the 'A' Ordinary shares calculated to the date of the return of the capital.

2. Payment to the holders of Ordinary shares of £1 per share.

3. The balance of such assets shall be distributed amongst the holders of the 'A' Ordinary shares and Ordinary shares in proportion to the amount paid up or credited as paid up on the 'A' Ordinary shares and Ordinary shares held by them respectively.

19 Reserves

Of total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise:

	Group		Company	
	1998	1997	1998	1997
	£	£	£	£
Distributable				
- profit and loss account	87,183	23,609	(242,502)	(210,709)
Non-distributable				
- share premium account	226,203	226,203	226,203	226,203
- capital reserve	1,335,491	1,335,491	-	-
Total reserves	1,648,877	1,585,303	(16,299)	15,494

Notes to accounts (continued)

19 Reserves (continued)

The movement in the year was as follows:

Group

	Profit and loss account £	Share premium account £	Capital reserve £	Total £
Beginning of year	23,609	226,203	1,335,491	1,585,303
Retained profit for the year	63,574	-	-	63,574
End of year	87,183	226,203	1,335,491	1,648,877

Company

	Profit and loss account £	Share premium account £	Total £
Beginning of year	(210,709)	226,203	15,494
Retained loss for the year	(31,793)	-	(31,793)
End of year	(242,502)	226,203	(16,299)

20 Reconciliation of movements in shareholders' funds

	1998 (12 months) £	1997 (18 months) £
Profit for the financial year	69,502	27,930
Issue of share capital (net of costs)	-	309,948
Finance costs of non-equity shares	(5,928)	(4,321)
	63,574	333,557
Other recognised gains and losses relating to the period (net)	-	1,335,491
Net increase in shareholders' funds	63,574	1,669,048
Shareholders' funds at beginning of year	1,669,050	2
Shareholders' funds at end of year	1,732,624	1,669,050

Notes to accounts (continued)

21 Minority interests

	Equity £
Beginning of year	20,646
Revaluation of subsidiary undertakings' net assets	1,281
End of year	21,927

22 Notes to cash flow statement

a) Net cash inflow from operating activities

	1998 (12 months) £	1997 (18 months) £
Operating profit	250,108	184,950
Depreciation and amounts written off		
- intangible assets	12,540	3,190
- tangible assets	208,311	102,575
Gain on sale of fixed assets	(7,290)	-
(Increase) decrease in stocks	(26,964)	107,625
Decrease (increase) in debtors	30,618	(84,767)
(Decrease) increase in creditors	(43,851)	49,417
Net cash inflow from operating activities	423,472	362,990

b) Return on investments and servicing of finance

	1998 (12 months) £	1997 (18 months) £
Interest received	20,825	13,938
Interest paid	(121,447)	(51,754)
Net cash outflow	(100,622)	(37,816)

c) Capital expenditure and financial investment

	1998 (12 months) £	1997 (18 months) £
Purchase of tangible fixed assets	(485,075)	(219,253)
Sale of tangible fixed assets	31,430	-
Net cash outflow	(453,645)	(219,253)

Notes to accounts (continued)

22 Notes to cash flow statement (continued)

d) Acquisitions and disposals

	1998 (12 months) £	1997 (18 months) £
Purchase of subsidiary undertakings	-	(1,944,786)
Purchase of business	-	(150,000)
Net cash outflow	-	(2,094,786)

e) Financing

	31 August 1998 (12 months) £	31 August 1997 (18 months) £
Proceeds from issue of ordinary share capital (net of expenses)	-	309,948
Sale of shares to minority interest	-	19,625
New bank loan	-	1,025,000
Repayment of bank loan	(175,000)	-
Issue of loan stock	-	790,011
Debt issue costs	-	(37,737)
New finance leases and hire purchase contracts	266,724	139,964
Repayment of finance leases and hire purchase contracts	(108,657)	(48,693)
Net cash (outflow) inflow	(16,933)	2,198,118

f) Analysis and reconciliation of net debt

	31 August 1997 £	Cash flows £	Other non-cash changes £	31 August 1998 £
Cash at bank and in hand	209,253	(147,728)	-	61,525
Bank loans	(1,025,000)	175,000	-	(850,000)
Loan stock	(790,011)	-	-	(790,011)
Finance leases	(122,270)	(158,067)	-	(280,337)
Debt issue costs	30,000	-	(7,500)	22,500
Net debt	(1,698,028)	(130,795)	(7,500)	(1,836,323)

22 Notes to cash flow statement (continued)

f) Analysis and reconciliation of net debt (continued)

	1998 (12 months) £	1997 (18 months) £
(Decrease) increase in cash in the year	(147,728)	209,253
Cash outflow (inflow) from increase in debt and lease financing	16,933	(1,868,545)
Change in net debt resulting from cash flows	(130,795)	(1,659,292)
Other non-cash changes	-	(30,999)
Debt issue costs	(7,500)	(7,737)
Movement in net debt in year	(138,295)	(1,698,028)
Net debt at beginning of year	(1,698,028)	-
Net debt at end of year	(1,836,323)	(1,698,028)

23 Guarantees and other financial commitments

a) Capital commitments

Neither the group nor the company had any capital commitments at 31 August 1998 (1997 - £nil).

b) Contingent liabilities

The company and its subsidiaries have provided cross guarantees and letters of set off to their bankers.

c) Lease commitments

The company has entered into non-cancellable leases in respect of plant and machinery, the payments for which extend over a period of 3 years. The total rental for the year was £6,989 (1997 - £2,288).

The group leases certain land and buildings on long-term operating leases. The rental on these leases was £254,190 (1997 - £101,089). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The company pays all insurance, maintenance and repairs of these properties.

The minimum annual rentals under the foregoing leases are as follows:

	1998		1997	
	Property £	Plant and Machinery £	Property £	Plant and Machinery £
Operating leases which expire				
- within 1 year	-	-	9,929	-
- within 2-5 years	242,414	3,850	251,156	3,050
- after 5 years	5,000	-	5,000	-
	247,414	3,850	266,085	3,050

The company had no lease commitments at 31 August 1998 (1997 - £nil).

23 Guarantees and other financial commitments (continued)

d) Pension arrangements

The company is a member of the Scientifics Shared Cost Section of the Railways Pension Scheme which provides benefits based on final pensionable salary. The assets of the scheme are held separately from those of the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 9 December 1996.

The major assumptions used are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 9% per annum and that salary increases would average 6.5% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £7,977,000 and that the actuarial value of those assets represented 129% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company are expected to remain at 7.5% and the employees at 5% until September 2003.

The pension charge for the year was £98,234 (1997 - £74,545), which included a credit of £144,000 (1997 - £101,000) in respect of the amortisation of accumulated surpluses that are being recognised over 10.8 years, the average remaining service lives of employees. A prepayment of £1,634,000 (1997 - £1,598,000) is included in debtors due after more than one year, being the net of the fair value of the pension surplus and the excess of accumulated pension costs over the amount funded.