EMESS

Annual Report 2003

Contents

Chairman's Statement

2003 marked a watershed year in the Company's history with the disposal of the remaining lighting business. During the year the Board also addressed two material liabilities by reaching a settlement on the Emess Group Pension Scheme deficit and purchasing Victoria Heights Corporation, thereby eliminating the payment to a third party of substantial rentals on the Hixon property. The Board is now focused on identifying investment opportunities with a view to generating more stable and sustainable returns for shareholders.

Results

The major trading activity during the year ended 31 December 2003 was the manufacture and distribution of lighting products. The lighting business achieved a turnover of £15.8m for the 9 month period up to its disposal on 26 September 2003 (2002: £24.0m for the full year). The group profit on ordinary activities after tax for the financial year was £1.2m (2002: loss £8.6m) which included an exceptional profit of £1.6m on the sale of Poole Lighting.

On 30 June 2003 £3.1m was paid to the Emess Group Pension Scheme in full and final settlement of the deficit in the scheme's assets. This amount was fully provided for at 31 December 2002.

Acquisition of Victoria Heights

As previously advised, on 26 March 2003 the Group completed the acquisition of the entire issued share capital of Victoria Heights Corporation, a property company which owns the freehold of the Hixon site formerly used by Cresswell Lighting, for a consideration of £2.2m and assumed the net debt of Victoria Heights Corporation of £6.8m. As a result the Group has ceased paying rent to a third party and will achieve a net annual cost saving of over £400,000. The Hixon property, valued at £6.2m, is currently being marketed for letting and/or sale.

Disposal of the Lighting Division

Pursuant to the Board's strategic decision to exit the lighting industry and following shareholder approval, the sale of the lighting division was completed on 26 September 2003 for a total gross consideration of £11.8m before costs.

Dividends

No dividend will be paid on the ordinary shares in respect of the period under review. The Company paid a dividend of 0.6p per share on the 1.2p (net) cumulative redeemable preference shares ("preference shares") for the half year to 30 June 2003 and a dividend of 0.6p per share has been declared for the half year to 31 December 2003 to be paid on 31 March 2004.

Preference Shares

As a result of the disposal of the lighting division, the Company no longer has a trading business. The Group has cash resources of approximately £26m which the Board intends should be applied to fund acquisitions or investments that are considered to be beneficial to the Company and in the interests of its shareholders. Pending this re-deployment of its cash resources the income of the Group will be constrained to its net interest earnings and, given the low level of distributable reserves, the Company's ability to service dividend payments to holders of preference shares will depend on such income exceeding the Group's expenses. In addition, until a suitable investment is made, it is unclear whether earnings will be sufficient to generate adequate distributable reserves for the redemption of the preference shares.
Accordingly, the Board is proposing a capital reconstruction of the Company's share capital to be effected by a scheme of arrangement to remove this uncertainty from the preference shares. The Directors are of the opinion that such an arrangement would be in the interests of both the preference and ordinary shareholders and that the proposed structure will enhance the position of the Company when seeking investments or acquisitions. Full details of this proposal are provided in a separate circular to shareholders.

Board and Management Changes

After 9 years of service to the Company as a non-executive Director, including the Chairmanship of the Company from April 2002, Mr Michael Sayers resigned as Chairman on 26 September 2003. On behalf of the Company I would like to express our appreciation for the contribution made by Mr Sayers in providing guidance through the many challenges which have faced the Company in the past.

Having regard to the position of the Company after the disposal of the lighting business, the Board concluded that the roles of Chairman and Chief Executive should be combined until such time as a suitable acquisition is completed and accordingly I was appointed Chairman on 26 September 2003. It is the Board's intention to review the Board structure at the time a new investment is made.

Outlook

The Company continues to receive and consider a number of diverse investment proposals. The initial research and informal due diligence on these investment opportunities, whilst extremely time-consuming, ensures that unsuitable proposals are eliminated at an appropriate stage in the process, thereby avoiding unnecessary expense and waste of resources. There are currently a number of potentially viable investments at varying stages of investigation and assessment. However, at this point in time it is premature to comment or speculate on the potential outcome of any particular opportunity. As and when appropriate, shareholders will be apprised of progress.

Rex Wood-Ward
Chairman
31 March 2004

Directors and Advisers

DIRECTORS

1 Rex Wood-Ward

Mr Wood-Ward, 55, was appointed an executive Director and Chief Executive with effect from 1 May 2003 and also became Chairman on 26 September 2003. During his 30 years of general management, mergers, acquisition and finance experience, Mr Wood-Ward has served on the boards of listed companies in South Africa, England and Australia. He is a non-executive director of Corporate Express Australia Limited, Lighting Corporation Limited and Skydome Holdings Limited, all of which are listed on the Australian Stock Exchange, and Coats Limited.

2 Raymond Davies

Mr Davies, 61, became a non-executive Director with effect from 1 May 2003 and was formerly part-time executive Director (until 30 April 2003). He was appointed to the Board of Emess in February 2000 and served as Chairman between November 2000 and April 2002. Mr Davies has served on the boards of listed companies in South Africa and the UK. He is a Director of Oceana Investment Corporation Limited.

Mr Davies is a member of the Audit and Remuneration Committees.

3 Michael Rapp

Non-executive Director, 68, was appointed to the Board of Emess on 2 October 2002. Mr Rapp's career has been focused on real estate. He was responsible for the real estate development of the Liberty Life Group in South Africa until 1985. Since 1985 he has been Executive Deputy Chairman of Capital and Counties plc and remains a non-executive director of Liberty International Plc. Mr Rapp is also a non-executive director of the Liberty Group Limited in South Africa.

Mr Rapp is Chairman of the Audit Committee and a member of the Remuneration Committee.

4. Geoff Gahan

Non-executive Director, 59, was appointed to the Board of Emess on 2 October 2002. He was formerly Chief Executive of Newman Tonks Plc and Executive Chairman of Frederic Cooper PLC and he is currently Executive chairman of Tommico Limited and a director of a number of private companies.

Mr Gahan is Chairman of the Remuneration Committee and a member of the Audit Committee.

FINANCIAL ADVISERS

Bridgewell Corporate Finance Limited

LEGAL ADVISERS

Bird & Bird,
London

Jones Day,
London

AUDITORS

Horwath Clark Whitehill, London

TAX ADVISERS

WJB Chiltern, plc

COMPANY SECRETARY

Jerome Fester

REGISTERED OFFICE

Suite 122
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London
NW8 9SP

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The Directors consider that the Company complies with the provisions set out in Section 1 of the Combined Code of the Committee on Corporate Governance (the "Combined Code") which was issued on 25 June 1998 except where indicated below.

The respective responsibilities of the Directors and the Auditors in connection with the accounts are explained on pages 6 and 9 respectively. The Directors' statement on "going concern" appears on page 4.

Directors

At 31 December 2003 the Board consisted of one executive and three non-executive Directors. All non-executive Directors receive a fixed fee together with additional ad hoc fees for exceptional time spent on executive assignments during the year. Directors' interests in the share capital of the Company are shown on page 8.

Brief biographical details of the Directors appear on page 2 of this report.

The Board meets approximately 8 times a year and comprehensive papers are prepared and issued prior to each meeting. These include regular business and financial progress reports and discussion documents regarding specific matters. Certain matters are reserved for the Board.

There is a facility for Directors to take independent professional advice, if necessary, at the Company's expense. This is in addition to the access which every Director has to the Company Secretary. The Secretary is charged by the Board with ensuring that Board procedures are followed.

Although there is no formal training course in place for any newly appointed Director, advice from the Company's solicitors in respect of their role and duties as a public company director would be provided as appropriate.

Mr Davies was part-time Chief Executive until 30 April 2003. Mr Wood-Ward was appointed Chief Executive on 1 May 2003. On 26 September 2003 Mr Sayers resigned as non-executive Chairman and Mr Wood-Ward became Chairman. The Board believes that the roles of Chairman and Chief Executive should be combined until such time as a suitable acquisition is completed and at that time the Board structure should be reviewed. The Managing Director of the Lighting Division reported to the Chief Executive until the sale of the Lighting business on 26 September 2003. Major decisions are required to be taken by the Board as a whole.

The Company has only a small Board and has established no formal Nominations Committee. All appointments to the Board of both executive and non-executive Directors are considered by the Board as a whole.

Any Director appointed during the year is required, under the provisions of the Company's Articles of Association, to retire and seek election by shareholders at the next Annual General Meeting. All Directors are subject to retirement by rotation at least every three years.

Full details of Directors' remuneration and the Company's remuneration policy are set out in the Directors' Remuneration Report on pages 7 and 8.

Internal Control

The Board of Directors put in place procedures in order to implement the guidance "Internal Control: Guidance for Directors on the Combined Code".

The Board considers risk management and internal control matters at its regular Board meetings. However, in view of the size of the business formal annual reviews of risk management and internal control were not carried out in 2003 given the sale of the lighting business and to this extent the Group has not complied with the requirements of the Combined Code but it is intended that such a review will be undertaken during 2004 in the event of an acquisition being made.

Operational management were responsible for the identification and evaluation of significant risks applicable to the lighting business and operated suitable internal controls in conjunction with the Head Office finance function. In addition, executive management undertook consultation with external advisers on environmental, insurance, legal and health and safety compliance. Management reported regularly to the Group Financial Controller, who provides the Board with monthly financial information.

The Directors had overall responsibility for the Group's system of internal financial controls. The Group maintained a control framework comprising clear structures and accountabilities, policies and procedures as well as budgeting and review processes adequate for the size of the business. Although no system of internal financial control can provide absolute assurance against material misstatement or loss, the Group's systems were designed to provide the Directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

The key procedures that were established to provide effective internal financial control include the following:

- a comprehensive system of reporting to the Board the monthly financial results for each operating unit against detailed annual budgets which were reviewed by the Board; and
- detailed procedures governing cash and foreign exchange management.

Given the size and relative lack of complexity of the Group, the Board believes that an internal audit function is not required. The Audit Committee, having considered the matter, is satisfied that an internal audit department is not required at this stage of the Group's development.

The Audit Committee comprises the Company's three non-executive Directors, Michael Rapp, Chairman of the Committee, Geoff Gahan and Raymond Davies. The Audit Committee keeps the scope and cost-effectiveness of the external audit under review. The independence and objectivity of the external auditors is considered on a regular basis, with particular regard to the level of non-audit fees.

Going Concern

Having carefully reviewed the Group's budgets for 2004 and its business plans, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the accounts.

Communication

The Company recognises the importance of communication with its shareholders. The full report and accounts are sent to all shareholders and, upon request, to other parties who have an interest in the Group's performance. The Company responds promptly to correspondence received from shareholders.

The Company is happy to maintain a regular dialogue with all shareholders. All shareholders have the opportunity to put questions at the Company's Annual General Meeting.

Directors' Report

for the year ended 31 December 2003

Principal activities: Emess plc is a holding company with a subsidiary which held a business involved in the manufacture and distribution of residential lighting. The lighting business was sold on 26 September 2003.

Results and review of the business: The results of the Group for the year are set out on page 10. A review of its activities and an indication of possible developments appear on page 1.

Dividends: A dividend of 0.6p per share was paid to preference shareholders on 30 September 2003 for the six months to 30 June 2003. The Board has approved the payment of a preference dividend of 0.6p per share to preference shareholders for the six months to 31 December 2003.

No dividend is proposed for ordinary shareholders.

Supplier payment policy: Group companies negotiate payment arrangements and other terms and conditions with all their principal suppliers. Payments to suppliers are made in accordance with negotiated arrangements other than in the event of a dispute. As at 31 December 2003 trade creditors of the Group represented 28 days (2002: 28 days) of amounts invoiced by suppliers during the year.

Share capital: There were no changes in share capital during the period under review.

Significant interests: The Company has been notified of the following interests amounting to 3% or more of the Company's ordinary share capital at 31 March 2004:

	Number of ordinary shares	%
Chapman International Investment Limited	53,099,500	23.4
Colmar Investment Holdings Limited	29,755,000	13.1
Aberdeen Asset Management Plc	15,750,000	6.9
Co-Operative Society	7,093,217	3.1

Directors: The names and brief biographical details of the Directors are shown on page 2. Mr Rex Wood-Ward was appointed a Director on 1 May 2003. All directors were re-elected at the Annual General Meeting held on 30 July 2003.

No contract subsisted during or at the end of the year in which a Director of the Company was materially interested, other than his service agreement. The Directors' interests in the share capital of the Company and other companies within the Group during the period under review appear on page 8.

Directors' Remuneration policy: The remuneration policy and details of Directors' remuneration and their interests in the companies are given in the Directors' Remuneration Report on pages 7 and 8.

Corporate Governance: Statements of the Company's compliance with the Combined Code on Corporate Governance are set out on pages 3 and 4.

Annual General Meeting: Details of the Annual General Meeting are contained in a separate circular to shareholders.

Charitable donations: During the year the Group made no charitable or political donations.

Auditors: Following the transfer of substantially all of the business of Horwath Clark Whitehill to a limited liability partnership on 1 April 2004, Horwath Clark Whitehill will be resigning as auditors to the Company at the conclusion of the Annual General Meeting.

The Board has decided to recommend Horwath Clark Whitehill LLP for appointment as auditors of the Company and, Horwath Clark Whitehill LLP have expressed their willingness to accept this appointment. A resolution appointing them will be submitted to the forthcoming Annual General Meeting.

By order of the Board

Jerome Fester
Secretary
31 March 2004

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group at the end of the period and the profit or loss of the Group for the period. In preparing the financial statements, 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 assume 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

They are further responsible for ensuring that the Report of the Directors and other information included in the Annual Report and Financial Statements is prepared in accordance with applicable law in the United Kingdom and ensuring that the Annual Report includes the information required by the Listing Rules of the Financial Services Authority.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

Directors' Remuneration Report

This report is prepared in accordance with Schedule 7A of the Companies Act 1985.

The Company's auditors are required to report on certain information contained within this report. Where information set out below has been audited it is indicated as such. The auditors' opinion is included within the auditors' report on page 9.

The Remuneration Committee currently comprises three non-executive Directors, who meet at least twice a year.

The remuneration policy set by the Committee is described below.

Composition of the Remuneration Committee: The Company's Remuneration Committee comprises non-executive Directors, namely Geoff Gahan (Chairman of the Committee), Michael Rapp, Raymond Davies (from 15 October 2003) and Michael Sayers (until 26 September 2003). The Company Secretary acts as Secretary to the Committee.

The Committee establishes the remuneration policy within the Group.

Remuneration Policy: Executive Directors' remuneration is determined on behalf of the Board by the Remuneration Committee (after reviewing publicly available information concerning the remuneration scales of other similar companies). The remuneration of the non-executive Directors is determined by the Board as a whole. None of the Directors participates in any discussion or votes on any proposal relating to his own remuneration. The Company's policy is to remunerate the Group's senior executives fairly in such manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel.

The overall remuneration strategy and the policy for Directors' remuneration will be reviewed during 2004 to ensure that they are properly aligned with the Company's ongoing business strategy.

Remuneration of Executive Director: Mr Davies, the part-time executive Director between 1 January 2003 and 30 April 2003, received a salary of £68,000 for the period and £27,760 for fees as a non-executive Director for the period 1 May 2003 to 31 December 2003.

Mr Wood-Ward was a part-time Chief Executive during the period 1 May 2003 to 31 August 2003 and received a salary of £51,500. Mr Wood-Ward became full-time Chief Executive and Chairman on 1 September 2003 and received a salary of £58,333 plus benefits of £46,676 for the period from 1 September 2003 to 31 December 2003.

Non-Executive Directors' Fees: The Board decides the remuneration arrangements for the non-executive Directors. The basic annual fee for non-executive Directors is £24,000, which has not changed since 1 January 2000. Until 26 September 2003, the Chairman received a non-executive fee at the rate of £40,000 per annum on account of the amount of time that he was required to spend on the Company's affairs.

In addition, as the Company only had one part-time executive Director until 26 September 2003, special fees have been paid to non-executives for special projects undertaken during the year.

Directors' Service Contracts

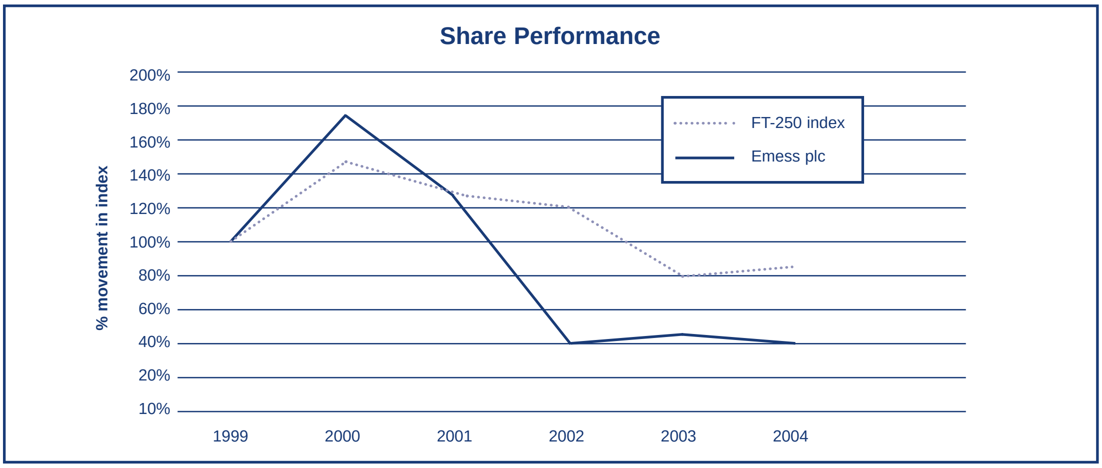
	Date of appointment letter	Initial term
R Wood-Ward	13 October 2003	2 years from 1 September 2003
R S P Davies	6 February 2003	17 months from 1 May 2003
M Rapp	29 January 2003	2 years from 2 October 2002
G D Gahan	29 January 2003	2 years from 2 October 2002

In the event that a Director's appointment as a non-executive Director is terminated as a result of a change of control before his term of office ceases, he will be entitled to a payment on termination equivalent to 18 months' Directors' fees.

EMESS

Total Shareholder Return: The performance graph below shows the Company's total cumulative shareholder return for the five year period ended 31 December 2003, compared with the total cumulative shareholder return for the FTSE Small Cap Index.

This comparison is selected as being the most appropriate for the Company having regard to its size, as the comparison takes account of the market's view of small companies generally.



Directors' emoluments and interests (Audited)

	Salary and fees £'000	Non-executive fees £'000	2003 Benefits in kind £'000	Total £'000	2002 Salary and fees £'000
Raymond Davies	**80**	**16**	**—**	**96**	366
Rex Wood-Ward	**110**	**—**	**46**	**156**	—
Michael B Sayers (Chairman — resigned 26 September 2003)	**—**	**30**	**—**	**30**	35
Michael Rapp (Appointed 2 October 2002)	**—**	**24**	**—**	**24**	6
Geoff Gahan (Appointed 2 October 2002)	**70**	**24**	**—**	**94**	6
	260	**94**	**46**	**400**	413

In addition, Mr Alhadeff resigned 2 October 2002; his remuneration was £18,000.

Directors' pensions: The Company did not make any contributions to pension schemes in respect of the Directors for either year.

None of the Directors in office at 31 December 2003 had any interests in the share capital of the Company or any other Group undertakings.

None of the Directors held any share options in the Company or other Group undertakings.

Approved by the Board on 31 March 2004

Geoff Gahan
Chairman of the Remuneration Committee

Independent Auditors' Report to the Members of Emess plc

We have audited the financial statements on pages 10 to 28. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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 purposes. 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 Annual Financial Statements and the Directors' Remuneration Report. As described on page 6, this includes responsibility for preparing 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 the Listing Rules of the Financial Services Authority, 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 whether the financial statements and the part of the Directors' Remuneration Report to be audited have been 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 review whether the statements on pages 3 to 4 reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if they do not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Chairman's Statement, the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Unqualified Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended; and the financial statements and that part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Horwath Clark Whitehill
Chartered Accountants and Registered Auditor
25 New Street Square
London EC4A 3LN
31 March 2004

Consolidated Profit and Loss Account

Year ended 31 December 2003

		2003			2002		
		Discontinued	**Continuing**	**Total**	Discontinued	Continuing	Total
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Turnover	*2*	**15.8**	**—**	**15.8**	24.0	—	24.0
Costs and overheads less other income		**(16.9)**	**(0.9)**	**(17.8)**	(30.3)	(1.8)	(32.1)
Less: Utilisation of provisions for reorganisation		**1.1**	**—**	**1.1**	—	—	—
	3 & 4	**(15.8)**	**(0.9)**	**(16.7)**	(30.3)	(1.8)	(32.1)
Operating (loss)		**—**	**(0.9)**	**(0.9)**	(6.3)	(1.8)	(8.1)
Profit on sale of subsidiaries		**1.6**	**—**	**1.6**	—	—	—
Loss on disposal of fixed assets		**—**	**—**	**—**	(0.1)	—	(0.1)
Costs of reorganisation		**—**	**—**	**—**	(1.1)	—	(1.1)
Profit/(loss) on ordinary activities before interest		**1.6**	**(0.9)**	**0.7**	(7.5)	(1.8)	(9.3)
Interest receivable less payable	*8*			**0.5**			0.8
Profit/(loss) on ordinary activities before taxation				**1.2**			(8.5)
Tax on profit/(loss) on ordinary activities	*9*			**—**			(0.1)
Profit/(loss) for the financial year				**1.2**			(8.6)
Undeclared preference dividends	*10*			**—**			(2.6)
Preference dividends	*10*			**(0.2)**			(0.1)
Redemption charge on non-equity shares	*22*			**(0.6)**			(0.1)
Amount transferred to/(from) reserves				**0.4**			(11.4)
Earnings/(loss) per ordinary share							
Basic and diluted	*11*			**0.2p**			(8.3p)

Statement of recognised gains and losses

	2003	2002
	£m	£m
Profit/(loss) for the financial year	**0.4**	(11.4)
Unrealised surplus on revaluation of properties	**0.6**	—
Total recognised gains and losses since last annual report	**1.0**	(11.4)

The notes on pages 13 to 28 form part of these accounts.

Balance Sheets

At 31 December 2003

	Note	2003 Group £m	2002 Group £m	2003 Company £m	2002 Company £m
Fixed assets					
Tangible assets	*12*	**—**	0.8	**—**	—
Investment property	*13*	**6.2**	—	**—**	—
Investments	*14*	**—**	—	**22.8**	23.2
		6.2	0.8	**22.8**	23.2
Current assets					
Stocks	*15*	**—**	1.9	**—**	—
Debtors	*16*	**1.3**	5.8	**1.7**	2.9
Cash at bank and in hand	*17*	**25.3**	22.1	**25.4**	23.0
		26.6	29.8	**27.1**	25.9
Creditors: due within one year					
Other loans	*17*	**—**	0.1	**—**	—
Trade creditors		**—**	1.4	**—**	—
Other creditors	*18*	**1.7**	2.7	**1.4**	0.6
		1.7	4.2	**1.4**	0.6
Net current assets		**24.9**	25.6	**25.7**	25.3
Total assets less current liabilities		**31.1**	26.4	**48.5**	48.5
Creditors: due after one year					
Bank loans	*17*	**6.0**	—	**—**	—
Other creditors	*18*	**—**	0.1	**24.3**	24.0
		6.0	0.1	**24.3**	24.0
Provisions for liabilities and charges	*19*	**1.2**	8.0	**0.3**	0.3
		23.9	18.3	**23.9**	24.2
Capital and reserves					
Called up share capital	*21*	**3.8**	3.8	**3.8**	3.8
Share premium account	*22*	**17.0**	17.0	**17.0**	17.0
Capital redemption reserve	*22*	**3.0**	3.0	**3.0**	3.0
Revaluation reserve	*22*	**0.6**	—	**—**	—
Distributable reserves	*22*	**(0.5)**	(5.5)	**0.1**	0.4
Shareholders' funds	*23*	**23.9**	18.3	**23.9**	24.2

The notes on pages 13 to 28 form part of these accounts.

These financial statements were approved by the Board on 31 March 2004

Director R Wood-Ward

EMESS

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Note	2003 £m	2002 £m
Operating activities	*24*	**(4.7)**	(0.1)
Returns on investments and servicing of finance			
Preference share dividends		**(0.1)**	—
Interest received		**0.9**	0.8
Interest paid		**(0.4)**	—
Net cash inflow from returns on investments and servicing of finance		**0.4**	0.8
Capital expenditure			
Purchase of tangible fixed assets		**(0.2)**	(0.2)
Sale of tangible fixed assets		**0.1**	1.0
Net cash (outflow)/inflow from capital expenditure		**(0.1)**	0.8
Acquisitions and disposals			
Acquisition of Victoria Heights Corporation	*26*	**(2.2)**	—
Cash retained by Poole Lighting on disposal	*26*	**(0.4)**	—
Disposal of Poole Lighting Limited	*26*	**11.1**	—
Net cash inflow from acquisitions and disposals		**8.5**	—
Net cash inflow before management of liquid resources and financing		**4.1**	1.5
Management of liquid resources			
Cash placed on short-term deposit		**(3.7)**	(0.7)
Financing			
Net decrease in loans		**(0.8)**	(1.2)
Net decrease in finance lease		**(0.1)**	(0.3)
Net cash (outflow) from financing		**(0.9)**	(1.5)
(Decrease) in cash	*25*	**(0.5)**	(0.7)

The notes on pages 13 to 28 form part of these accounts.

1 Accounting policies

The financial statements have been prepared on a going concern basis under the historical cost convention in accordance with applicable accounting standards as modified by the revaluation of investment properties.

The principal accounting policies, which have not changed in the year, are as follows:

Basis of consolidation

The consolidated accounts incorporate the financial statements of Emess plc and all of its subsidiaries made up to 31 December 2003.

The Group has used the acquisition method to consolidate the results of subsidiaries. The results of subsidiaries are included from the date of acquisition or up to the date of disposal.

On adoption of FRS 10 (Goodwill and Intangible Assets), the Group took advantage of the transitional rules and did not reinstate goodwill previously written off to reserves. This goodwill has been charged in the profit and loss account on disposal of the related businesses.

The Company has taken advantage of the exemption offered by S230 Companies Act 1985 from presenting its own profit and loss account.

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is calculated on the first-in-first-out basis and includes appropriate overheads. Net realisable value is based on estimated selling price less further costs to completion.

Intangible fixed assets — Goodwill

When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets the difference is treated as purchased goodwill and is capitalised and amortised through the profit and loss account over its estimated economic life not exceeding 20 years.

Impairment losses are charged through the profit and loss account in the year such losses are identified.

Tangible fixed assets

All tangible fixed assets are stated at cost less provisions for depreciation and any impairment in value.

Depreciation

Depreciation is provided on tangible fixed assets to write off the cost, less estimated residual values, over their estimated useful lives on a straight line basis at the following principal rates per annum:

Freehold buildings	2%
Plant and machinery	10% to 20%
Equipment and motor vehicles	20% to 33 1/3%
Leasehold properties	Over the shorter of the period of the lease and 50 years

Deferred tax

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

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacements assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

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 underlying timing differences can be deducted.

Turnover
Turnover is the invoiced value of goods and services supplied outside the Group, excluding Value Added Tax.

Leased assets
Assets acquired under finance leases are capitalised and written off over the shorter of their useful lives and the terms of the leases. The interest element of the lease charges is apportioned over the period of the lease on the basis of the interest rate implicit in the lease. Operating lease rentals are charged to the profit and loss account in the year to which they relate.

Financial Instruments
The disclosure made in Note 20 exclude short-term debtors and creditors which are not treated for disclosure purposes, other than currency disclosures, as financial assets or financial liabilities.

The Group does not trade in derivative financial instruments.

Foreign currencies
Trading results and cash flows are translated at the average rates of exchange ruling during the year. Monetary assets and liabilities and the assets and liabilities of foreign undertakings are translated at the rates of exchange ruling at the end of the financial year.

Exchange differences arising on the translation of the opening net assets and the results of overseas subsidiaries and associated undertakings, less exchange differences arising on related foreign currency borrowings, are taken to reserves. Other exchange differences are taken to the consolidated profit and loss account.

Investment property
Investment properties are revalued annually. Surpluses or deficits on individual properties are transferred to the investment revaluation reserve, unless a deficit (or its reversal) is expected to be permanent, in which case, it is charged (or credited) to the profit and loss account. Depreciation is not provided in respect of freehold investment properties. Although the Companies Act would normally require the systematic annual depreciation of fixed assets, the directors believe that this policy of not providing depreciation or amortisation is necessary in order for the financial statements to give a true and fair view, since the current value of investment properties, and changes in that current value, are of prime importance rather than a calculation of systematic annual depreciation.

Pension costs
Contributions to the Group's defined contribution schemes are charged to the profit and loss account in the year in which they arise.

When defined benefit schemes are closed to new members and benefits but not fully wound up, the statutory debt is recognised based on the latest actuarial advice available.

Liquid resources
Management of liquid resources in the cash flow statement comprises movement in short-term bank deposits which have maturity dates of up to one year.

Onerous lease provisions
Provision is made for all future rental liabilities less any anticipated rental income on leased properties not being utilised by Group companies.

Redemption cost of preference shares
In accordance with FRS 4, the premium on the redemption of the preference shares is charged to the profit and loss account on a straight line basis over the period from issue to 1 January 2009, being the latest redemption date.

2 Turnover

All turnover originated in the UK to UK customers.

3 Costs and overheads less other income

	2003 **£m**	2002 £m
Change in stocks of finished goods and in work in progress	**(0.7)**	0.6
Other operating income	**(0.1)**	—
Raw materials and consumables	**8.5**	9.7
Staff costs (see note 6)	**3.4**	8.6
Depreciation and other amounts written off tangible and intangible fixed assets	**0.2**	0.5
Other operating charges	**5.4**	12.7
	16.7	32.1

4 Exceptional items

The operating loss includes exceptional charges comprising:

	2003 **£m**	2002 £m
Provision for shortfall on pension scheme (see note 7)	**—**	(2.7)
Legal and professional costs of the capital reconstruction	**—**	(0.9)
Legal and professional costs in connection with the DTI inquiry	**—**	(0.3)
Provisions for onerous property leases of vacant properties of former subsidiaries for which the Group has a reversionary liability	**—**	(1.1)
Provision for the Hixon property (see note 26)	**—**	(3.5)
Termination payments to former executives	**—**	(0.1)
Losses incurred at the Hixon site prior to relocation of the business	**(0.5)**	—
	(0.5)	(8.6)

5 Other Operating charges

Other operating charges include:

	2003 **£m**	2002 £m
Operating lease rentals for hire of plant	**0.1**	0.1
Operating lease rentals for properties	**0.6**	1.0
Audit fees	**0.1**	0.1

Fees to the auditors for non-audit services amounted to £128,942 (2002: £113,267) in respect of:

	2003 **£**	2002 £
Capital reconstruction	**—**	89,272
Company secretarial services	**9,575**	4,975
Acquisition and disposal	**112,867**	—
General financial advice	**6,500**	19,020
	128,942	113,267

6 Staff costs

	2003 **£m**	2002 £m
Wages and salaries	**3.1**	5.4
Social security costs	**0.3**	0.4
Other pension costs	**—**	2.8
	3.4	8.6

	2003 **No.**	2002 No.
The average number of persons employed during the year	**158**	248

7 Pension costs

The Group operates a defined contribution scheme for its employees. During the year the Group made contributions of £45,050 (2002: £100,665) to the scheme.

Until 1 July 2000 the major scheme of the Group was a defined benefit scheme ("the DB Scheme").

Following the review of the actuarial valuation at 31 December 1998, Emess Group Trading Ltd (the principal employer under the DB Scheme) gave notice to the Trustees on 31 March 2000 that the DB Scheme would be wound up with effect from 1 July 2000. The winding-up process is still in progress. No regular contributions have been made to the DB Scheme since 1 July 2000 and members were offered alternative pension provision under the Group's defined contribution scheme. A valuation of the DB Scheme was undertaken as at 1 July 2000 in accordance with the provisions of the Occupational Pension Schemes (Deficiency on Winding Up etc.) Regulations 1996.

The Group was advised that the preliminary results of a valuation at this date showed an actuarial deficiency of £630,000 and a provision equal to this amount was included in the pension cost in the 2000 accounts. However, the principal employer and the Scheme's Trustees were advised that the employer's liability extends to the amount of any deficiency at a later date if this is greater.

Based on actuarial advice received in March 2002, the maximum deficiency was provisionally calculated at £600,000 greater than the deficiency at 1 July 2000. Accordingly, a further provision of £600,000 was made in the 2001 accounts. The Scheme's Administrators and Actuary advised at that date that the deficiency was not expected to deteriorate further.

An actuarial valuation of the scheme carried out at 7 February 2002 using methods and assumptions prescribed for Minimum Funding Requirement (MFR) valuation showed that the value of the Scheme's past benefits exceeded the value of assets by £209,000 and that the funding level as at that date was 96.5%.

In September 2002, the Actuary recommended that the Scheme's Trustees, who had been advised to follow an equity-based investment policy, consider switching to a gilt-based investment strategy so as to maximise the debt on the employer and optimise the asset values of the scheme. The Trustees, having considered this advice, switched the Scheme's investments to gilts. The actuarial estimate of the pension deficit then increased to £3.1m and the provision increased to this amount in the 2002 accounts. On 30 June 2003 the Group, with the agreement of the Trustees, made a final settlement of £3.1m to the Scheme in full settlement of its debt to the Scheme.

8 Interest

	2003	2002
	£m	£m
Payable on bank loans and overdrafts	**(0.4)**	—
Receivable	**0.9**	0.8
	0.5	0.8

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9 Tax

	2003 £m	2002 £m
UK corporation tax at 30%		
Current year	**—**	0.1

The difference between the profit/(loss) on ordinary activities at the corporation tax rate of 30% ruling in the UK and the actual current tax shown above is explained below:

	2003 £m	2002 £m
Profit/(loss) on ordinary activities before taxation	**1.2**	(8.5)
Tax on profit/(loss) on ordinary activities at standard rate of 30%	**0.4**	(2.5)
Factors affecting tax charge for the period:		
Disallowable expenses	**1.2**	1.6
Utilisation of prior year capital losses	**(1.8)**	—
Losses not recognised	**1.2**	0.2
Capital allowances in excess of depreciation	**(0.1)**	0.1
Other timing differences	**(0.9)**	0.7
	—	0.1

Deferred tax

	2003 £m	2002 £m
Accelerated capital allowances	**—**	0.5
Short-term timing differences	**—**	0.9
Trading losses	**1.2**	0.5
	1.2	1.9

The deferred tax asset of the Group of £1.2m (2002: £1.9m) is not recognised as there is no certainty that suitable taxable profits will be made in the foreseeable future.

In addition, the Company has surplus ACT carried forward of £3.7m (2002: £3.7m) and UK capital tax losses of up to £77m (2002: £30m) which can be used against any future capital gains.

10 Dividends

	2003 £m	2002 £m
Non-equity		
Undeclared dividends — 6.25p (net) convertible preference shares of 5p	**—**	2.6
1.2p (net) cumulative redeemable preference shares of 1p — half year to 30 June 2003	**0.1**	—
1.2p (net) cumulative redeemable preference shares of 1p — half year to 31 December 2003	**0.1**	0.1
	0.2	0.1

11 Profit/(loss) per ordinary share

Basic and fully diluted profit per ordinary share has been calculated on the Group's profit attributable to shareholders of £0.4m (2002: loss £11.4m) and on the weighted average number of ordinary shares in issue during the financial year which was 226,329,450 (2002:136,985,000).

The weighted average number of ordinary shares in issue during the year excludes those held in the Emess Employee Trust, which are treated as cancelled for the purpose of the calculation of the profit/(loss) per share. The share options granted had no dilutive effect on earnings (2002: loss) per share.

12 Tangible fixed assets

				Group
	Freehold properties £m	Leasehold properties £m	Plant and equipment £m	Total £m
Cost				
At 1 January 2003	0.3	0.4	3.9	4.6
Additions	—	0.1	0.1	0.2
Disposals	(0.3)	(0.5)	(3.9)	(4.7)
At 31 December 2003	**—**	**—**	**0.1**	**0.1**
Accumulated depreciation				
At 1 January 2003	0.1	0.3	3.4	3.8
Charge for the year	—	—	0.2	0.2
Disposals	(0.1)	(0.3)	(3.5)	(3.9)
At 31 December 2003	**—**	**—**	**0.1**	**0.1**
Net book value				
At 31 December 2003	**—**	**—**	**—**	**—**
At 31 December 2002	0.2	0.1	0.5	0.8

Leasehold properties represent short leases at net book values of Nil (2002: £0.1m) for the Group. The total net book value includes Nil (2002: £0.2m) in respect of assets held under finance leases.

13 Investment property
At valuation

	£m
Freehold acquired during the year (see note 26)	5.6
Revaluation	0.6
At 31 December 2003	**6.2**

The freehold is the Hixon Property valued on a vacant possession basis by King Sturge in February 2003 at £5.6m and revalued at 31 December 2003 by the Directors to include land annexed to the site previously carried at nil value.

14 Fixed asset investments

	Company Total £m
Cost	
At 1 January 2003 and 31 December 2003	140.9
Provisions	
At 1 January 2003	117.7
Increase in provision	0.4
At 31 December 2003	118.1
Cost less provisions for impairment in value	
At 31 December 2003	**22.8**
At 31 December 2002	23.2

Details of the principal subsidiary undertakings are as follows:

	% owned at year end	Activity
Emess Group Trading Limited*	100	Management services for the Group
Victoria Heights Corporation (registered in The British Virgin Islands)	100	Property investment
Emess Overseas Limited	100	Non-trading
Emess United Kingdom Limited	100	Non-trading
Emess Europe Limited	100	Non-trading
Centrebutton Limited (formerly Poole Lighting Limited)	100	Non-trading

* held through a wholly owned subsidiary

Emess Group Trading Limited and Centrebutton Limited were involved in the manufacture and distribution of residential light fittings until the sale of the Lighting business.

15 Stocks

	2003 Group £m	2002 Group £m
Finished goods	**—**	1.2
Work in progress	**—**	0.2
Bought in materials	**—**	0.5
	—	1.9

16 Debtors

	2003 Group £m	2002 Group £m	**2003 Company £m**	2002 Company £m
Amounts due within one year:				
Trade debtors	**—**	4.9	**—**	—
Other debtors	**1.1**	—	**1.0**	—
Prepayments and accrued income	**0.2**	0.9	**—**	—
Amounts owed by subsidiary undertakings	**—**	—	**0.7**	2.9
	1.3	5.8	**1.7**	2.9

17 Financing

	2003 Group £m	2002 Group £m	**2003 Company £m**	2002 Company £m
Analysis of borrowings:				
Bank loans and overdrafts repayable:				
— in more than 1 year but not more than 2 years — secured	**—**	—	**—**	—
— in more than 2 years but not more than 5 years — secured	**0.3**	—	**—**	—
— in more than 5 years — secured	**5.7**	—	**—**	—
	6.0	—	**—**	—
Hire purchase and finance lease obligations repayable:				
— in 1 year or less — secured	**—**	0.1	**—**	—
— in more than 1 year but not more than 2 years — secured	**—**	0.1	**—**	—
	—	0.2	**—**	—
Total borrowings due within one year	**—**	0.1	**—**	—
Total borrowings due after one year	**6.0**	0.1	**—**	—
Total borrowings	**6.0**	0.2	**—**	—
Cash at bank and in hand	**(25.3)**	(22.1)	**(25.4)**	(23.0)
Net (cash) (note 25)	**(19.3)**	(21.9)	**(25.4)**	(23.0)

Bank loans totalling £6.0m are secured on the Group's freehold investment property. The loans are repayable by October 2025.

18 Other creditors

	2003 Group £m	2002 Group £m	**2003 Company £m**	2002 Company £m
Amounts due within one year:				
Corporation tax	**—**	—	**0.1**	—
Other taxes and social security costs	**—**	0.5	**—**	—
Other creditors	**1.4**	0.4	**1.1**	0.5
Accruals and deferred income	**0.2**	1.7	**0.1**	—
Dividends (note 10)	**0.1**	0.1	**0.1**	0.1
	1.7	2.7	**1.4**	0.6
Amounts due after one year:				
Hire purchase and finance lease obligations	**—**	0.1	**—**	—
Amounts owed to subsidiary undertakings	**—**	—	**24.3**	24.0
	1.7	2.8	**25.7**	24.6

19 Provisions for liabilities and other charges

	Group			**Company**
	Pension Scheme deficit £m	**Onerous property leases £m**	**Total £m**	**Onerous property leases £m**
Provision at 1 January 2003	3.4	4.6	8.0	0.3
Provision utilised	(3.1)	(3.7)	(6.8)	—
Provision at 31 December 2003	0.3	0.9	1.2	0.3

20 Financial Instruments

Treasury policy

Interest rate, foreign exchange risk and financing is managed centrally and reviewed by the Board. The Group's financial instruments comprise borrowings, cash and liquid resources, and various items such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations and to manage the interest rate and currency risk arising from its operations. Throughout the period under review, the Group's policy was that no trading in financial instruments is undertaken.

Interest rate profile of financial liabilities

The interest rate risk profile of the Group's financial liabilities as at 31 December 2003 was:

				Fixed rate financial liabilities	
Currency	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
2003					
Sterling	**6.0**	**6.0**	**—**	**—**	**—**
2002					
Sterling	0.2	—	0.2	5.8	2.3

Floating rate liabilities comprise a mortgage loan bearing interest at a rate of LIBOR plus 1.2%.

Interest rate risk of financial assets

Interest bearing financial assets comprise cash at bank, in hand and short-term deposits. Cash on short-term deposit yields interest based on the prevailing base rate.

Currency	Cash at bank and in hand (Interest free) £m	Short term deposits (Floating rate) £m	Total £m
2003			
Sterling	**0.4**	**24.9**	**25.3**
2002			
Sterling	0.9	21.2	22.1

Borrowing facilities

The Group had no undrawn committed borrowing facilities available at 31 December 2003.

Fair values of financial assets and liabilities

There is no material difference between the fair value and book value of the Group's financial instruments.

Currency exposures

At 31 December 2003 the Group had no monetary assets in currencies other than Sterling.

21 Share capital

	2003 No.	2002 No.	2003 £m	2002 £m
Authorised				
Ordinary shares of 1p each	**438,991,964**	438,991,964	**4.4**	4.4
1.2p (net) redeemable cumulative preference shares of 5p each	**55,336,012**	55,336,012	**2.8**	2.8
Non-voting deferred shares of 1p each	**79,327,976**	79,327,976	**0.8**	0.8
			8.0	8.0
Allotted, called up and fully paid				
Ordinary shares of 1p each	**227,060,402**	227,060,402	**2.3**	2.3
1.2p (net) redeemable cumulative preference shares of 5p each	**15,338,985**	15,338,985	**0.7**	0.7
Non-voting deferred shares of 1p each	**79,327,976**	79,327,976	**0.8**	0.8
			3.8	3.8

1.2p (net) Redeemable cumulative preference shares of 5p each
Out of the profits available for distribution and resolved to be distributed, is a cumulative annual dividend of 1.2p per share, payable semi-annually in arrears on 31 March and 30 September each year in respect of the six month periods to 31 December and 30 June respectively.

Redeemable at the Company's discretion in whole or in part between 1 January 2006 and 31 December 2008. Redemption price of 30p per share plus any accrued but unpaid dividends down to and including the date of redemption.

If any redeemable preference shares have not been redeemed by 31 December 2008, the Company will be obliged to redeem all outstanding redeemable preference shares on 1 January 2009 or as soon thereafter as it has sufficient distributable reserves or sufficient proceeds have become available from a fresh issue of shares made for the purposes of redeeming the redeemable preference shares.

On a return of capital or winding-up or otherwise, the holders of the non-voting deferred shares are entitled only to the repayment of the amounts paid up on such shares after repayment of £5,000 on each ordinary share. Holders of non-voting deferred shares are not entitled to payment of any dividend or to receive notice of, or attend or vote at any general meeting of the Company. In accordance with Article 5.4(1) of the Articles of Association, all the non-voting deferred shares were transferred to the Company Secretary as nominee of the Company. The Company has the option to redeem at any time 3 years after their creation all of the non-voting deferred shares at a price not exceeding 1p in aggregate.

Share option schemes
At 31 December 2003 the following options over 260,000 ordinary shares in the Company were outstanding pursuant to the terms of the Emess Share Option Schemes:

Year of grant	Number of shares At 31 December 2002 and 31 December 2003	Period in which options are exercisable	Price per share
1995	80,000	July 1998–July 2005	32.33p
1996	80,000	September 1999–September 2006	32p
1998	100,000	April 2001–April 2008	25p
Total	260,000		

The market price of the Company's ordinary shares at 31 December 2003 was 9.62p and the range during the year was 4.38p to 13p.

The Company holds 730,952 ordinary shares through the Emess Equity Partnership Plan. These shares had a market value at 31 December 2003 of £70,354.

22 Reserves

	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Distributable reserves: Other reserve £m	Distributable reserves: Profit and loss account £m	Distributable reserves: Total £m	Total reserves £m
Group							
At 1 January 2003	17.0	3.0	—	0.1	(5.6)	(5.5)	14.5
Profit for the year	—	—	—	—	0.4	0.4	0.4
Goodwill previously written off to reserves	—	—	—	—	4.0	4.0	4.0
Revaluation	—	—	0.6	—	—	—	0.6
Redemption charge for non-equity shares	—	—	—	0.6	—	0.6	0.6
At 31 December 2003	**17.0**	**3.0**	**0.6**	**0.7**	**(1.2)**	**(0.5)**	**20.1**
Company							
At 1 January 2003	17.0	3.0	—	0.1	0.3	0.4	20.4
Loss for the year	—	—	—	—	(0.9)	(0.9)	(0.9)
Redemption charge for non-equity shares	—	—	—	0.6	—	0.6	0.6
At 31 December 2003	**17.0**	**3.0**	**—**	**0.7**	**(0.6)**	**0.1**	**20.1**

Other reserves includes a provision for the premium on redemption of the 1.2p (net) redeemable cumulative preference shares of 5p each, which in accordance with FRS 4 is being charged to the profit and loss account on a straight line basis over the period from issue to 1 January 2009 being the latest redemption date.

23 Reconciliation of movements in shareholders' funds

	Group: Equity Interest £m	Group: Non-equity Interest £m	Group: Total £m	Company: Equity Interest £m	Company: Non- equity Interest £m	Company: Total £m
At 1 January 2002	(33.4)	60.4	27.0	(26.6)	60.4	33.8
Undeclared dividend	—	2.6	2.6	—	2.6	2.6
Loss for the year	(11.4)	0.2	(11.2)	(12.3)	0.2	(12.1)
Dividend paid	—	(0.1)	(0.1)	—	(0.1)	(0.1)
Capital reconstruction	62.2	(62.2)	—	62.2	(62.2)	—
At 31 December 2002	17.4	0.9	18.3	23.3	0.9	24.2
Profit/(loss) for the year	0.4	0.8	1.2	(0.9)	0.8	(0.1)
Goodwill previously written off to reserves	4.0	—	4.0	—	—	—
Revaluation reserve	0.6	—	0.6	—	—	—
Dividend paid	—	(0.2)	(0.2)	—	(0.2)	(0.2)
At 31 December 2003	**22.4**	**1.5**	**23.9**	**22.4**	**1.5**	**23.9**

In 2002 the reduction of the non-equity interest of £62.2m arose on the capital reconstruction and represents the reduction of preference share capital of £2.0m after conversions to ordinary shares, the cancellation of arrears in dividends of £7.7m, and the notional premium on the 6.25p (net) non-redeemable preference shares of £52.5m on the variation of the rights of the preference shares.

24 Net cash (outflow) from operating activities

	2003 £m	2002 £m
Operating (loss)	**(0.9)**	(8.1)
Reorganisation costs	**—**	(1.1)
Depreciation	**0.2**	0.5
(Increase)/decrease in stocks	**(0.5)**	0.7
Decrease in debtors	**0.4**	0.3
(Decrease) in creditors	**(0.5)**	(0.3)
(Decrease)/increase in provisions for liabilities and charges	**(3.4)**	7.3
Impairment of fixed assets	**—**	0.6
	(4.7)	(0.1)

25 Reconciliation of net cash flow to movement in net funds

	2003 £m	2002 £m
(Decrease) in cash in the period	**(0.5)**	(0.7)
Increase in liquid resources	**3.7**	0.7
(Increase)/decrease in debt	**(5.8)**	1.4
Change in net funds resulting from cash flows	**(2.6)**	1.4
Net funds at 1 January	**21.9**	20.5
Net funds at 31 December	**19.3**	21.9

Analysis of net funds

	1 January 2003 £m	Cash flow £m	31 December 2003 £m
Net cash:			
Cash at bank and in hand	22.1	3.2	**25.3**
Less deposits treated as liquid resources	(21.2)	(3.7)	**(24.9)**
	0.9	(0.5)	**0.4**
Liquid resources:			
Deposits	21.2	3.7	**24.9**
Debt:			
Finance leases	(0.2)	0.2	**—**
Loans	—	(6.0)	**(6.0)**
Net funds (note 17)	21.9	(2.6)	**19.3**

26 Acquisition and disposal

Acquisition of Victoria Heights

	£m Book values	£m Fair value adjustments	£m At fair value
Represented by net assets acquired:			
Tangible fixed assets	8.6	(3.0)	5.6
Cash	1.7	—	1.7
Creditors	(0.1)	—	(0.1)
Bank loans	(8.5)	—	(8.5)
	1.7	(3.0)	(1.3)
Goodwill on acquisition			3.5
			2.2

	£m
Represented by:	
Cash consideration	2.0
Costs of acquisition	0.2
	2.2

The goodwill on acquisition was equivalent to the onerous lease provision in respect of the Hixon site lease at 31 December 2002 and, accordingly, it was considered appropriate to both release the provision and write off the goodwill on acquisition immediately. Victoria Heights Corporation contributed earnings of £233,000 to the Group's result for the year.

Disposal of Poole Lighting

	£m
Tangible fixed assets	0.6
Stock	2.4
Debtors	4.1
Creditors	(2.0)
Net assets	5.1
Goodwill previously written off reserves	4.0
	9.1
Profit on sale	1.6
	10.7

	£m
Represented by:	
Cash consideration	11.8
Costs of sale	(0.7)
Disposal proceeds	11.1
Cash at bank retained by Poole Lighting	(0.4)
	10.7

27 Group financial commitments

	2003 Land and buildings £m	2002 Land and buildings £m	2003 Other £m	2002 Other £m
Annual commitments under non-cancellable operating leases which expire:				
in the second to fifth years	**—**	—	**—**	0.1
in over five years	**0.1**	1.0	**—**	—
	0.1	1.0	**—**	0.1

28 Contingent liabilities

The Company is party to a Group bank guarantee and set-off agreement. At 31 December 2003 the liability was £0.3m. Provision is made in these financial statements for all material liabilities including any legal claims which are expected to materialise and a number of leases on premises formerly occupied by Group companies.

The Directors have considered the adequacy of provisions for product liability, property lease liabilities, trade disputes and environmental issues relating to disposed businesses and consider that adequate provision has been made, or sufficient funds held in escrow to meet any contingent costs.

The Group continues to have contingent liabilities in connection with indemnities and warranties given to the purchasers of its former subsidiaries, and a number of leases on premises formerly occupied by Group companies. Provision has been made in respect of these contingent matters where considered appropiate.

29 Related party transactions

The Company paid £26,870 in respect of office accommodation and related services during the year (2002: £32,244) to Oceana Investment Corporation Limited, a company of which Mr Raymond Davies is a director.

Shareholder Information

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