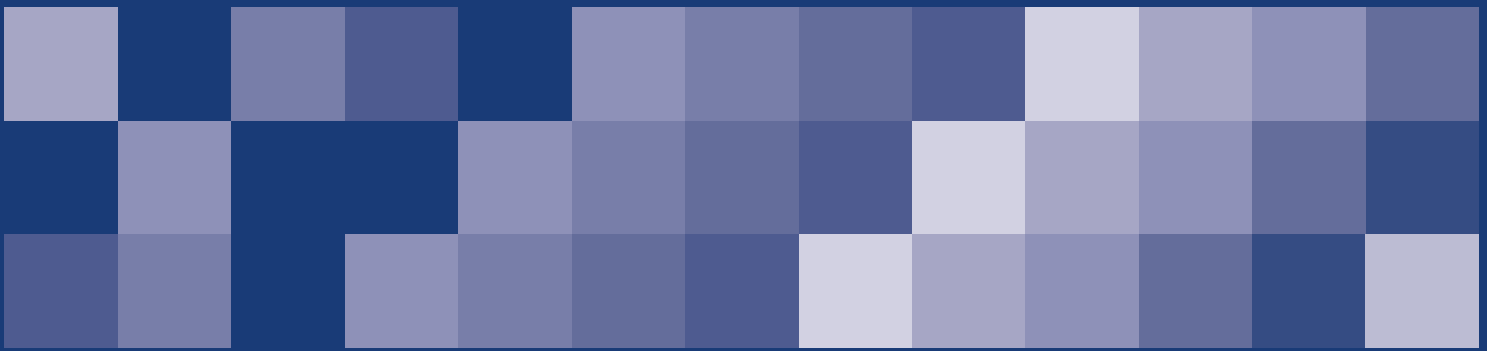
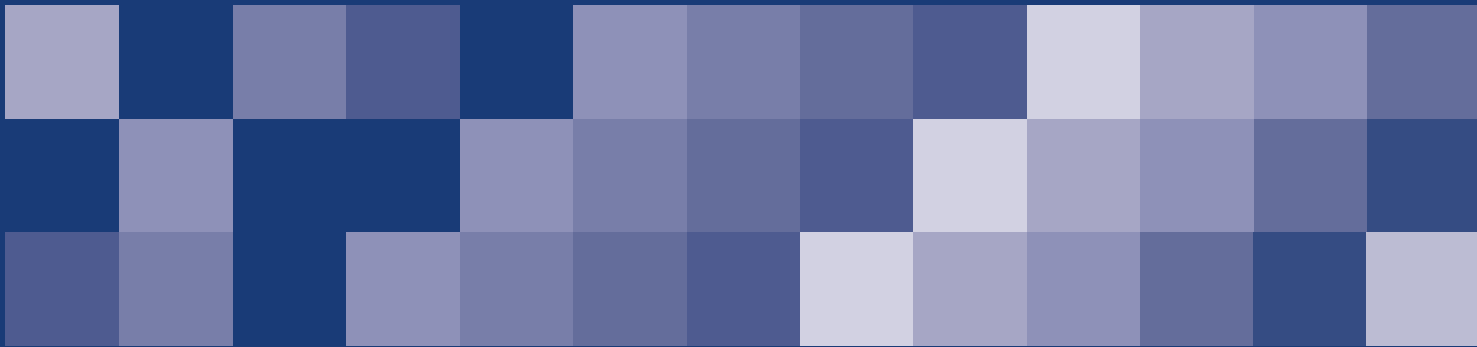


# EMESS





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# 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 £791,000 (2004: £768,000).

At 31 December 2005 the Group's freehold property at Hixon was revalued to the amount subsequently realised on the sale of Victoria Heights Corporation Limited, resulting in a deficit of £872,000 (including £222,000 of costs) which has been charged to the profit and loss account. (See "Sale of freehold property at Hixon" below.)

Further to the announcement of 2 May 2006, as outlined below, the Company has made net provisions for onerous leases of £4,812,000 at 31 December 2005.

The Group incurred a loss on ordinary activities after tax of £5,637,000 (2004: loss of £1,170,000) which included the charge for the revaluation deficit of £872,000 (2004: Nil), net provisions for onerous leases of £4,812,000 (2004: £362,000) and £318,000 (2004: Nil) from the profit on the sale of an investment.

## Sale of freehold property at Hixon

In March 2003 the Emess Group acquired Victoria Heights Corporation Limited, which owned the freehold property at Hixon that was formerly used by a Group subsidiary. The acquisition eliminated the payment of rent to a third party, with a net annual cost saving in excess of £400,000. The Hixon property was valued at £5.6m in December 2003. The Hixon property has been marketed for letting and/or sale since 2003.

On 12 May 2006 the Company completed the sale of its wholly owned subsidiary Victoria Heights Corporation Limited for £4,950,000. £450,000 of the purchase consideration was received in cash and the deferred balance of £4,500,000 is payable within five years from completion. The deferred balance is represented by a loan from the Company to Victoria Heights Corporation Limited secured by a first charge over the Hixon property carrying interest at 1% p.a. over base rate and guaranteed by the purchaser. As part of the transaction, and immediately prior to completion of the sale, Victoria Heights Corporation redeemed a long-term bank loan of £5.9m secured on the property.

The Group retains freehold ownership of approximately 7 acres of vacant land adjacent to the Hixon property, which was valued at £600,000 in 2003. Although the land is allocated in the local plan as land that is acceptable for further industrial development, there can be no

certainty as to if, or when, or at what cost, relevant planning consent for development can be obtained. In light of this, your Board has deemed it appropriate, having regard to the disposal of the property to reverse the £600,000 of revaluation reserve that relates to this vacant land.

## Current Financial Status

Following the completion of the sale of the Hixon property, the Group's net asset value is not materially different from the £16.7m at 31 December 2005. However, the sale completion has reduced the bank and cash balance from £24.5m to approximately £18.7m, due mainly to the repayment of the £5.9m long-term bank loan secured on the Hixon property and the balance sheet will no longer include any investment property (31 December 2005: £4.95m) but will have a secured loan receivable in 2011 of £4.5m.

From 1985 until 2003 the Group was engaged in the lighting business through multiple entities that occupied numerous leasehold premises in the ordinary course of business. These businesses had all been disposed of prior to 2003. In terms of the various sales agreements, the leases for the various businesses were assigned to the purchasers of the businesses, and in some cases the Company remains exposed under the terms of those respective leases.

The Emess Group makes provision for any leases that become onerous lease obligations as a result of default by an assignee and where the lease obligation has consequently reverted to the Emess Group. A number of contingent liabilities relating to assigned leases exist, and no provision has been made in respect of these contingent matters.

Further to the announcement made on 2 May 2006, the Company is aware that the assignee under the largest of these potential lease obligations is failing to comply with its lease obligations. This lease, which was assigned in July 2001, expires in December 2023 and the current rent is £765,500 p.a. The rent is subject to an increase to £887,500 p.a. from December 2008. Having considered professional advice, the Directors have made a provision of £5.5m against this potential onerous lease. The provision does not take account of the Company's contractual and legal rights and remedies against the assignee, which will be aggressively pursued.

## Dividends

No dividend will be paid on the ordinary shares in respect of the period under review (2004: Nil).

# Chairman's Statement

## 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 Alternative Investment 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

On 1 March 2006 the Company announced that it had entered into various non-binding memoranda of understanding that, should contracts be successfully concluded, would transform Emess into a property and property-related investment, development and management company. As such, the entrepreneurial focus of Emess will be on seeking out global property opportunities for investment, co-investment, development and management. Through this process it is intended that Emess will become an earnings-driven business with strong asset backing.

In order to implement its investment strategy, Emess is proposing to:

- invest in a management infrastructure with proven experience and success in property investment, development and management in line with a non-binding memorandum of understanding with Mr Ira Rapp whereby Emess would establish a property division, which would acquire property expertise through Mr Ira Rapp's Westcity group interests;
- enter into a partnership with a strong institutional partner that has a complementary skill-set and superior distribution capabilities as envisaged in the non-binding memorandum of understanding with the Stonehage Group with the intention of jointly establishing a property fund; and
- invest up to £20 million of the Company's funds into the property fund in which it is anticipated that Stonehage will invest a further £20 million raised from its clients, as envisaged in the non-binding memorandum of understanding with the Stonehage Group. This equity would be further supplemented by bank borrowings in order to invest in a substantial asset base of opportunistic global property investments. Emess will be exclusively appointed by the property fund to source suitable property investment opportunities.

Shareholders will shortly receive a circular and notice of extraordinary general meeting seeking the approval by shareholders of a number of transactions relating to the Company's new strategy.

## Annual General Meeting

It is planned to hold the Annual General Meeting of the Company on 26 July 2006, the same date as the proposed Extraordinary General Meeting referred to above.

## Board

In light of the proposed change in strategy and business focus of the Company the Board has reviewed the composition of the Board. Mr Michael Rapp (non-executive Director) and I will be standing for re-election at the forthcoming Annual General Meeting. Mr Raymond Davies will remain on the board as a non-executive Director. Mr Geoff Gahan has indicated his intention to resign from the Board at the conclusion of the Annual General Meeting and an additional independent non-executive Director will be appointed in due course. It is intended, should shareholders approve all of the transactions to be put to the Extraordinary General Meeting, that Mr Ira Rapp would be invited to join the Board of Emess and become CEO of the Company.

On behalf of the Board I would like to extend our appreciation to Mr Gahan for his contributions to the Company and this Board over the past years and wish him every success in the future. I would also like to thank my co-Directors and Jerome Fester for their strong support and advice during the year.

## Rex Wood-Ward

Chairman  
30 June 2006

## Directors and Advisers

### BOARD OF DIRECTORS

#### 1 Rex Wood-Ward

Chairman

Mr Wood-Ward, 57, was appointed an executive Director and Chief Executive with effect from 1 May 2003 and 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 Lighting Corporation Limited and Skydome Holdings Limited, both of which are listed on the Australian Stock Exchange.

#### 2 Raymond Davies

Non-executive Director

Mr Davies, 64, 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 Michael Rapp

Non-executive Director

Mr Rapp, 70, 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.

#### 4 Geoff Gahan

Non-executive Director

Mr Gahan, 62, 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.

### ADVISERS

#### Nominated Adviser and Broker

KBC Peel Hunt Limited  
111 Old Broad Street  
London  
EC2N 1PH

#### Legal Advisers

Jones Day  
21 Tudor Street  
London EC4Y 0DJ

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 0033

Fax: 020 7482 0037

Website: [www.emess.co.uk](http://www.emess.co.uk)

### Company Secretary

Jerome Fester

# Corporate Governance

## Directors

At 31 December 2005, the Board consisted of one executive and three non-executive Directors.

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.

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 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 their 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 2006 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.

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.

# Directors' Report

For the year ended 31 December 2005

## Principal activities

Having disposed of its then remaining lighting business in September 2003, currently Emess has assets consisting of cash and an investment property.

It is intended that, subject to contracts referred to in the Chairman's Statement on page 2 being successfully concluded, that Emess will become a property and property related investment, development and management company.

## 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 2005 trade creditors of the Group represented 28 days (2004: 28 days) of amounts invoiced by suppliers during the year.

## 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 May 2006:

	Number of ordinary shares	%
Chapman International Investment Limited	84,693,250	29.8
Colmar Investment Holdings Limited	29,755,000	10.5
Boma Global Investment L.P.	12,000,000	4.2
Gartmore UK & Irish Smaller Co Fund	9,173,470	3.2

## Directors

The names and brief biographical details of the Directors are shown on page 3.

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 policy on Corporate Governance are set out on page 4.

## Annual General Meeting

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

## Charitable donations

The Group made no charitable or political donations during the year.

## Auditors

Horwath 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  
30 June 2006

# Directors' Remuneration Report

## 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 2006 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 £185,000 (2004: £243,000 including bonuses of £55,000) plus benefits of £70,000 (2004: £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 with a six-month rolling notice period.

Mr Davies' and Mr Rapp's service contracts expired on 30 April 2006 and have been renewed on the same terms for a further 12 months until 30 April 2007.

Mr Graham has indicated his intention to resign following the conclusion of the next Annual General Meeting and his service contract which expired on 30 April 2006 has been extended until the conclusion of that meeting.

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	Benefits in kind £'000	2005 Total £'000	2004 Salary and fees £'000
Rex Wood-Ward	185	—	70	255	312
Raymond Davies	—	24	—	24	24
Geoff Gahan	—	24	—	24	24
Michael Rapp	—	24	—	24	24
Total	185	72	70	327	384

# Directors' Remuneration Report

## **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 2005 Mr Wood-Ward had a beneficial interest in 365,000 ordinary shares and had an option over 730,952 ordinary shares awarded to him through the Emess Equity Partnership Plan. The option 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 of 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 30 June 2006

## **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 2005 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 25. 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.

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

As described in the Statement of Directors' Responsibilities, the Company's Directors are responsible for preparing the Annual Financial Statements. As described on page 5, this includes responsibility for preparing the financial statements in accordance with applicable law and United Kingdom accounting standards.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and 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 Directors' Report, the corporate governance statement and 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 International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company and the Group as at 31 December 2005 and of the loss of the Group for the year then ended, and the financial statements have been prepared in accordance with the Companies Act 1985.

## Horwath Clark Whitehill LLP

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

30 June 2006

# Consolidated Profit and Loss Account

For the year ended 31 December 2005

	Notes	2005 £'000	2004 (restated) £'000
Other operating income		—	68
Profit on sale of investment		318	—
Staff costs	2	(499)	(526)
Depreciation and other amounts written off tangible fixed assets		(9)	(9)
Other operating charges			
— Exceptional provision for onerous leases		(4,812)	(362)
— Exceptional impairment loss on investment property		(650)	—
— Other		(776)	(728)
<b>Operating loss</b>	1	<b>(6,428)</b>	(1,557)
Interest received less payable	3	791	768
Finance charge on non-equity shares	4	—	(381)
<b>Loss on ordinary activities before taxation</b>		<b>(5,637)</b>	(1,170)
Tax	5	—	—
<b>Loss attributable to ordinary shareholders</b>		<b>(5,637)</b>	(1,170)
<b>Loss per ordinary share</b> — basic and diluted	7	<b>(2.0p)</b>	(0.5p)

# Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2005

	2005 £'000	2004 £'000
Loss for the year	(5,637)	(1,170)
Reversal of valuation surplus	(600)	—
<b>Total recognised gains and losses since last annual report</b>	<b>(6,237)</b>	(1,170)

The notes numbered 1 to 25 form part of these financial statements.

# Balance Sheets

At 31 December 2005

	Notes	Group 2005 £'000	Group 2004 £'000	Company 2005 £'000	Company 2004 £'000
<b>Fixed assets</b>					
Tangible assets	8	33	18	33	18
Investment property	9	4,950	6,200	—	—
Investments in subsidiaries	10	—	—	22,261	22,580
		<b>4,983</b>	6,218	<b>22,294</b>	22,598
<b>Current assets</b>					
Debtors	11	91	121	284	276
Investments	12	—	1,000	—	1,000
Cash at bank and in hand		24,473	24,291	24,451	24,126
		<b>24,564</b>	25,412	<b>24,735</b>	25,402
<b>Creditors: due within one year</b>	13	<b>(1,678)</b>	(1,521)	<b>(1,527)</b>	(1,226)
<b>Net current assets</b>		<b>22,886</b>	23,891	<b>23,208</b>	24,176
<b>Total assets less current liabilities</b>		<b>27,869</b>	30,109	<b>45,502</b>	46,774
<b>Creditors: due after one year</b>					
Bank loans	14	(5,825)	(5,904)	—	—
Amounts owed to subsidiary undertakings		—	—	(23,708)	(23,568)
<b>Provisions for liabilities</b>	15	<b>(5,345)</b>	(1,269)	<b>(5,095)</b>	(270)
		<b>16,699</b>	22,936	<b>16,699</b>	22,936
<b>Capital and reserves</b>					
Called up share capital	17	2,846	2,846	2,846	2,846
Share premium account	18	16,841	16,841	16,841	16,841
Revaluation reserve	18	—	600	—	—
Other capital reserves	18	3,976	3,976	3,976	3,976
Distributable reserves	18	(6,964)	(1,327)	(6,964)	(727)
Shareholders' funds	19	<b>16,699</b>	22,936	<b>16,699</b>	22,936

These financial statements were approved and authorised for issue by the Board on 30 June 2006

## R Wood-Ward

Director

The notes numbered 1 to 25 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
<b>Net cash outflow from operating activities</b>	20	<b>(512)</b>	(2,008)
<b>Returns on investment and servicing of finance</b>			
Finance charge paid on non-equity shares		—	(92)
Interest received		1,157	1,120
Interest paid		(366)	(355)
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>791</b>	673
<b>Taxation</b>			
Refund		—	64
<b>Net cash inflow from taxation</b>		<b>—</b>	64
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(24)	—
Sale of tangible fixed assets		6	2
<b>Net cash (outflow)/inflow from capital expenditure</b>		<b>(18)</b>	2
<b>Acquisitions and disposals</b>			
Disposal of Poole Lighting Limited		—	490
<b>Net cash inflow from acquisitions and disposals</b>		<b>—</b>	490
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>		<b>261</b>	(779)
<b>Management of liquid resources</b>			
Cash (placed on)/withdrawn from short-term deposit		(94)	764
<b>Financing</b>			
Net decrease in loans		(79)	(17)
Costs associated with issue of ordinary share capital		—	(175)
<b>Net cash outflow from financing</b>		<b>(79)</b>	(192)
<b>Increase/(decrease) in cash</b>	21	<b>88</b>	(207)

The notes numbered 1 to 25 form part of these financial statements.

# Accounting Policies

For the year ended 31 December 2005

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 2005.

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:

Equipment and motor vehicles 20% to 33 $\frac{1}{3}$ %

## **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.

## **Leased assets**

Operating lease rentals are charged to the profit and loss account in the period to which they relate.

## **Financial Instruments**

The disclosure made in Note 16 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.

## **Investments**

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.

## **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.

# Accounting Policies

For the year ended 31 December 2005

## **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 rental 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 2005

## 1. Operating loss

	2005 £'000	2004 £'000
Operating loss is stated after charging:		
Operating lease rentals for properties	18	167
Audit fees — Group and Company	20	45
Fees to the auditors for non-audit services amounted to £15,000 (2004: £14,393) in respect of:		
	£'000	£'000
Company secretarial services	—	1
Acquisition and disposal	10	3
Accounting advice	5	10
	15	14

## 2. Staff costs

	2005 £'000	2004 £'000
Wages and salaries	407	465
Social security costs	80	50
Other pension costs	12	11
	499	526
	No.	No.
The average number of persons employed during the period	2	3

Full details of the Directors' remuneration for the year is given in the Directors' Remuneration Report on page 7.

## 3. Interest

	2005 £'000	2004 £'000
Payable on bank loans and overdrafts	(366)	(352)
Receivable	1,157	1,120
	791	768

# Notes to the Financial Statements

For the year ended 31 December 2005

## 4. Finance charge on non-equity shares

The prior period profit and loss account figures for 2004 have been restated to reclassify the amount of £381,000 relating to the redemption of the redeemable preference shares as a finance charge in accordance with FRS 25. The finance charge was in respect of the redemption of the redeemable preference shares up to 21 June 2004, the date a scheme of arrangement to cancel those shares became effective.

## 5. Tax

	2005 £'000	2004 £'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:		
Loss on ordinary activities before taxation	(5,637)	(1,170)
Tax on loss on ordinary activities at standard rate 30%	(1,691)	(351)
Factors affecting tax charge for the year:		
Disallowable expenses	(19)	216
Utilisation of prior year capital losses	(95)	—
Losses not recognised	1,933	135
Capital allowances in excess of depreciation	(1)	—
Utilisation of prior year losses	(127)	—
	—	—

### Deferred tax

The deferred tax asset of the Group of £1,923,000 (2004: £156,000) 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 (2004: £3.7m) and UK capital tax losses of £44m (2004: £44m) which can be used against any future capital gains. The total potential capital tax losses amounts to £76m (2004: £76m).

# Notes to the Financial Statements

For the year ended 31 December 2005

## 6. Dividends

No dividends have been paid or declared during the year (2004: Nil).

## 7. Loss per ordinary share

Loss per ordinary share (basic and diluted) has been calculated on the Group's loss attributable to shareholders of £5,637,000 (2004: loss of £1,170,000) and on the weighted average number of ordinary shares in issue during the year which was 284,581,499 (2004: 257,549,727).

## 8. Tangible fixed assets

<b>Group and Company</b>	<b>Motor vehicles &amp; office equipment £'000</b>
<b>Cost</b>	
At 1 January 2005	71
Additions	24
Disposals	(32)
<b>At 31 December 2005</b>	<b>63</b>
<b>Accumulated depreciation</b>	
At 1 January 2005	53
Charge for the period	9
Disposals	(32)
<b>At 31 December 2005</b>	<b>30</b>
<b>Net book value</b>	
<b>At 31 December 2005</b>	<b>33</b>
At 31 December 2004	18

## 9. Investment property at valuation

<b>Group</b>	<b>£'000</b>
Freehold at valuation	
At 1 January 2005	6,200
Revaluation deficit	(1,250)
<b>At 31 December 2005</b>	<b>4,950</b>

The Freehold is the Hixon Property and land valued on a vacant possession basis by the Directors at £4,950,000.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 10. Fixed asset investments

<b>Investments in subsidiaries</b>	<b>Company £000</b>	
<b>Cost</b>		
At 1 January 2005 and 31 December 2005	<b>140,900</b>	
<b>Provisions</b>		
At 1 January 2005	<b>118,320</b>	
Increase in provision for impairment	<b>319</b>	
<b>At 31 December 2005</b>	<b>118,639</b>	
<b>Cost less provisions for impairment in value</b>		
<b>At 31 December 2005</b>	<b>22,261</b>	
At 31 December 2004	22,580	
Details of the principal subsidiary undertakings are as follows:		
	<b>% owned at year end</b>	<b>Activity</b>
Victoria Heights Corporation Limited (registered in The British Virgin Islands) (sold 12 May 2006 — see note 25)	100	Property investment
Emess Overseas Limited	100	Non-trading
Emess United Kingdom Limited	100	Non-trading
Emess Europe Limited	100	Non-trading

## 11. Debtors

	<b>2005 Group £'000</b>	2004 Group £'000	<b>2005 Company £'000</b>	2004 Company £'000
Amounts due within one year:				
Other debtors	<b>50</b>	85	<b>50</b>	63
Prepayments and accrued income	<b>41</b>	36	<b>234</b>	213
	<b>91</b>	121	<b>284</b>	276

## 12. Current asset investments

At 31 December 2005 the Group and Company had no current asset investments. At 31 December 2004 the Group and Company had investments in a listed company which had a market value at 31 December 2004 of £1,285,000.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 13. Creditors: Amounts due in one year

	<b>2005</b>	2004	<b>2005</b>	2004
	<b>Group</b>	Group	<b>Company</b>	Company
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
Amounts due within one year:				
Bank loan	<b>79</b>	79	<b>—</b>	—
Corporation tax	<b>93</b>	93	<b>93</b>	100
Other taxes and social security costs	<b>78</b>	58	<b>44</b>	19
Other creditors	<b>1,023</b>	1,069	<b>1,033</b>	929
Accruals and deferred income	<b>405</b>	222	<b>169</b>	178
Amount owed to subsidiary undertaking	<b>—</b>	—	<b>188</b>	—
	<b>1,678</b>	1,521	<b>1,527</b>	1,226

## 14. Financing

<b>Group</b>	<b>2005</b>	2004
	<b>£'000</b>	£'000
<b>Analysis of borrowings:</b>		
Bank loans and overdrafts repayable:		
In more than 1 year but not more than 2 years — secured	<b>88</b>	88
In more than 2 years but not more than 5 years — secured	<b>308</b>	308
In more than 5 years — secured	<b>5,429</b>	5,508
	<b>5,825</b>	5,904
Total borrowings due within one year	<b>79</b>	79
Total borrowings due after one year	<b>5,825</b>	5,904
Total borrowings	<b>5,904</b>	5,983
Cash at bank and in hand	<b>(24,473)</b>	(24,291)
Net (Funds) (note 21)	<b>(18,569)</b>	(18,308)

The bank loan of £5.9m was secured on the Group's freehold investment property. The loan was repayable by October 2025, but was redeemed on 12 May 2006 on the sale of Victoria Heights Corporation Limited (see note 25).

## 15. Provisions for liabilities

	<b>Group</b>	<b>Group</b>	<b>Group</b>	<b>Company</b>
	<b>Pension</b>	<b>Onerous</b>	<b>Total</b>	<b>Total</b>
	<b>Scheme</b>	<b>property</b>	<b>£'000</b>	<b>£'000</b>
	<b>deficit</b>	<b>leases</b>		
	<b>£'000</b>	<b>£'000</b>		
Provision at 1 January 2005	250	1,019	1,269	270
Provision utilised	—	(736)	(736)	(675)
Increase in provision — (see note 23)	—	4,812	4,812	5,500
<b>Provision at 31 December 2005</b>	<b>250</b>	<b>5,095</b>	<b>5,345</b>	<b>5,095</b>

Provisions anticipated to fall due within 12 months of £623,000 are included in other creditors due in one year.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 16. 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 2005 was:

Currency	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Total £'000
<b>2005</b>			
<b>Sterling</b>	<b>5,904</b>	<b>—</b>	<b>5,904</b>
2004			
Sterling	5,983	—	5,983

Floating rate liabilities comprise a mortgage loan of £5.9m bearing interest at a rate of LIBOR plus 1.2%. This loan was redeemed on 12 May 2006 (see note 25).

### 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.

	Cash at bank and in hand (interest-free) £'000	Short-term deposits (floating rate) £'000	Total £'000
<b>2005</b>			
<b>Sterling</b>	<b>201</b>	<b>24,272</b>	<b>24,473</b>
2004			
Sterling	113	24,178	24,291

### Borrowing facilities

The Group had no undrawn committed borrowing facilities available at 31 December 2005.

### 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 2005 the Group had no monetary assets in currencies other than Sterling.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 17. Share capital

	<b>31 December 2005 No.</b>	31 December 2004 No.	<b>31 December 2005 £'000</b>	31 December 2004 £'000
<b>Authorised</b>				
Ordinary shares of 1p each	<b>438,991,964</b>	438,991,964	<b>4,390</b>	4,390
<b>Allotted, called up and fully paid</b>				
Ordinary shares of 1p each	<b>284,581,499</b>	284,581,499	<b>2,846</b>	2,846

### Share option schemes

At 31 December 2005 the following options over 600,000 ordinary shares in the Company were outstanding pursuant to the terms of the Emess Share Option Schemes:

<b>Year of grant</b>	Number of shares at 31 December 2004	<b>Number of shares at 31 December 2005</b>	<b>Latest date exercisable</b>	<b>Price per share</b>
2004	600,000	<b>600,000</b>	23 June 2014	8.5p

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 2005 was 8.75p and the range during the period was 7.38p to 10.88p.

The Company holds 730,952 ordinary shares through the Emess Equity Partnership Plan. An option 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 2005

## 18. Reserves

	Share premium account £'000	Revaluation reserve £'000	Capital redemption reserve £'000	Special reserve £'000	Profit and loss account £'000	Total reserves £'000
<b>Group</b>						
At 1 January 2005	16,841	600	3,784	192	(1,327)	20,090
Loss for the period	—	—	—	—	(5,637)	(5,637)
Revaluation deficit	—	(600)	—	—	—	(600)
<b>At 31 December 2005</b>	<b>16,841</b>	<b>—</b>	<b>3,784</b>	<b>192</b>	<b>(6,964)</b>	<b>13,853</b>
<b>Company</b>						
At 1 January 2005	16,841	—	3,784	192	(727)	20,090
Loss for the period	—	—	—	—	(6,237)	(6,237)
<b>At 31 December 2005</b>	<b>16,841</b>	<b>—</b>	<b>3,784</b>	<b>192</b>	<b>(6,964)</b>	<b>13,853</b>

## 19. Reconciliation of movements in shareholders' funds (all equity)

	Group £'000	Company £'000
<b>At 1 January 2005</b>	22,936	22,936
Loss for the period	(5,637)	(6,237)
Revaluation deficit	(600)	—
<b>At 31 December 2005</b>	<b>16,699</b>	<b>16,699</b>

## 20. Net cash outflow from operating activities

	2005 £'000	2004 £'000
Operating loss	(6,428)	(1,557)
Provision for onerous leases	4,812	362
Revaluation deficit on property	650	—
Profit on sale of fixed assets	(6)	—
Depreciation	9	9
Decrease in debtors	30	177
Decrease/(increase) in trade investments	1,000	(1,000)
(Decrease)/increase in creditors	(467)	278
Decrease in provisions for liabilities and charges	(112)	(277)
	<b>(512)</b>	<b>(2,008)</b>

# Notes to the Financial Statements

For the year ended 31 December 2005

## 21. Analysis of net funds

	<b>1 January 2005 £'000</b>	<b>Cash flow £'000</b>	<b>31 December 2005 £'000</b>
Net cash:			
Cash at bank and in hand	24,291	182	24,473
Less deposits treated as liquid resources	(24,178)	(94)	(24,272)
	113	88	201
Liquid resources:			
Deposits	24,178	94	24,272
Debt:			
Loans	(5,983)	79	(5,904)
Net funds (note 14)	18,308	261	18,569

## 22. Group financial commitments

	<b>2005 Group Land and buildings £'000</b>	2004 Group Land and buildings £'000	<b>2005 Company Land and buildings £'000</b>	2004 Company Land and buildings £'000
Annual commitments under non-cancellable operating lease which expire:				
In the second to fifth years	—	—	—	—
Over five years	—	68	—	771
	—	68	—	771

# Notes to the Financial Statements

For the year ended 31 December 2005

## 23. Provisions for liabilities and contingent liabilities

### Provisions for liabilities

Provision is made in these financial statements for all material liabilities including any legal claims which are expected to materialise and onerous lease liabilities on premises formerly occupied by Group companies.

A number of potential liabilities relating to assigned leases exist and the Company is aware that the assignee under the largest of these potential lease obligations is failing to comply with its lease obligations. This lease, which was assigned in July 2001, expires in December 2023 and the current rent is £765,000 pa. The rent is subject to an increase to £887,000 pa from December 2008. Having considered professional advice, the Directors have made a provision of £5.5 million against this potential onerous lease. The provision does not take account of the Company's contractual and legal rights and remedies against the assignee which will be aggressively pursued.

The Directors have considered the adequacy of provisions for product liability, property lease liabilities which have materialised, 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.

### Contingent liabilities

#### *Indemnities and warranties*

The Group continues to have contingent liabilities in connection with indemnities and warranties given to the purchasers of its former businesses. As no claims have been made under these indemnities and warranties, the Directors are unable to quantify these potential liabilities.

#### *Property lease liabilities*

The Group continues to have contingent liabilities in connection with other property leases of its former businesses, for which it is exposed to lease obligations in the event of an assignee's default. The remaining lengths of these leases range from 3 to 8 years. Whilst all assignees continue to meet their obligations under these leases, the current annual rent obligations (which may be subject to periodic reviews), before allowing for any mitigating activities, for all such leases are approximately £400,000. No provision has been made in respect of these contingent matters.

## 24. Related party transactions

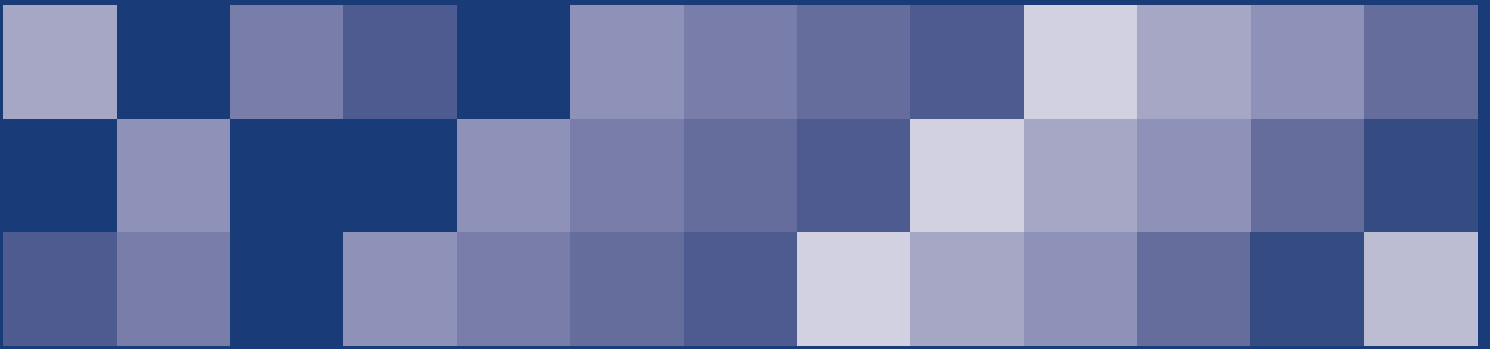
During the year the Company paid £18,846 (2004: £9,000) in respect of office accommodation to Westcity Holdings Limited, a company of which Mr Michael Rapp is a director. No amounts were outstanding at 31 December 2005 (2004: Nil).

## 25. Post-balance sheet event

On 12 May 2006 the Company completed the sale of its wholly owned subsidiary Victoria Heights Corporation Limited (which owns the Hixon property formerly occupied by a Group subsidiary) for £4,950,000. £450,000 of the purchase consideration was received in cash at completion and the deferred balance of £4,500,000 represented by a loan carrying interest at 1% p.a. over base rate, from the Company to Victoria Heights Corporation Limited secured by a first charge over the Hixon property is repayable no later than 12 May 2011. As part of the transaction and immediately prior to completion of the sale, Victoria Heights Corporation Limited redeemed a long-term loan of £5.9 million secured on the property.



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