EMESS

Annual Report 2004

Contents

Chairman's Statement

Results
The Group had no trading business, so that income for the year comprised only interest received on the Company's cash resources. Net interest receivable for the twelve months under review amounted to £768,000 (2003: £511,000). The Group incurred a loss on ordinary activities after tax of £789,000, which included an additional provision of £362,000 made during the year for onerous leases (2003: profit £1,163,000 which included a net gain on sale of subsidiaries of £1,600,000).

Capital Reconstruction
On 15 June 2004 the High Court of Justice approved the Scheme of Arrangement whereby, effective 21 June 2004, all of the preference shares were converted into ordinary shares. As a result, the number of issued ordinary shares in the Company increased from 227,060,402 to 284,581,499. At the same time the non-voting deferred shares were bought back for 1p. The costs of the reconstruction have been charged to the share premium account.

Dividends
No dividend will be paid on the ordinary shares in respect of the period under review. Prior to the Capital Reconstruction, the Company paid the last dividend of 0.6p on the 1.2p (net) cumulative redeemable preference shares for the half year to 31 December 2003 on 31 March 2004.

Board
Having regard to the fact that the Company has no trading business, the Board continues to believe that the roles of Chairman and Chief Executive should be combined until such time as an acquisition is completed and it remains the Board's intention to review the Board structure at that time.

Move to AIM
On 28 February 2005, the Company announced its intention to apply to the UK Listing Authority for the transfer of the Company's entire issued ordinary share capital from the Official List of the UK Listing Authority (the "Official List") to the AIM market of the London Stock Exchange ("AIM"). The shares were accordingly de-listed from the Official List and commenced trading on AIM on 31 March 2005.

Strategy
The Company continues to receive and evaluate a number of investment opportunities in both privately owned and publicly listed companies. In the case of publicly listed companies, which Emess might consider acquiring, the strategy may include the making of initial minority investments in order to establish a relationship with the target.

Emess does not intend to restrict acquisition opportunities to a particular sector, reflecting the broad experience of the management team. However, the Directors favour acquiring companies with a proven profit history and sound growth prospects. Sectors of particular interest to the Directors include financial services, property, support services and general industrial.

It is possible that any acquisition made by Emess will constitute a reverse takeover under the AIM Rules, and in such event would require the consent of shareholders and the publication of an admission document.

Outlook
Whilst the Group retains the Hixon Site, the freehold of which it owns, and a small number of other leasehold property commitments, it does not have any trading business. Until such time as investments in suitable acquisitions are made, income flows will be essentially dependent on interest income from the Company's cash resources.

Having addressed the capital structure of the Company through the Scheme of Arrangement whereby all of the remaining preference shares were converted into ordinary shares and transferring the Company's listing to AIM, the Board is now focused on identifying investment opportunities with a view to generating attractive sustainable returns for shareholders.

The Board will continue with its priority to secure attractive opportunities for the Company and continues to assess possible acquisitions. Currently the Company is engaged in discussions with a number of parties, which may lead to one or more acquisitions. The Company will make further announcements as and when developments in this respect occur.

Rex Wood-Ward
Chairman
4 April 2005

Directors and Advisers

DIRECTORS

1 Rex Wood-Ward

Chairman

Mr Wood-Ward, 56, 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.

2 Raymond Davies

Non-executive Director

Mr Davies, 62, became a non-executive Director with effect from 1 May 2003 and was formerly a 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.

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

3 Geoff Gahan

Non-executive Director

Mr Gahan, 60, was appointed to the Board of Emess on 2 October 2002. He was formerly Chief Executive of Newman Tonks Group PLC, Peerless Plc and Executive Chairman of Frederick Cooper Plc. 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.

4 Michael Rapp

Non-executive Director

Mr Rapp, 69, 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. Mr Rapp remains a non-executive director of Liberty International Plc.

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

ADVISERS

Nominated Adviser and Broker

Bridgewell Limited
Old Change House
128 Queen Victoria Street
London
EC4V 4BJ

Legal Advisers

Jones Day
21 Tudor Street
London
EC4Y ODJ

Bird & Bird
90 Fetter Lane
London
EC4A 1JP

Auditors

Horwath Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London
EC4Y 8EH

Tax Advisers

Chiltern plc
3 Sheldon Square
Paddington
London
W2 6PS

Company Registrars

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Registered Office

4 Prince Albert Road
London
NW1 7SN

Tel: 020 7482 0022
Fax: 020 7482 0037
E-mail: info@emess.co.uk

Website: www.emess.co.uk

Company Secretary

Jerome Fester

Corporate Governance

Directors

At 31 December 2004, the Board consisted of one executive and three non-executive Directors.

The Board meets approximately eight 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.

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 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.

Internal Control

The Board considers risk management and internal control matters at its regular Board meetings.

The Directors have overall responsibility for the Group's system of internal financial controls. The Group maintains 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 are designed to provide the Directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately.

The key procedures that have been established to provide effective internal financial control include a comprehensive system of reporting to the Board of the monthly financial results and cash 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

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.

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.

Going Concern

Having carefully reviewed the Group's budgets for 2005 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.

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.

The maintenance and integrity of the web site is the responsibility of the Directors, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in any reports may differ from legislation in other jurisdictions.

Directors' Report

For the year ended 31 December 2004

Principal activities

Having disposed of its then remaining lighting business in September 2003, currently Emess has assets consisting of cash and an investment property. Its strategy is to make an acquisition, or a series of acquisitions, of profitable companies with strong management and sound growth prospects. Emess will consider opportunities in a range of UK market sectors and business activities in order to enhance shareholder value.

The results of the Group for the year are set out on page 9.

Dividends

No dividend is proposed for ordinary shareholders.

Supplier payment policy

Payments to suppliers are made in accordance with negotiated arrangements other than in the event of a dispute. As at 31 December 2004 trade creditors of the Group represented 28 days (2003: 28 days) of amounts invoiced by suppliers during the year.

Share capital

Pursuant to a scheme of arrangement which became effective on 21 June 2004, all the redeemable preference shares were cancelled and 57,521,097 ordinary shares of 1p each issued to the holders of the redeemable preference shares. The Company also bought back all of the non-voting deferred shares for an aggregate consideration of 1p.

Significant interests

The Company has been notified of the following interests amounting to 3% or more of the Company's ordinary share capital at 4 April 2004.

	Number of ordinary shares	%
Chapman International Investment Limited	84,693,250	29.8
Colmar Investment Holdings Limited	29,755,000	10.5
Goldman Sachs Group Inc	9,220,152	3.2

Directors

The names and brief biographical details of the Directors are shown on page 2.

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 7.

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 6 and 7.

Corporate Governance

Statements of the Company's policy on Corporate Governance are set out on page 3.

Annual General Meeting

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

Charitable donations

During the year the Group made charitable donations in the United Kingdom amounting to £100. The Group made no political donations.

Auditors

Horwarth Clark Whitehill LLP have expressed their willingness to continue in office and a resolution to reappoint them and authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Jerome Fester
Secretary

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 8.

The Remuneration Committee

The Remuneration Committee meets at least once 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 and Raymond Davies. 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 2005 to ensure that they are properly aligned with the Company's ongoing business strategy.

Remuneration of Executive Director

During the year Mr Wood-Ward was Chief Executive and received a salary of £243,000 (including bonuses of £55,000) plus benefits of £69,000

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.

Directors' Service Contracts

Mr Wood-Ward's date of appointment letter was 13 October 2003. The initial term of his service contract was 2 years from 1 September 2003.

Mr Davies, Mr Rapp and Mr Gahan's service contracts have been extended from their initial term and now expire on 30 April 2006.

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.

Directors' emoluments and interests (Audited)

	Salary and fees £'000	**Non-executive fees £'000**	**2004 Benefits in kind £'000**	**Total £'000**	2003 Salary and fees £'000
Rex Wood-Ward	**243**	**—**	**69**	**312**	156
Raymond Davies	**—**	**24**	**—**	**24**	96
Geoff Gahan	**—**	**24**	**—**	**24**	94
Michael Rapp	**—**	**24**	**—**	**24**	24
Total	**243**	**72**	**69**	**384**	370

In addition, Mr Michael Sayers resigned on 26 September 2003; his remuneration for that year was £30,000.

Directors' pensions

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

Directors' shareholdings

At 31 December 2004 Mr Wood-Ward had a beneficial interest in 365,000 ordinary shares and had an interest over 730,952 ordinary shares awarded to him through the Emess Equity Partnership Plan. The award is exercisable between 27 June 2007 and 24 June 2011 for nil consideration but is subject to performance conditions linked to average total shareholder return exceeding a specified market index average total shareholder return over a specified period. Mr Wood-Ward also holds options over 300,000 ordinary shares exercisable at a price of 8.5p. These options are subject to performance conditions linked to the growth in earnings per share over a total period of three consecutive financial years being such to place the Company within the comparable top quartile of FTSE 100 companies ranked by reference to growth in earnings per share over the same period.

None of the other Directors had any interest in the shares of the Company or other Group undertakings.

Approved by the Board 4 April 2005

Geoff Gahan
Chairman of the Remuneration Committee

Auditors' Report

Independent Auditors' Report to the Shareholders of Emess plc

We have audited the financial statements of Emess plc for the year ended 31 December 2004 which comprise the consolidated profit and loss account, consolidated statement of recognised gains and losses, consolidated and company balance sheets, consolidated cash flow statement, accounting policies and supporting notes to the financial statements numbered 1 to 28. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out therein. 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 auditor's 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 4, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with the 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 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 read the other information contained in the Annual Report, comprising only 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. Our responsibilities do not extend to any other information.

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 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 2004 and of the loss 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.

Howarth Clark Whitehill LLP
Chartered Accountants and Registered Auditor
St Bride's House
10 Salisbury Square
London
EC4Y 8EH

4 April 2005

Consolidated Profit and Loss Account

For the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Turnover	1		
Continuing		—	—
Discontinued		—	15,782
		—	15,782
Costs and overheads less other income	2		
Continuing		**(1,195)**	(915)
Discontinued		—	(15,815)
		(1,195)	(16,730)
Provision for onerous lease	3		
Continuing		**(362)**	—
Discontinued		—	—
Total costs, overheads, other income and onerous lease provision		**(1,557)**	(16,730)
Operating loss	4		
Continuing		**(1,557)**	(915)
Discontinued		—	(33)
		(1,557)	(948)
Profit on sale of subsidiaries		—	1,600
(Loss)/profit on ordinary activities before interest			
Continuing		**(1,557)**	(915)
Discontinued		—	1,567
		(1,557)	652
Interest receivable less payable	6	**768**	511
(Loss)/profit on ordinary activities before taxation		**(789)**	1,163
Tax	7	—	—
(Loss)/profit after taxation		**(789)**	1,163
Undeclared preference dividends	8	**(88)**	—
Declared preference dividends	8	—	(184)
Redemption charge on non-equity shares	9	**(293)**	(616)
(Loss)/profit for the period attributable to ordinary shareholders		**(1,170)**	363
(Loss)/earnings per ordinary share			
Basic and diluted	10	**(0.5p)**	0.2p

The notes numbered 1 to 28 form part of these financial statements.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2004

	2004 **£'000**	2003 £'000
(Loss)/profit for the year	**(1,170)**	363
Unrealised surplus on revaluation of properties	**—**	600
Total recognised gains and losses since last annual report	**(1,170)**	963

The notes numbered 1 to 28 form part of these financial statements.

Balance Sheets

At 31 December 2004

	Notes	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Fixed assets					
Tangible assets	11	**18**	29	**18**	29
Investment property	12	**6,200**	6,200	**—**	—
Investments in subsidiaries	13	**—**	—	**22,580**	22,759
		6,218	6,229	**22,598**	22,788
Current assets					
Debtors	14	**121**	1,298	**276**	1,015
Investments	15	**1,000**	—	**1,000**	—
Cash at bank and in hand		**24,291**	25,262	**24,126**	25,445
		25,412	26,560	**25,402**	26,460
Creditors: due within one year	16	**(1,521)**	(1,705)	**(1,226)**	(1,403)
Net current assets		**23,891**	24,855	**24,176**	25,057
Total assets less current liabilities		**30,109**	31,084	**46,774**	47,845
Creditors: due after one year					
Bank loans	17	**(5,904)**	(6,000)	**—**	—
Amounts owed to subsidiary undertakings		**—**	—	**(23,568)**	(23,623)
Provision for liabilities and charges	18	**(1,269)**	(1,184)	**(270)**	(322)
		22,936	23,900	**22,936**	23,900
Capital and reserves					
Called up share capital	20	**2,846**	3,831	**2,846**	3,831
Share premium account	21	**16,841**	17,016	**16,841**	17,016
Revaluation reserve	21	**600**	600	**—**	—
Other capital reserves	21	**3,976**	2,991	**3,976**	2,991
Distributable reserves	21	**(1,327)**	(538)	**(727)**	62
Shareholders' funds — equity and non-equity	22	**22,936**	23,900	**22,936**	23,900

These financial statements were approved by the Board on 4 April 2005

R Wood-Ward
Director

The notes numbered 1 to 28 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
Net cash outflow from operating activities	23	**(2,008)**	(4,408)
Returns on investment and servicing of finance			
Preference dividend paid		**(92)**	(92)
Interest received		**1,120**	777
Interest paid		**(355)**	(261)
Net cash inflow from returns on investments and servicing of finance		**673**	424
Taxation			
Refund		**64**	—
Net cash inflow from taxation		**64**	—
Capital expenditure			
Purchase of tangible fixed assets		**—**	(132)
Sale of tangible fixed assets		**2**	121
Net cash inflow/(outflow) from capital expenditure		**2**	(11)
Acquisitions and disposals			
Acquisition of Victoria Heights Corporation		**—**	(2,147)
Cash retained by Poole Lighting on disposal		**—**	(425)
Disposal of Poole Lighting Limited		**490**	10,609
Net cash inflow from acquisitions and disposals		**490**	8,037
Net cash (outflow)/inflow before management of liquid resources and financing		**(779)**	4,042
Management of liquid resources			
Cash withdrawn from/(placed on) short-term deposit		**764**	(3,740)
Financing			
Net decrease in loans		**(17)**	(800)
Net decrease in finance leases		**—**	(81)
Costs associated with issue of ordinary share capital		**(175)**	—
Net cash outflow from financing		**(192)**	(881)
Decrease in cash	24	**(207)**	(579)

The notes numbered 1 to 28 form part of these financial statements.

Accounting Policies

For the year ended 31 December 2004

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 period, 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 2004.

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

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.

As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented for Emess plc.

Tangible fixed assets

All tangible fixed assets, other than investment property, 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:

Plant and machinery	10% to 20%
Equipment and motor vehicles	20% to 33 1/3%

Deferred tax

Deferred tax is recognised on an undiscounted basis 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, subject to the following.

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 replacement 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.

Discontinued activities

In accordance with FRS3, the Group has disclosed as discontinuing activities the results relating to the lighting business which was sold during the year ended 31 December 2003.

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 period to which they relate.

Financial Instruments

The disclosures made in Note 19 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

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

Accounting Policies

For the year ended 31 December 2004

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 employees' personal pension 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 contingent lease liabilities less any anticipated rental income on leased properties not being utilised by Group companies discounted at the estimated cost of funds.

Redemption cost of preference shares

In accordance with FRS 4, the premium on the redemption of the preference shares was charged to the profit and loss account on a straight-line basis over the period from issue to 1 January 2009. These shares were cancelled under the scheme of arrangement which became effective on 21 June 2004 and thereafter no further charge to the profit and loss account was made.

Notes to the Financial Statements

For the year ended 31 December 2004

1. Turnover

All turnover in 2003 originated in the UK to UK customers and related to one class of business.

2. Costs and overheads less other income

	2004	2003
	£'000	£'000
Change in stocks of finished goods and in work in progress	**—**	(697)
Other operating income	**(68)**	(43)
Raw materials and consumables	**—**	7,999
Staff costs (see note 5)	**526**	3,375
Depreciation and other amounts written off tangible and intangible fixed assets	**9**	224
Other operating charges	**728**	5,872
	1,195	16,730

3. Exceptional items

The operating loss includes an exceptional charge comprising:	**2004**	2003
	£'000	£'000
Provision on onerous lease	**362**	—

4. Operating loss

Operating loss is stated after charging:	**2004**	2003
	£'000	£'000
Operating lease rentals for hire of plant	**—**	25
Operating lease rentals for properties	**68**	167
Audit fees	**20**	45

Fees to the auditors for non-audit services amounted to £14,393 (2003: £128,942) in respect of:

	£'000	£'000
Company secretarial services	**1**	9
Acquisition and disposal	**3**	113
General financial advice	**10**	7
	14	129

5. Staff costs

	2004	2003
	£'000	£'000
Wages and salaries	**465**	3,100
Social security costs	**50**	257
Other pension costs	**11**	18
	526	3,375
	No.	No.
The average number of persons employed during the period was:	**3**	158

Notes to the Financial Statements

For the year ended 31 December 2004

6. Interest

	2004 £'000	2003 £'000
Payable on bank loans and overdrafts	**(352)**	(261)
Receivable	**1,120**	772
	768	511

7. Tax

	2004 £'000	2003 £'000
UK corporation tax at 30%		
Current period	**—**	—

The difference between the 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:

	2004 £'000	2003 £'000
Profit/(loss) on ordinary activities before taxation	**(789)**	1,163
Tax on profit/loss on ordinary activities at standard rate 30%	**(237)**	349
Factors affecting tax charge for the year:		
Disallowable expenses	**165**	1,204
Utilisation of prior year capital losses	**(106)**	(1,835)
Losses not recognised	**179**	1,249
Capital allowances in excess of depreciation	**(1)**	(62)
Other timing differences	**—**	(905)
	—	—

Deferred tax

The deferred tax asset of the Group of £282,000 (2003: £98,000) 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 (2003: £3.7m) and UK capital tax losses of £44m (2003: £44m) which can be used against any future capital gains. The total potential capital tax losses amounts to £76m (2003: £76m).

Notes to the Financial Statements

For the year ended 31 December 2004

8. Dividends

	2004 £'000	2003 £'000
1.2p (net) cumulative redeemable preference shares of 1p — half year to 30 June 2003	**—**	92
1.2p (net) cumulative redeemable preference shares of 1p — half year to 31 December 2003	**—**	92
	—	184
Undeclared dividends — not paid		
1.2p (net) cumulative redeemable preference shares of 1p — period to 21 June 2004	**88**	—
	88	184

9. Redemption charge on non-equity shares

A charge of £293,000 in respect of the redemption of the redeemable preference shares has been made up to 21 June 2004, the date a scheme of arrangement to cancel those shares became effective. On the cancellation of the preference shares the balance of the redemption fund has been transferred to the Profit and Loss account as a reserves movement.

10. Earnings/(loss) per ordinary share

Basic and fully diluted earnings/(loss) per ordinary share has been calculated on the Group's (loss)/profit attributable to shareholders of £(1,170,000) (2003: profit of £363,000) and on the weighted average number of ordinary shares in issue during the year which was 257,549,727 (2003: 226,329,450).

11. Tangible fixed assets

Group and Company	**Motor vehicles & office equipment £'000**
Cost	
At 1 January 2004	73
Disposals	(2)
At 31 December 2004	**71**
Accumulated depreciation	
At 1 January 2004	44
Charge for the period	9
At 31 December 2004	**53**
Net book value	
At 31 December 2004	**18**
At 31 December 2003	29

Notes to the Financial Statements

For the year ended 31 December 2004

12. Investment property at valuation

	£'000
Freehold at valuation	
At 1 January 2004 and 31 December 2004	6,200

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 and 31 December 2004 by the Directors to include land annexed to the site previously carried at nil value.

13. Fixed asset investments

Investments in subsidiaries	**Company Total £000**
Cost	
At 1 January 2004 and 31 December 2004	140,900
Provisions	
At 1 January 2004	118,141
Increase in provision for impairment	179
At 31 December 2004	**118,320**
Cost less provisions for impairment in value	
At 31 December 2004	**22,580**
At 31 December 2003	22,759

Details of the principal subsidiary undertakings are as follows:

	% owned at year end	Activity
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
Emess Group Trading Limited*	100	Non-trading

* held through a wholly owned subsidiary

14. Debtors

	2004 Group £'000	2003 Group £'000	**2004 Company £'000**	2003 Company £'000
Amounts due within one year:				
Other debtors	**85**	1,166	**63**	1,015
Prepayment and accrued income	**36**	132	**213**	—
	121	1,298	**276**	1,015

15. Current asset investments

The Group and Company had investments in a listed company. The market value of this investment at 31 December 2004 was £1,285,000.

Notes to the Financial Statements

For the year ended 31 December 2004

16. Creditors: Amounts due in one year

	2004 Group £'000	2003 Group £'000	2004 Company £'000	2003 Company £'000
Amounts due within one year:				
Bank loan	**79**	—	**—**	—
Corporation tax	**93**	26	**100**	100
Other taxes and social security costs	**58**	42	**19**	—
Other creditors	**1,069**	814	**929**	1,152
Accruals and deferred income	**222**	731	**178**	59
Dividends	**—**	92	**—**	92
	1,521	1,705	**1,226**	1,403

17. Financing

Group	2004 £'000	2003 £'000
Analysis of borrowings:		
Bank loans and overdrafts repayable:		
In more than 1 year but not more than 2 years — secured	**88**	—
In more than 2 years but not more than 5 years — secured	**308**	300
In more than 5 years — secured	**5,508**	5,700
	5,904	6,000
Total borrowings due within one year	**79**	—
Total borrowings due after one year	**5,904**	6,000
Total borrowings	**5,983**	6,000
Cash at bank and in hand	**(24,291)**	(25,262)
Net (Funds) (note 24)	**(18,308)**	(19,262)

Bank loans totalling £5.98m are secured on the Group's freehold investment property. The loans are repayable by October 2025.

18. Provisions for liabilities and other charges

	Group Pension Scheme deficit £'000	Group Onerous property leases £'000	Group Total £'000	Company Onerous property leases £'000
Provision at 1 January 2004	250	934	1,184	322
Provision utilised	—	(277)	(277)	(52)
Increase in provision (note 3)	—	362	362	—
Provision at 31 December 2004	**250**	**1,019**	**1,269**	**270**

Notes to the Financial Statements

For the year ended 31 December 2004

19. 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 debtors, creditors and listed investments. The main purpose of these financial instruments is to manage the interest rate risk of the Group.

Interest rate profile of financial liabilities

The interest rate risk profile of the Group's financial liabilities as at 31 December 2004 was:

Currency	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Total £'000
2004			
Sterling	**5,983**	**—**	**5,983**
2003			
Sterling	6,000	—	6,000

Floating rate liabilities comprise a mortgage loan of £5.98m 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) £'000	Short-term deposits (floating rate) £'000	Total £'000
2004			
Sterling	**113**	**24,178**	**24,291**
2003			
Sterling	321	24,941	25,262

Borrowing facilities

The Group had no undrawn committed borrowing facilities available at 31 December 2004.

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 2004 the Group had no monetary assets in currencies other than Sterling.

Notes to the Financial Statements

For the year ended 31 December 2004

20. Share capital

	31 Dec 2004 No.	31 Dec 2003 No.	**31 Dec 2004 £'000**	31 Dec 2003 £'000
Authorised				
Ordinary shares of 1p each	**438,991,964**	438,991,964	**4,390**	4,390
1.2p (net) redeemable cumulative preference shares of 5p each	**—**	55,336,012	**—**	2,767
Non-voting deferred shares of 1p each	**—**	79,327,976	**—**	793
			4,390	7,950
Allotted, called up and fully paid				
Ordinary shares of 1p each	**284,581,499**	227,060,402	**2,846**	2,271
1.2p (net) redeemable cumulative preference shares of 5p each	**—**	15,338,985	**—**	767
Non-voting deferred shares of 1p each	**—**	79,327,976	**—**	793
			2,846	3,831

Pursuant to a scheme of arrangement which became effective on 21 June 2004, all the redeemable preference shares were cancelled and 57,521,097 ordinary shares of 1p each issued to the holders of the redeemable preference shares. The Company also bought back all of the non-voting deferred shares for an aggregate consideration of 1p.

Share option schemes

At 31 December 2004 the following options over 600,000 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 Dec 2003	**Number of shares at 31 Dec 2004**	**Latest date exercisable**	**Price per share**
1995	80,000	**—**	Renounced 30 April 2004	32p
1996	80,000	**—**	Lapsed — 26 September 2004	32p
1998	100,000	**—**	Lapsed — 26 September 2004	25p
2004	—	**600,000**	23 June 2014	8.5p
	260,000	**600,000**		

These options are subject to performance criteria based upon growth in earnings per share.

The market price of the Company's ordinary shares at 31 December 2004 was 7.75p and the range during the period was 7.00p to 9.75p.

The Company holds 730,952 ordinary shares through the Emess Equity Partnership Plan. An award over these shares was granted to Mr Wood-Ward on 30 June 2004 at NIL price. The award is exercisable between 27 June 2007 and 24 June 2011 and subject to meeting specified performance criteria based upon total shareholder return.

Notes to the Financial Statements

For the year ended 31 December 2004

21. Reserves

	Share premium account £'000	Re-valuation reserve £'000	Capital redemption Reserve £'000	Special Reserve £'000	Distributable reserves: Other reserve £'000	Distributable reserves: Profit and loss account £'000	Total reserves £'000
Group							
At 1 January 2004	17,016	600	2,991	—	770	(1,308)	20,069
Scheme of arrangement	—	—	—	192	—	—	192
Cost of issue of shares	(175)	—	—	—	—	—	(175)
Buy back of non-voting deferred shares	—	—	793	—	—	—	793
Loss for the period	—	—	—	—	—	(1,170)	(1,170)
Undeclared preference dividend	—	—	—	—	88	—	88
Redemption charge for non-equity shares	—	—	—	—	293	—	293
Transfer to Profit and Loss Account	—	—	—	—	(1,151)	1,151	—
At 31 December 2004	**16,841**	**600**	**3,784**	**192**	**—**	**(1,327)**	**20,090**
Company							
At 1 January 2004	17,016	—	2,991	—	770	(708)	20,069
Scheme of arrangement	—	—	—	192	—	—	192
Cost of issue of shares	(175)	—	—	—	—	—	(175)
Buy back of non-voting deferred shares	—	—	793	—	—	—	793
Loss for the period	—	—	—	—	—	(1,170)	(1,170)
Undeclared preference dividend	—	—	—	—	88	—	88
Redemption charge for non-equity shares	—	—	—	—	293	—	293
Transfer to Profit and Loss Account	—	—	—	—	(1,151)	1,151	—
At 31 December 2004	**16,841**	**—**	**3,784**	**192**	**—**	**(727)**	**20,090**

Other reserves included 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 was charged to the profit and loss account on a straight-line basis over the period from issue to 1 January 2009 being the latest redeemable date. This reserve has been released to the profit and loss account following scheme of arrangement (note 20).

22. Reconciliation of movements in shareholders' funds

Group	Equity Interest £'000	Non-equity Interest £'000	Total £'000
At 1 January 2004	22,363	1,537	23,900
Scheme of arrangement	767	(767)	—
Cost of issue of shares	(175)	—	(175)
Loss for the period	(1,170)	—	(1,170)
Undeclared preference dividend	—	88	88
Redemption charge for non-equity shares	—	293	293
Transfer to Profit and Loss Account	1,151	(1,151)	—
At 31 December 2004	**22,936**	**—**	**22,936**

Notes to the Financial Statements

For the year ended 31 December 2004

22. Reconciliation of movements in shareholder funds (continued)

Company	Equity Interest £'000	Non-equity Interest £'000	Total £'000
At 1 January 2004	22,363	1,537	23,900
Scheme of arrangement	767	(767)	—
Cost of issue of shares	(175)	—	(175)
Loss for the period	(1,170)	—	(1,170)
Undeclared preference dividend	—	88	88
Redemption charge for non-equity shares	—	293	293
Transfer to Profit and Loss Account	1,151	(1,151)	—
At 31 December 2004	**22,936**	**—**	**22,936**

23. Net cash outflow from operating activities

	2004 £'000	2003 £'000
Operating loss	**(1,557)**	(948)
Depreciation	**9**	153
Provision for onerous lease	**362**	—
Increase in stocks	**—**	(521)
Decrease in debtors	**177**	1,404
Increase in trade investments	**(1,000)**	
Increase/(decrease) in creditors	**278**	(1,178)
Decrease in provisions for liabilities and charges	**(277)**	(3,318)
	(2,008)	(4,408)

24. Analysis of net funds

	1 January 2004 £'000	Cash flow £'000	31 Dec 2004 £'000
Net cash:			
Cash at bank and in hand	25,262	(971)	**24,291**
Less deposits treated as liquid resources	(24,942)	764	**(24,178)**
	320	(207)	**113**
Liquid resources:			
Deposits	24,942	(764)	**24,178**
Debt:			
Loans	(6,000)	17	**(5,983)**
Net funds (note 17)	19,262	(954)	**18,308**

25. Non-cash movements

As outlined in notes 9 and 20, pursuant to a scheme of arrangement which became effective on 21 June 2004, all the redeemable preference shares were cancelled and 57,521,097 ordinary shares of 1p each issued to the holders of the redeemable preference shares. The Company also bought back all of the non-voting deferred shares for an aggregate consideration of 1p.

Notes to the Financial Statements

For the year ended 31 December 2004

26. Group financial commitments

	2004 Group Land and buildings £'000	2003 Group Land and buildings £'000	**2004 Company Land and buildings £'000**	2003 Company Land and buildings £'000
Annual commitments under non-cancellable operating lease which expire:				
In the second to fifth years	**—**	—	**—**	—
Over five years	**68**	68	**771**	771
	68	68	**771**	771

27. Contingent liabilities

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 businesses, and in connection with the property leases of these businesses. No provision has been made in respect of these contingent matters.

28. Related party transactions

During the year the Company paid £9,000 in respect of office accommodation to Westcity Holdings Limited, a company of which Mr Michael Rapp is a director.

In 2003 the Company paid £26,870 in respect of office accommodation and related services during the year to Oceana Investment Corporation Limited, a company of which Mr Raymond Davies is a director.

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EMESS

EMESS plc 4 Prince Albert Road
London NW1 7SN
Tel +44(0)20 7482 0022 Fax +44(0)20 7482 0037
E-mail info@emess.co.uk
www.emess.co.uk