

EMESS PLC
GROUP FINANCIAL STATEMENTS
SIX MONTHS TO 30 JUNE 2004

Independent auditors' report to the directors of Emess Plc

We have audited the group financial statements of Emess Plc for the six months ended 30 June 2004 which comprise the consolidated profit and loss account, consolidated statement of recognised gains and losses, the consolidated balance sheet, the consolidated cash flow statement, accounting policies and the related notes numbered 1 to 27. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's directors, as a body. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in this auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's directors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The company's directors are responsible for the preparation of these financial statements and that they are in accordance with United Kingdom Accounting Standards and give a true and fair view of the group's affairs at the end of the period.

Our responsibility is to audit the financial statements in accordance with United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view of the state of the group's affairs at the balance sheet date and of the results for the period ended on that date.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the group as at 30 June 2004 and of its loss for the six month period then ended.

Horwath Clark Whitehill LLP
Chartered Accountants
and Registered Auditors
London EC4Y 8EH

28 February 2005

EMESS PLC
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Notes	6 months to 30 June 2004 £'000	12 months to 31 Dec 2003 £'000
TURNOVER			
		-	-
	<i>Continuing</i>	-	-
	<i>Discontinued</i>	-	15,782
	1	<u> </u>	<u>15,782</u>
Costs and overheads less other income			
	<i>Continuing</i>	(501)	(915)
	<i>Discontinued</i>	-	(15,815)
		<u> </u>	<u> </u>
		(501)	(16,730)
Onerous lease provision made since 14 September 2004	2		
	<i>Continuing</i>	(350)	-
	<i>Discontinued</i>	-	-
		<u> </u>	<u> </u>
		-	-
Total costs, overheads, other income and onerous lease provision		<u> </u>	<u> </u>
		(851)	(16,730)
OPERATING LOSS			
		(851)	(915)
	<i>Continuing</i>	(851)	(915)
	<i>Discontinued</i>	-	(33)
	3	<u> </u>	<u> </u>
		(851)	(948)
Profit on sale of subsidiaries		-	1,600
		<u> </u>	<u> </u>
		-	1,600
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST			
		(851)	(915)
	<i>Continuing</i>	(851)	(915)
	<i>Discontinued</i>	-	1,567
		<u> </u>	<u> </u>
		(851)	652
Interest receivable less payable	7	358	511
		<u> </u>	<u> </u>
		358	511
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			
		(493)	1,163
		<u> </u>	<u> </u>
		(493)	1,163
Tax	8	-	-
		<u> </u>	<u> </u>
		-	-
(LOSS)/PROFIT AFTER TAX			
		(493)	1,163
Undeclared preference dividends	9	(88)	-
Declared preference dividends	9	-	(184)
Redemption charge on non-equity shares	10	(293)	(616)
		<u> </u>	<u> </u>
		(874)	363
LOSS/(PROFIT) FOR THE PERIOD ATTRIBUTABLE TO ORDINARY SHAREHOLDERS			
		(874)	363
(Loss)/Earnings per ordinary share			
Basic and diluted	11	(0.4p)	0.2p

The notes numbered 1 to 27 form part of these financial statements

EMESS PLC
STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE SIX MONTHS ENDED 30 JUNE 2004

	6 months to 30 June 2004 £'000	<i>12 months to 31 Dec 2003 £'000</i>
(Loss)/Profit for the financial period	(874)	363
Unrealised surplus on revaluation of properties	<u>-</u>	<u>600</u>
Total recognised gains and losses since last annual report	<u>(874)</u>	<u>963</u>

The notes numbered 1 to 27 form part of these financial statements

EMESS PLC
CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2004

	Notes	30 June 2004 £'000	31 Dec 2003 £'000
FIXED ASSETS			
Tangible assets	12	25	29
Investment property	13	6,200	6,200
		<u>6,225</u>	<u>6,229</u>
CURRENT ASSETS			
Debtors	14	76	1,298
Cash at bank and in hand		25,634	25,262
		<u>25,710</u>	<u>26,560</u>
CREDITORS: due within one year	16	<u>(1,212)</u>	<u>(1,705)</u>
NET CURRENT ASSETS		<u>24,498</u>	<u>24,855</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>30,723</u>	<u>31,084</u>
CREDITORS: due after one year			
Bank Loans	15	(6,000)	(6,000)
PROVISION FOR LIABILITIES AND CHARGES	17	<u>(1,491)</u>	<u>(1,184)</u>
		<u>23,232</u>	<u>23,900</u>
CAPITAL AND RESERVES			
Called up share capital	19	2,846	3,831
Share premium account	20	16,841	17,016
Revaluation reserve	20	600	600
Other capital reserves	20	3,976	2,991
Distributable reserves	20	(1,031)	(538)
Shareholders' funds – equity and non equity interests	21	<u>23,232</u>	<u>23,900</u>

These financial statements were approved by the Board on 28 February 2005

Director R Wood-Ward

The notes numbered 1 to 27 form part of these financial statements

EMESS PLC
CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Notes	6 months to 30 June 2004 £'000	12 months to 31 Dec 2003 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	22	<u>(209)</u>	<u>(4,408)</u>
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Preference dividend paid		(92)	(92)
Interest received		521	777
Interest paid		<u>(163)</u>	<u>(261)</u>
Net cash inflow from returns on investments and servicing of finance		<u>266</u>	<u>424</u>
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		-	(132)
Sale of tangible fixed assets		-	121
Net cash outflow from capital expenditure		<u>-</u>	<u>(11)</u>
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		<u>490</u>	<u>8,037</u>
NET CASH INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		547	4,042
MANAGEMENT OF LIQUID RESOURCES			
Cash placed on short term deposit		<u>(618)</u>	<u>(3,740)</u>
FINANCING			
Net decrease in loans		-	(800)
Net decrease in finance leases		-	(81)
Costs associated with issue of ordinary share capital		<u>(175)</u>	<u>-</u>
Net cash (outflow) from financing		<u>(175)</u>	<u>(881)</u>
DECREASE IN CASH	23	<u>(246)</u>	<u>(579)</u>

The notes numbered 1 to 27 form part of these financial statements

EMESS PLC
ACCOUNTING POLICIES
30 JUNE 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 30 June 2004. For the period ended 30 June 2004 substantially all of activities undertaken and assets and liabilities are held by Emess plc.

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.

Tangible fixed assets

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

Depreciation

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

Plant and machinery 10% to 20%
Equipment and motor vehicles 20% to 33 $\frac{1}{3}$ %

Deferred tax

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

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into 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

EMESS PLC
ACCOUNTING POLICIES (Continued)
30 JUNE 2004

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 disclosure 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 property

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

Pension costs

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

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

Liquid resources

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

Onerous lease provisions

Provision is made for all future rental liabilities less any anticipated rental income on leased properties not being utilised by Group companies 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, being the latest redemption date.

EMESS PLC
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2004

1. TURNOVER

All turnover originated in the UK to UK customers.

2. COSTS AND OVERHEADS LESS OTHER INCOME

	6 months to 30 June 2004	<i>12 months to 31 Dec 2003</i>
	£'000	<i>£'000</i>
Change in stocks of finished goods and in work in progress	-	(697)
Other operating income	(31)	(43)
Raw materials and consumables	-	7,999
Staff costs (see note 5)	290	3,375
Depreciation and other amounts written off tangible and intangible fixed assets	4	224
Other operating charges (see note 4)	238	5,872
	501	<i>16,730</i>

3. EXCEPTIONAL ITEMS

The operating loss includes exceptional charges comprising:

Provision on onerous lease made since 14 September 2004	350	-
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The unaudited interim results for the six months to 30 June 2004 were published on 14 September 2004. This exceptional item relates to a provision on an onerous lease identified since this date

4. OTHER OPERATING CHARGES

Other operating charges includes:

Operating lease rentals for hire of plant	-	25
Operating lease rentals for properties	-	167
Audit fees	10	15

Fees to the auditors for non-audit services amounted to £6,575 (12 months 2003: £128,942) in respect of:

	£	£
Company secretarial services	700	9,575
Acquisition and disposal	-	112,867
General financial advice	5,875	6,500
	6,575	<i>128,942</i>

5. STAFF COSTS

	£'000	£'000
Wages and salaries	258	3,100
Social security costs	30	257
Other pension costs	2	18
	290	<i>3,375</i>

	No.	No.
The average number of persons employed during the period was:	3	<i>158</i>

EMESS PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
30 JUNE 2004

6. PENSION COSTS

The Group operates a defined contribution scheme for its employees. During the period the Group made contributions of £ 2,000 (12 months 2003:£45,050) to the Scheme.

	6 months to 30 June 2004	<i>12 months to 31 Dec 2003</i>
	£'000	<i>£'000</i>
7. INTEREST		
Payable on bank loans and overdrafts	(163)	<i>(261)</i>
Receivable	521	<i>772</i>
	<u>358</u>	<i><u>511</u></i>

	6 months to 30 June 2004	<i>12 months to 31 Dec 2003</i>
	£'000	<i>£'000</i>

8. TAX

UK corporation tax at 30%
Current period

	<u>-</u>	<i><u>-</u></i>
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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:

Profit/(Loss) on ordinary activities before taxation	<u>(493)</u>	<i><u>1,163</u></i>
------------------------------------------------------	---------------------	---------------------

Tax on profit/loss on ordinary activities at standard rate 30%	(148)	<i>349</i>
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Factors affecting tax charge for the period:

Disallowable expenses	74	<i>1,200</i>
Utilisation of prior year capital losses	-	<i>(1,800)</i>
Losses not recognised	74	<i>1,200</i>
Capital allowances in excess of depreciation	-	<i>(100)</i>
Other timing differences	-	<i>(849)</i>
	<u>-</u>	<i><u>-</u></i>

Deferred tax

The deferred tax asset of the Group of £172K (2003:£98K) is not recognised as there is no certainty that suitable taxable profits will be made in the foreseeable future.

In addition, the Company has surplus ACT carried forward of £3.7m (2002:£3.7m) and UK capital tax losses of £44m (2003:£44m) which can be used against any future capital gains. The total potential capital tax losses amounts to £76m (2003:£76m).

EMESS PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
30 JUNE 2004

9. DIVIDENDS

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
Undeclared dividends – not paid	-	184
1.2p (net) cumulative redeemable preference shares of 1p – half year to 30 June 2004	88	-
	88	184

10. REDEMPTION CHARGE ON NON-EQUITY SHARES

A charge 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.

11. EARNINGS/(LOSS) PER ORDINARY SHARE

Basic and fully diluted earnings/(loss) per ordinary share has been calculated on the Group's profit/(loss) attributable to shareholders of (£874,000) (12 months 2003:profit of £363,000) and on the weighted average number of ordinary shares in issue during the financial period which was 230,220,902 (2003:226,329,450).

12. TANGIBLE FIXED ASSETS

		Motor vehicles & office equipment £'000
Cost		
At 1 January 2004 and 30 June 2004	<u>73</u>	
Accumulated depreciation		
At 1 January 2004	44	
Charge for the period	4	
At 30 June 2004	<u>48</u>	
Net book value		
At 30 June 2004	<u>25</u>	
At 31 December 2003	<u>29</u>	

EMESS PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
30 JUNE 2004

13. INVESTMENT PROPERTY AT VALUATION **£'000**

Freehold at valuation

At 1 January 2004 and 30 June 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 30 June 2004 by the Directors to include land annexed to the site previously carried at nil value.

14. DEBTORS **30 June** *31 Dec*

Amounts due within one year: **2004** *2003*

Other debtors	26	<i>1,166</i>
Prepayment and accrued income	50	<i>132</i>
	76	<i>1,298</i>

15. FINANCING **30 June** *31 Dec*

Analysis of borrowings:

Bank loans and overdrafts repayable:

In more than 1 year but not more than 2 years – secured	90	-
In more than 2 years but not more than 5 years – secured	220	<i>300</i>
In more than 5 years – secured	5,690	<i>5,700</i>
	6,000	<i>6,000</i>

Total borrowings due within one year	-	-
Total borrowings due after one year	6,000	<i>6,000</i>
Total borrowings	6,000	<i>6,000</i>
Cash at bank and in hand	(25,634)	<i>(25,262)</i>
Net (Cash)/Debt (note 23)	(19,634)	<i>(19,262)</i>

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

16. OTHER CREDITORS

Amounts due within one year:

Corporation tax	93	26
Other taxes and social security costs	42	42
Other creditors	559	814
Accruals and deferred income	518	731
Dividends	-	92
	1,212	<i>1,705</i>

EMESS PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
30 JUNE 2004

17. PROVISIONS FOR LIABILITIES AND OTHER CHARGES

	Pension Scheme deficit £'000	Onerous property leases £'000	Total £'000
Provision at 1 January 2004	250	934	1,184
Provision utilised	-	(43)	(43)
Increase in provision (note 3)	-	350	350
Provision at 30 June 2004	<u>250</u>	<u>1,241</u>	<u>1,491</u>

18. FINANCIAL INSTRUMENTS

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

Interest rate profile of financial liabilities

The interest rate risk profile of the group's financial liabilities as at 30 June 2004 was:

Currency	Floating rate financial liabilities £'000	Fixed rate financial liabilities £'000	Total £'000
2004			
<i>Sterling</i>	<u>6,000</u>	-	<u>6,000</u>
2003			
<i>Sterling</i>	<u>6,000</u>	-	<u>6,000</u>

Floating rate liabilities comprise a mortgage loan of £6m 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			
<i>Sterling</i>	<u>70</u>	<u>25,564</u>	<u>25,634</u>
2003			
<i>Sterling</i>	<u>321</u>	<u>24,941</u>	<u>25,262</u>

EMESS PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
30 JUNE 2004

Borrowing facilities

The group had no undrawn committed borrowing facilities available at 30 June 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 30 June 2004 the Group had no monetary assets in currencies other than Sterling.

19. SHARE CAPITAL

	30 June 2004 No.	31 Dec 2003 No.	30 June 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
		<u> </u>	<u>4,390</u>	<u>7,950</u>
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
		<u> </u>	<u>2,846</u>	<u>3,831</u>

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 30 June 2004 the following options over 760,000 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 30 June 2004	Latest date exercisable	Price per share
1995	80,000	-	Renounced 30 April 2004	32p
1996	80,000	60,000	26 September 2004	32p
1998	100,000	100,000	26 September 2004	25p
2004	-	600,000	23 June 2014	8.5p
	<u>260,000</u>	<u>760,000</u>		

The market price of the Company's ordinary shares at 30 June 2004 was 8p and the range during the period was 7.75p to 9.5p.

The Company holds 730,952 ordinary shares through the Emess Equity Partnership Plan. These shares were granted to Mr Wood-Ward on 30 June 2004 at NIL price. The award is exercisable between 27 June 2007 and 24 June 2011.

The above options exercisable by 26 September 2004 have now lapsed.

EMESS PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
30 JUNE 2004

20. RESERVES

Group	Share premium account	Revaluation reserve	Capital redemption Reserve	Special Reserve	Distributable reserves		Total reserves
	£'000	£'000	£'000	£'000	Other reserve	Profit and loss account	£'000
At 1 January 2003	17,016	-	2,991	-	154	(5,587)	14,574
Profit for the year	-	-	-	-	-	363	363
Goodwill previously written off to reserves	-	-	-	-	-	3,916	3,916
Revaluation	-	600	-	-	-	-	600
Redemption charge for non-equity shares	-	-	-	-	616	-	616
At December 2003	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	-	-	-	-	-	(874)	(874)
Undeclared preference dividend	-	-	-	-	88	-	88
Redemption charge for non-equity shares	-	-	-	-	293	-	293
Transfer to Profit and Loss Account	-	-	-	-	(1,151)	1,151	-
At 30 June 2004	16,841	600	3,784	192	-	(1,031)	20,386

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.

21. RECONCILIATION OF SHAREHOLDERS FUNDS

	Equity Interest £'000	Non-equity Interest £'000	Total £'000
At 1 January 2003	17,484	829	18,313
Profit/(Loss) for the year	363	800	1,163
Goodwill previously written off to reserve	3,916	-	3,916
Revaluation reserve	600	-	600
Dividend paid	-	(92)	(92)
At 31 December 2003	22,363	1,537	23,900
Scheme of arrangement	767	(767)	-
Cost of issue of shares	(175)	-	(175)
Loss for the period	(874)	-	(874)
Undeclared preference dividend	-	88	88
Redemption charge for non-equity shares	-	293	293
Transfer to Profit and Loss account	1,151	(1,151)	-
At 30 June 2004	23,232	-	23,232

EMESS PLC
NOTES TO THE FINANCIAL STATEMENTS (Continued)
30 JUNE 2004

22. NET CASH OUTFLOW FROM OPERATING ACTIVITIES	6 months to 30 June 2004 £'000	<i>12 Months to 31 Dec 2003 £'000</i>
Operating Loss	(851)	(948)
Depreciation	4	153
Decrease in stocks	-	(521)
Decrease in debtors	222	1,404
Increase/(decrease) in creditors	109	(1,178)
Increase/(decrease) in provisions for liabilities and charges	307	(3,318)
	<u>(209)</u>	<u>(4,408)</u>

23. ANALYSIS OF NET FUNDS	1 January 2004 £'000	Cashflow £'000	30 June 2004 £'000
Net cash:			
Cash at bank and in hand	25,262	372	25,634
Less deposits treated as liquid resources	(24,942)	(618)	(25,560)
	<u>320</u>	<u>(246)</u>	<u>74</u>
Liquid resources:			
Deposits	24,942	618	25,560
Debt:			
Loans	(6,000)	-	(6,000)
Net funds (note 15)	<u>19,262</u>	<u>372</u>	<u>19,634</u>

24. NON-CASH MOVEMENTS

As outlined in notes 10 and 19, 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.

25. GROUP FINANCIAL COMMITMENTS

	2004 Land and buildings £'000	2003 Land and buildings £'000	2004 Other £'000	2003 Other £'000
Annual commitments under non-cancellable operating lease which expire:				
In the second to fifth years	-	-	-	-
Over five years	68,000	68,000	-	-
	<u>68,000</u>	<u>68,000</u>	<u>-</u>	<u>-</u>

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26. 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.

27. RELATED PARTY TRANSACTIONS

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 to which Mr Raymond Davies is a director.