

CML Group Limited

Annual Report

Year ended 31 March 2004



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Company Information

Directors	I D Brodie - Chairman K N Edwards D N Haden D J Ison G D Stewart
Secretary	K N Edwards
Registered office	PO Box 25 South Marston Park Swindon Wiltshire SN3 4TR
Registered number	1564040
Auditors	RSM Robson Rhodes LLP Chartered Accountants Centre City Tower 7 Hill Street Birmingham B5 4UU
Bankers	Barclays Bank PLC Park House Stoke Clifford Bristol BS34 8TN

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 March 2004.

Principal activities

The principal activities of the company in the year were precision engineering and manufacture of sub assemblies and components for the aerospace and transportation industries.

Business review and future developments

The year to March 2004 has seen a 6% increase in CML's turnover, reflecting an increase in their share of a recovering market even with some considerable destocking by CML's major customer in our third quarter. A combination of productivity improvements and tight control of overheads has seen operating profit, before release of contract termination provisions, increase by £0.18 million and, together with careful management of stock levels, enabled the company to maintain its cash positive position.

The strategy for the coming year is to continue to consolidate CML Group, to strengthen its position in the market place as a strategic supplier of precision components and to develop further opportunities for the supply of composite details and assemblies.

During the next 12 months, we intend to expand our capacity and capability through strategic alliances to enable us to meet our customers' requirements for a supplier to work in partnership providing total design, manufacture and project management solutions.

Dividends

The directors do not propose a final dividend for the year (2003 : £Nil).

Directors

The directors of the company who served during the year are set out on page 1.

The interests of the directors, who are all main board directors of Intelek plc except for those directors noted below, are disclosed in the financial statements of that company.

The beneficial interests of the directors and their families at 31 March 2004 and the beginning of the year in the ordinary share capital of Intelek plc, other than for main board directors are detailed below:

	Beneficial		Ordinary shares of 5p each Options under Executive Scheme		Options under the Savings Related Scheme	
	2004	2003	2004	2003	2004	2003
D N Haden	-	-	30,000	30,000	-	-
G D Stewart	-	-	92,500	100,000	-	-
D J Ison	-	-	22,500	22,500	-	-

There have been no changes in the above since the year end.

The options granted under the terms of the Executive Scheme are exercisable between 2004 and 2013 at prices of between 10.5p and 21p per share.

Report of the Directors

(continued)

Statement of directors' responsibilities for the financial statements

Company law in the United Kingdom 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 of the company 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 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors, RSM Robson Rhodes LLP, are willing to continue in office and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Approval

The report of the directors was approved by the Board on 7 June 2004 and signed on its behalf by:



K N EDWARDS
Secretary

Independent Auditors' Report to the Shareholders of CML Group Limited

We have audited the financial statements on pages 5 to 16.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders 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' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

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 company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

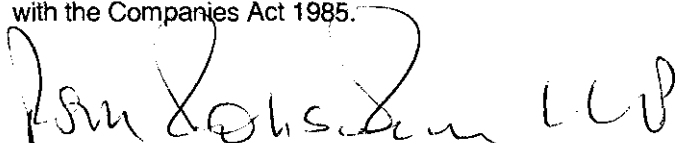
Basis of audit opinion

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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all 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 as at 31 March 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
Birmingham, England
7 June 2004

Profit and Loss Account

for the year ended 31 March 2004

	Note	2004 £	2003 £
Turnover - continuing operations	2	8,555,677	8,059,682
Cost of sales		(7,717,723)	(7,373,105)
Gross profit		837,954	686,577
Distribution costs		(93,718)	(88,135)
Administrative expenses		(505,367)	(468,614)
Operating profit before management charges		238,869	129,828
Management charges		(333,824)	(239,000)
Operating loss - continuing operations		(94,955)	(109,172)
Loss on disposal of fixed assets		(92,058)	-
Loss on ordinary shares before interest and taxation	3	(187,013)	(109,172)
Net interest	4	17,271	6,385
Loss on ordinary activities before taxation		(169,742)	(102,787)
Taxation	7	18,634	36,101
Loss on ordinary activities after taxation and loss for financial year	16	(151,108)	(66,686)

There are no other recognised gains and losses other than those reported in the profit and loss account.

Balance Sheet

at 31 March 2004

	Note	2004 £	2003 £
Fixed assets			
Tangible assets	8	1,414,743	1,661,566
Current assets			
Stocks	9	664,191	604,129
Debtors	10	1,981,752	2,209,339
Cash at bank and in hand		1,216,359	1,557,531
Creditors: Amounts falling due within one year	11	3,862,302 (2,126,229)	4,370,999 (2,093,860)
Net current assets		1,736,073	2,277,139
Total assets less current liabilities		3,150,816	3,938,705
Creditors: Amounts falling due after more than one year		(2,245,557)	(2,854,329)
Provision for liabilities and charges	13	(206,216)	(231,900)
Deferred Income	14	(12,788)	(15,113)
Net assets		686,255	837,363
Capital and reserves			
Called up share capital	15	100,000	100,000
Profit and loss account	16	586,255	737,363
Equity shareholders' funds	17	686,255	837,363

The financial statements were approved by the Board on 7 June 2004 and signed on its behalf by:


 G D STEWART
 Director


 D N HADEN
 Director

Notes to the Financial Statements

31 March 2004

1. ACCOUNTING POLICIES

Basis of accounting

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

Turnover

Turnover is the amount receivable for goods and services supplied, excluding value added tax. Turnover is recognised on long term contracts as these progress and comprises the sales value of work performed in the year.

Depreciation

Depreciation is provided to write down the cost of tangible fixed assets over their estimated useful lives. No depreciation is provided on freehold land or assets in the course of construction. The principal annual rates used are:

Leasehold improvements	10%	straight line
Plant and fixtures	8% to 33%	straight line (see below)
Motor vehicles	25%	straight line

In certain cases plant and machinery is depreciated to residual value over 12½ years and then to £Nil value over a further five years. Previously all plant was depreciated to £Nil value.

Stock and work in progress

Stock and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct material and labour and, where appropriate, includes attributable overheads. Net realisable value is based on estimated sales price after allowing for all further costs of completion and disposal.

Deferred taxation

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

In accordance with FRS 19 deferred tax is not provided on timing differences arising from:

- revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date; and
- gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Notes to the Financial Statements

31 March 2004

1. ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction, or if hedged at the forward contract rate. Monetary assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date, or if hedged the forward contract rate. All exchange differences are recognised in the profit and loss account.

Pensions

In accordance with SSAP 24, contributions to the group defined benefit pension scheme are charged to profit on the recommendation of a qualified actuary using the defined accrued benefit method so as to spread the cost of pensions over the anticipated service lives of scheme members. Contributions to defined Contribution Schemes are charged to profits as they fall due. Deferred tax is fully accounted for on any difference between accumulated pension costs charged against profit and accumulated contributions paid.

As indicated above the company is part of the Intelek plc pension scheme, which is a multi-employer arrangement. Based on the advice of the Scheme actuary, it is not possible for the company's share of assets and liabilities of the scheme to be separately valued in accordance with FRS 17. As a result no additional disclosures can be given under FRS 17 and the scheme will be treated as a defined contribution arrangement on full adoption of the standard. Full disclosures as required by FRS 17 of the aggregate valuation as at 31 March 2004 are given in the financial statements of Intelek plc.

Government grants

Grants in respect of fixed assets are credited to the profit and loss account in equal annual instalments over the useful lives of the assets concerned.

Other grants are credited to the profit and loss account in the same year as the expenditure to which they contribute.

Leased assets

Fixed assets subject to finance leases are capitalised and depreciated in accordance with the depreciation policy stated above. The corresponding liability for the capital element is included in creditors, and the interest, calculated on the basis of the amount outstanding, is charged against profits over the period of the lease. The rental and operating lease costs of all other assets are charged against profit before interest, as incurred.

Cash flow statement

The company has taken advantage of the exemption not to prepare a cash flow statement on the basis that it is a wholly-owned subsidiary of Intelek plc for which consolidated financial statements have been prepared.

Notes to the Financial Statements

31 March 2004

2. TURNOVER BY GEOGRAPHICAL MARKET

	2004 £	2003 £
United Kingdom	7,451,138	7,853,146
Other EC Countries	-	2,208
Rest of Europe	6,832	20,586
North America	1,097,707	179,887
South America	-	3,855
	<hr/>	<hr/>
	8,555,677	8,059,682
	<hr/>	<hr/>

An element of the sales made to United Kingdom customers is in respect of end customers based in overseas markets, particularly in the United States.

3. OPERATING LOSS

Operating loss is arrived at after charging/(crediting):

	2004 £	2003 £
Depreciation	367,491	387,648
Amortisation of government grants	(2,325)	(2,324)
Profit on sale of fixed assets	(3,410)	(6,018)
Operating lease rentals		
plant and machinery	438,588	260,221
land and buildings	298,277	298,500
Auditors' remuneration	9,000	10,800
Management charges	333,824	239,000
	<hr/>	<hr/>

4. INTEREST

	2004 £	2003 £
Finance leases and hire purchase	10,011	11,338
Interest receivable	(27,282)	(17,723)
	<hr/>	<hr/>
	(17,271)	(6,385)
	<hr/>	<hr/>

Notes to the Financial Statements

31 March 2004

5. EMPLOYEES

Average monthly number of employees, including directors:

	2004	2003
	No	No
Production	147	139
Administration	11	10
	<hr/>	<hr/>
	158	149
	<hr/>	<hr/>

Staff costs, including directors:

	2004	2003
	£	£
Wages and salaries	3,312,289	3,305,020
Social security costs	310,347	266,263
Other pension costs	124,174	231,331
	<hr/>	<hr/>
	3,746,810	3,802,614
	<hr/>	<hr/>

6. DIRECTORS

Emoluments of the company's directors:

	2004	2003
	£	£
Emoluments	185,685	192,426
Pension contributions	14,914	16,473
	<hr/>	<hr/>
	200,599	208,899
	<hr/>	<hr/>

Emoluments excluding pension contributions:

	2004	2003
	£	£
Highest paid director	79,585	83,693
	<hr/>	<hr/>

All other directors accrue retirement benefits within the parent company.

No of directors who accrue benefits under a money purchase scheme

2004	2003
5	5
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Notes to the Financial Statements

31 March 2004

7. TAXATION

	2004 £	2003 £
United Kingdom Corporation tax		
Current tax on income for the year	-	-
Adjustment in respect of prior year	(6,715)	(4,138)
	<hr/>	<hr/>
Total	(6,715)	(4,138)
	<hr/>	<hr/>
Group relief payable		
Current tax on income for the year	-	(73,664)
Adjustment in respect of prior year	13,765	(699)
	<hr/>	<hr/>
Total	13,765	(74,363)
	<hr/>	<hr/>
Current taxation	7,050	(78,501)
Deferred taxation	(25,684)	42,400
	<hr/>	<hr/>
Tax on loss on ordinary activities	(18,634)	(36,101)
	<hr/>	<hr/>
Current tax reconciliation		
	2004 £	2003 £
Loss on ordinary activities before taxation	(169,742)	(102,787)
	<hr/>	<hr/>
Theoretical tax at UK corporation tax rate 30% (2003 : 30%)	(50,923)	(30,836)
Effects of:		
- Marginal rate tax	-	-
- Adjustments in respect of prior years	7,050	(4,837)
- Expenditure that is not tax deductible	28,919	(428)
- Accelerated capital allowances	22,004	(42,400)
	<hr/>	<hr/>
Actual current taxation charge/(credit)	7,050	(78,501)
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Notes to the Financial Statements

31 March 2004

8. TANGIBLE ASSETS

	Leasehold improve- ments £	Plant and fixtures £	Motor vehicles £	Total £
Cost				
At 1 April 2003	622,157	6,060,961	28,150	6,711,268
Additions	3,308	162,720	29,300	195,328
Disposals	(4,671)	-	(28,150)	(32,821)
Reclassification	(620,794)	620,794	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	-	6,844,475	29,300	6,873,775
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 April 2003	386,072	4,647,471	16,159	5,049,702
Charged in year	61,223	360,582	7,744	429,549
Disposals	(589)	-	(19,630)	(20,219)
Reclassification	(446,706)	446,706	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	-	5,454,759	4,273	5,459,032
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 March 2004	-	1,389,716	25,027	1,414,743
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2003	236,085	1,413,490	11,991	1,661,566
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The net book value of the tangible fixed assets includes £194,498 (£148,643) in respect of assets held under finance leases and hire purchase. Depreciation charged in the year on those assets amounted to £47,332 (2003 - £39,715).

Notes to the Financial Statements

31 March 2004

9. STOCKS

	2004 £	2003 £
Raw materials and consumables	192,212	222,212
Work in progress	451,192	374,167
Finished goods and goods for resale	20,787	7,750
	<u>664,191</u>	<u>604,129</u>

The replacement cost of the above would not be significantly different from the values stated.

10. DEBTORS

	2004 £	2003 £
Trade debtors	1,349,137	1,725,833
Other debtors	589	1,143
Prepayments and accrued income	632,026	408,699
Taxation recoverable	-	73,664
	<u>1,981,752</u>	<u>2,209,339</u>

Included in debtors is a SSAP24 pension prepayment of £407,000 (2003: £263,000).

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £	2003 £
Obligations under finance leases	89,887	44,308
Trade creditors	621,639	887,712
Amounts due to parent undertaking	756,717	447,596
Corporation tax	-	-
Group relief payable	-	-
Other taxation and social security	285,103	332,908
Other creditors	97,459	128,489
Accruals	275,424	252,847
	<u>2,126,229</u>	<u>2,093,860</u>

Notes to the Financial Statements

31 March 2004

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004 £	2003 £
Interest free loan from parent	2,200,000	2,788,000
Other creditors:		
Obligations under finance leases		
- due between one and two years	42,063	48,224
- due between two and five years	3,494	18,105
	45,557	66,329

The interest free loan from parent of £2,200,000 (2003 - £2,788,000) is unsecured and has no fixed term of repayment. The parent company has confirmed that no substantial repayment will be requested within 12 months of the balance sheet date.

13. PROVISION FOR LIABILITIES AND CHARGES

	Deferred taxation £
At 1 April 2003	231,900
Charged to the profit and loss account	(25,684)
At 31 March 2004	206,216
Deferred taxation comprises:	
	2004 £
Capital allowances	129,631
Other timing differences	105,671
Losses	(29,086)
	206,216
	2003 £
	161,000
	70,900
	-
	231,900

14. DEFERRED INCOME

	Government grant £
At 1 April 2003	15,113
Credit to profit and loss account	(2,325)
At 31 March 2004	12,788

Notes to the Financial Statements

31 March 2004

15. SHARE CAPITAL

	2004 £	2003 £
Authorised, allotted and fully paid 100,000 ordinary shares of £1 each	100,000	100,000

16. RESERVES

	Profit and loss account £
At 1 April 2003	737,363
Loss for the year	(151,108)
At 31 March 2004	586,255

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004 £	2003 £
(Loss)/profit after taxation	(151,108)	(66,686)
Opening shareholders' funds	837,363	904,049
Closing shareholders' funds	686,255	837,363

18. CONTINGENT LIABILITY

The company has given an unlimited cross company guarantee in favour of Barclays Bank PLC as security for its borrowings and those of certain group undertakings.

Notes to the Financial Statements

31 March 2004

19. FINANCIAL COMMITMENTS

Operating lease commitments

The annual commitments under operating leases are analysed to the year in which each lease expires, as follows:

	2004 £	2003 £
Land and buildings, leases expiring		
within one year	31,350	-
between one and five years	-	9,000
beyond five years	190,200	289,500
	<hr/>	<hr/>
	221,550	298,500
	<hr/>	<hr/>
Plant and machinery, leases expiring		
within one year	25,265	28,016
between one and five years	451,425	517,924
beyond five years	-	-
	<hr/>	<hr/>
	476,690	545,940
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20. PENSION SCHEME

The company is a member of the Intelek Pension Scheme, which contains a defined contribution section as well as a defined benefit pension section. The Scheme operates for the benefit of employees with assets held in separately invested funds, administered by trustees.

The latest actuarial valuation of the defined benefit pension scheme was prepared as at 31 March 2002. A summary of the results of this valuation is contained within the financial statements of the parent company.

21. RELATED PARTY DISCLOSURES

Advantage has been taken of the special exemption for group companies regarding related party disclosures.

22. PARENT UNDERTAKING

The ultimate parent company is Intelek plc, which is registered in England and Wales. Its group accounts are available to the public on payment of the appropriate fee, from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.