

Company number: 3626335

**FIELD SYSTEMS DESIGNS HOLDINGS plc**

**GROUP FINANCIAL STATEMENTS**

**31 MAY 2005**

**DIRECTORS AND OFFICERS**

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**DIRECTORS**

D K Bird      Chairman  
P J Haines  
D F Lower  
B D Phillips  
B D Smith  
R M Hunter  
R M Owen  
T W West      Non-executive  
M H Engler    Non-executive

**SECRETARY**

B D Smith

**REGISTERED OFFICE**

Independent House  
Glebelands Centre  
Vincent Lane  
Dorking  
Surrey  
RH4 3YX

**AUDITORS**

Grant Thornton UK LLP  
Chartered Accountants  
The Explorer Building  
Fleming Way  
Manor Royal  
Crawley  
RH10 9GT

**BANKERS**

HSBC Bank Plc  
168 High Street  
Guildford  
Surrey  
GU1 3YU

**CHAIRMAN'S STATEMENT**

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I am pleased to announce the results of Field Systems Designs Holdings plc for the year ended 31 May 2005.

The Group continued the good progress made during the period ended 31 May 2004 and returned a satisfactory result for the current year.

The Group continues to focus on its core electrical activities for which there remain good opportunities for order intake potential.

The Water Industry with its 5 year build and refurbishment programme remains the group's major order intake focus.

Although the delay in contract awards under the fourth Asset Management Programme (AMP4) is currently affecting order intake from the Water Industry, once released the potential is considerable, and in the meantime our strengthened sales team continues to pursue new Power, Rail and other Transport opportunities

D K Bird  
Chairman

5 September 2005

**REVIEW OF OPERATIONS**

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**OPERATIONAL PERFORMANCE**

The Group achieved a turnover of £10.1 million for the year to 31 May 2005, up from £9.6 million, which is a 5% increase on previous levels.

Gross profit margins were maintained at 8.4% and tight control of overheads resulted in a good improvement in operating profits. The group made a resultant net profit after tax for the year of £102,242 up from £97,140, continuing the upward trend.

This increase was achieved against a difficult trading year as the flow of work from the Water sector under the Water Utility Asset Management Programme 3 (AMP3) has slowed ahead of the new releases of work under AMP4.

The contracts won this year have stemmed from a variety of sources often breaking new ground or introducing new customers to the business.

FSD has maintained its emphasis on pursuing working arrangements under frameworks, partnerships and the strategic alliances in the Water industry. This resulted in the company maintaining the level of its turnover coming from water and process companies at 78% compared to 84% last year.

There have been new business opportunities from work in Scotland and maintenance contracts secured for the first time this year.

**MAJOR PROJECTS**

Prestigious major projects such as the electrical installation at the new Waste Water Treatment plant at Reading and the tunnel lighting project at Saltash were successfully concluded this year.

FSD continued its work supporting the Urban Waste Water Treatment Directive Flow-Monitoring works for Severn Trent. This project is now approaching its conclusion but leaves the company with an impressive reference site for proving its ability to manage contracts with diverse locations, multiple disciplines and specialist engineering skills.

Work is now well advanced on the second phase of the Channel Tunnel Rail link (CTRL) where the group is to be found at various sites around the railway network servicing the scheme.

FSD has benefited from Water related electrical works which are a by-product of the Heathrow Terminal 5 project and has been working successfully within the M25 corridor ensuring these projects meet their programme timescales.

**REVIEW OF OPERATIONS**

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**MAJOR PROJECTS (continued)**

The latter part of this year has seen the company start to see a consistent stream of work in Scotland as Scottish Water Solutions undertakes its refurbishment programme. Scottish Water Solutions, formed by Scottish Water, is responsible for the delivery of projects to improve river and drinking water quality in Scotland.

This level of Scottish work is expected to continue throughout the 2006 financial year and mitigate the anticipated slowdown in English water projects until the new work expected under AMP4 comes on stream. FSD see this as a growth area and have been concentrating on consolidating its reputation in Scotland as a company of high quality and reliability.

FSD has been establishing business relationships in Northern Ireland and the Republic of Ireland this year where the company has also completed electrical project work as it broadens its customer base.

The company was awarded the high profile electrical works contract on the Thames Gateway desalination project at Beckton despite fierce competition. This represented the culmination of many months building relationships with Thames Water and persuading their engineering team that FSD and its supply chain partners were capable of providing the best and most cost effective solution.

Unfortunately Thames Water are still awaiting planning permission for the project and there has been a delay in obtaining this permission following intervention by the Mayor of London. Thames Water remains committed to the construction of the project and FSD are committed to providing their full support in achieving this objective.

FSD continued to work under contract on the design and procurement phase of the project and awaited the commencement of electrical installation work on site. This was originally anticipated for later this year, but following the suspension of part of the contract, the future start date is now uncertain.

This year has seen a break through in winning a contract for maintenance work for C2C. A team of dedicated electrical and mechanical engineers and operatives have been successfully surveying and maintaining plant and equipment throughout diverse locations in the UK.

Safety remains of paramount importance to the Group and has never been more so than when working on the railway network. In addition to the major works on the CTRL project, FSD has also continued its experience of Railway related projects in its project dealing with electrical installation, power distribution and lighting for South West Trains on Carriage Washing Machines.

**REVIEW OF OPERATIONS**

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**QUALITY ASSURANCE**

FSD continued to work under the regimes set in place when introducing BS EN ISO 9001:2000 last year and has regular monitoring procedures in place. The operational areas of the Group use management procedures which comply with the requirements of this Quality Management Standard.

The standard requires high levels of customer satisfaction and continuous improvement. FSD has these principles at its core. The methods used to achieve this include customer surveys, monitoring performance throughout the business over a series of Key Performance Indicators and benchmarking performance within our industry.

The Group has been successful in obtaining accreditation to BS EN ISO 14001:1994 for environmental awareness this year. The upgrading to ISO 14001:2004 is a target for the forthcoming financial year. This emphasis on environmental awareness is becoming quite rightly more of a focus for the whole industry and FSD is currently keeping ahead of its contemporaries on this issue at this time.

**HEALTH AND SAFETY**

FSD continues to emphasise the importance of vigilant health and safety practices and maintains investment in training for site and management to broaden the skills, knowledge and experience of its employees.

The group believes that high standards of Environmental and Health and Safety performance is good business in terms of reducing business risk, identifying opportunities for cost savings and delivering a product that meets its customers' expectations.

The Group's vision is to act as good stewards to the environment and to promote the health and safety of all employees. The Board of Directors believe in creating a safe working environment, preserving and protecting the environment and supporting clients in achieving their own targets.

The Group has its own health and safety executive, constantly monitoring safety standards and reporting directly to the board on any issues of concern.

**EMPLOYEES**

Group employee numbers have remained steady with an average of 104 in 2004 and 103 in 2005 reflecting the stabilisation of contractual activity during the year.

The company currently operates an approved option scheme and an unapproved option scheme. The company has granted options to 38 employees (2004: 38) under the Field Systems Designs Holdings plc Company Share Option Plan over 133,000 ordinary 10p shares. No options have been exercised since 4 January 2003.

I am pleased to place on record my appreciation of the efforts and support given to the group by its employees, who continue to make a significant contribution to the Group.

**REVIEW OF OPERATIONS**

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**OUTLOOK**

The Group entered the new financial year with a record opening order book of £5.4million (2004:£4.6million). This included the Thames Gateway project.

It was anticipated that the main utility companies might fail to roll out an even capital expenditure profile under AMP4 resulting in a lull in the award of water related works.

The Group, as a result, has concentrated much of its sales activity on promoting other market areas, both geographically and by industry, where the company has expertise. A new salesman was recruited last year to help boost order intake and this investment is beginning to bear fruit.

The Group maintains a key position on frameworks and strategic alliances with water and process companies. The Group is in a good position to maximise the benefits from its ongoing contracts contained in its order book, and will further embrace those let to it according to a “partnering” procurement strategy.

Investment has been made in specialised software this year, as part of FSD’s goal to continually improve, in the areas of engineering and procurement and as this is rolled out it will create operational efficiencies across the Group’s activities.

The directors are concentrating their efforts on ensuring the continued improvement in the results of the core electrical business.

Given the position FSD has established with existing customers and water frameworks, the directors are confident that their efforts will be successful.

P J Haines  
Managing Director

5 September 2005

**DIRECTORS' REPORT**

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The directors submit their report and the group financial statements of Field Systems Designs Holdings plc for the year ended 31 May 2005.

**PRINCIPAL ACTIVITIES**

The principal activities of the group during the year were the design, project management, supply, installation, commissioning and servicing of electrical instrumentation and electronic process control systems in the power, water, chemical, oil, gas, pharmaceutical, food, and transport industries.

**REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS**

Group turnover grew by 5% this year, and the Group continued the trend of improving results by returning a solid net profit.

The electrical subsidiary, Field Systems Designs Limited, benefited from undertaking a good variety of work this year across different disciplines reflecting its wide range of abilities.

A detailed review of the Group's activities during the year and of its prospects is contained within the Chairman's Statement and the Review of Operations.

**RESULTS AND DIVIDENDS**

The consolidated profit for the year after taxation was £102,242 (2004:£ 97,140). The directors do not recommend the payment of a dividend and this amount will be transferred to reserves.

**DIRECTORS**

The following directors have held office since 1 June 2004:-

D K Bird  
P J Haines  
D F Lower  
B D Phillips  
B D Smith  
R M Hunter (Appointed 16 June 2005)  
R M Owen (Appointed 16 June 2005)  
T W West (Non-executive)  
M H Engler (Non-executive)

**DIRECTORS' REPORT****DIRECTORS' INTERESTS IN SHARES**

The directors' interests in the shares of the company, including family interests, were as follows:-

	Ordinary shares of 10p each 31 May 2005	Ordinary shares of 10p each 1 June 2004
P J Haines	615,000	520,000
D F Lower	615,000	520,000
B D Phillips	520,000	520,000
D K Bird	520,000	520,000
B D Smith	295,000	-
M H Engler	100,000	-

**DIRECTORS' INTERESTS IN SHARE OPTIONS**

	Company share option plan Ordinary shares of 10p 31 May 2005	Company share option plan Ordinary shares of 10p 1 June 2004
D K Bird	5,250	5,250
P J Haines	5,250	5,250
D F Lower	5,250	5,250
B D Phillips	5,250	5,250
B D Smith	5,250	5,250

The company currently operates an approved option scheme and an unapproved option scheme. The directors have been granted 26,250 (2004:26,250) options under the unapproved scheme at a strike price of 10p per share.

**ORDINARY SHARES**

The company's shares have been quoted on the OFEX trading facility since December 1998 and have been quoted with a mid-price ranging between 59.5p and 10p during the year, ending the year at 16.5p.

**DIRECTORS' REPORT**

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**POLICY ON PAYMENT OF CREDITORS**

The Group values its relationship with suppliers and sub-contractors and makes every effort to settle suppliers' accounts on time.

It is current group policy to ensure that wherever possible all suppliers outstanding trade accounts are settled in accordance with the settlement terms agreed with the supplier at the time of the supply whenever it is satisfied that the suppliers or sub-contractors have provided the goods or services in accordance with the contract terms and conditions.

At the year end the average credit taken from suppliers after taking account of the payment run on the first day of June was 67 days (2004: 59 days).

**AUDITORS**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985 and a resolution to reappoint Grant Thornton UK LLP will be put to the members at the annual general meeting.

On behalf of the board

Director

5 September 2005

**DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS**

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Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that year. In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the directors' report and other information included in the annual report is prepared in accordance with company law in the United Kingdom.

The maintenance and integrity of information provided on the company 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 directors understand that the auditors accept no responsibility for any changes that may have occurred to the information contained in the audited financial statements.

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

We have audited the financial statements of Field Systems Designs Holdings plc for the year ended 31 May 2005, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the notes to the consolidated cash flow statement, the principal accounting policies and notes 1 to 23. These financial statements have been prepared under 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's 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' responsibilities for preparing the annual report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the chairman's statement and the review of operations. 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 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 financial statements give a true and fair view of the state of affairs of the company and the group at 31 May 2005 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP  
Registered Auditors  
Chartered Accountants  
Gatwick

5 September 2005

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
for the year ended 31 May 2005

	Notes	2005	2004
<b>TURNOVER</b>	1	10,076,197	9,598,004
Cost of sales		9,232,293	8,784,996
		-----	-----
<b>GROSS PROFIT</b>		843,904	813,008
Net operating expenses	3	725,384	722,993
		-----	-----
<b>OPERATING PROFIT</b>		118,520	90,015
Interest receivable	5	(6,721)	(5,087)
Interest payable	6	13,499	26,462
		-----	-----
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	7	111,742	68,640
Taxation	9	9,500	(28,500)
		-----	-----
<b>RETAINED PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	19	£ 102,242	£ 97,140
		=====	=====
<b>EARNINGS PER SHARE</b>			
Basic	17	1.8p	2.0p
		=====	=====
Fully diluted	17	1.8p	2.0p
		=====	=====

There were no recognised gains or losses other than the profit for the financial period.  
All operations are continuing.

**CONSOLIDATED BALANCE SHEET**  
As at 31 May 2005

	Notes	2005	2004
<b>FIXED ASSETS</b>			
Tangible assets	10	138,318	142,633
<b>CURRENT ASSETS</b>			
Debtors	12	2,879,631	2,489,621
Cash at bank and in hand		812,580	270,793
		<u>3,692,211</u>	<u>2,760,414</u>
<b>CREDITORS</b>			
Amounts falling due within one year	13	2,916,751	2,385,352
		<u>775,460</u>	<u>375,062</u>
<b>NET CURRENT ASSETS</b>			
		<u>913,778</u>	<u>517,695</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
<b>CREDITORS</b>			
Amounts falling due after more than one year	14	20,259	34,418
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
	15	124,000	66,000
		<u>£ 769,519</u>	<u>£ 417,277</u>
		=====	=====
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	569,250	478,000
Share premium account	18	158,750	-
Reserves	19	41,519	(60,723)
<b>SHAREHOLDERS' FUNDS</b>			
	20	<u>£ 769,519</u>	<u>£ 417,277</u>
		=====	=====

Approved by the board on 5 September 2005

P J Haines.....Director

B D Smith.....Director

**COMPANY BALANCE SHEET**  
As at 31 May 2005

	Notes	May 2005	May 2004
<b>FIXED ASSETS</b>			
Investments	11	478,000	417,279
<b>CURRENT ASSETS</b>			
Debtors	12	250,000	250,000
<b>CREDITORS</b>			
Amounts falling due within one year	13	-	250,001
<b>NET CURRENT ASSETS / LIABILITIES</b>		250,000	(1)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		728,000	417,278
<b>CREDITORS</b>			
Amounts falling due after more than one year	14	-	-
		£ 728,000	£ 417,278
<b>CAPITAL AND RESERVES</b>			
Called up share capital	17	569,250	478,000
Share premium account	18	158,750	-
Profit and loss account	19	-	(60,722)
<b>SHAREHOLDERS' FUNDS</b>		£ 728,000	£ 417,278

Approved by the board on 5 September 2005

P J Haines.....Director

B D Smith.....Director

**CONSOLIDATED CASH FLOW STATEMENT**  
**for the year ended 31 May 2005**

	<b>2005</b>	<b>2004</b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	647,188	351,315
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
Interest received	6,721	5,087
Interest paid	(13,499)	(26,462)
Net cash flow from returns on investments and servicing finance	(6,778)	(21,375)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>		
Purchase of fixed assets	(63,511)	(45,480)
Net cash flow before financing	576,899	284,460
<b>FINANCING</b>		
Finance lease payments	(35,112)	(24,439)
Repayment of loans	-	(180,000)
Net cash flow from financing	(35,112)	(204,439)
<b>INCREASE IN CASH</b>	£ 541,787	£ 80,021

The notes to the cashflow statement are contained on the following page.

**NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT  
for the year ended 31 May 2005**

	<b>2005</b>	<b>2004</b>		
<b>1. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES</b>				
Operating profit	118,520	90,015		
Depreciation	95,555	46,186		
Increase in debtors	(399,510)	(269,678)		
Increase in creditors	832,623	484,792		
	<u>£ 647,188</u>	<u>£ 351,315</u>		
	=====	=====		
<b>2. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>				
Increase in cash	541,787	80,021		
Decrease in lease financing	35,112	24,439		
Loan repayments	250,000	180,000		
New finance leases	(27,729)	(45,784)		
Net debt at 1 June 2004	(41,275)	(279,951)		
Net debt at 31 May 2005	<u>£ 757,895</u>	<u>£ (41,275)</u>		
	=====	=====		
<b>3. ANALYSIS OF NET DEBT</b>				
	<b>2004</b>	<b>Cash flows</b>	<b>Non-cash flows</b>	<b>2005</b>
Cash at bank	270,793	541,787	-	812,580
Convertible loan stock	(250,000)	-	250,000	-
Finance leases	(62,068)	35,112	(27,729)	(54,685)
	<u>£(41,275)</u>	<u>£ 576,899</u>	<u>£ 222,271</u>	<u>£ 757,895</u>
	=====	=====	=====	=====

**Group financial statements for the year ended 31 May 2005****PRINCIPAL ACCOUNTING POLICIES**

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**BASIS OF ACCOUNTING**

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The principle accounting policies of the group are set out below; the policies are unchanged from the previous period.

**BASIS OF CONSOLIDATION**

Transactions with subsidiary companies have been eliminated on consolidation in the group accounts. In accordance with FRS8, these transactions have not been separately disclosed.

The consolidated financial statements currently account for business combinations using acquisition accounting. Accordingly, the identifiable assets and liabilities of companies acquired are included in the consolidated balance sheet at their fair value at the date of acquisition. The consolidated financial statements in 1998 were prepared using merger accounting following a group reconstruction. All financial statements are made up to 31 May 2005.

**TANGIBLE FIXED ASSETS**

Fixed assets are stated at historical cost. Depreciation is provided on all tangible fixed assets, except freehold land, at rates calculated to write each asset down to its estimated residual value evenly over its expected useful economic life, as follows:-

Plant and machinery	over 3 to 5 years
Motor vehicles	over 4 years

**LONG TERM CONTRACTS**

Long term contracts are assessed on a contract by contract basis. Turnover is ascertained in a manner appropriate to the stage of completion of each contract, and credit taken for profit earned to date, when the outcome of the contract can be assessed with reasonable certainty. The amount by which turnover exceeds payments on account is classified as amounts recoverable on contracts and included in debtors; to the extent that payments on account exceed relevant turnover, the excess is included as a creditor. The amount of long term contracts, at cost net of amounts transferred to cost of sales, less provision for foreseeable losses and payments on account not matched with turnover, is included within work in progress.

**TURNOVER**

Turnover is the total amount receivable by the group for goods supplied and services provided, excluding VAT and trade discounts. In the case of long-term contracts, turnover reflects the contract activity during the year and represents the proportion of total contract value according to the degree of completion of the contract. The stage of completion is determined by the ratio of costs incurred to date compared to total expected contract costs.

**Group financial statements for the year ended 31 May 2005****ACCOUNTING POLICIES**

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**DEFERRED TAXATION**

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance date.

**LEASED ASSETS AND OBLIGATIONS**

Where assets are financed by leasing agreements that give rights approximating to ownership (“finance leases”), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding. All other leases are “operating leases” and the annual rentals are charged to the profit and loss on a straight line basis over the lease term.

**RETIREMENT BENEFITS****Defined benefit scheme**

The regular cost of providing retirement pensions is charged to the profit and loss account over the expected remaining periods to retirement of current members on the basis of a constant percentage of retirement benefits. Variations from regular cost, arising from periodic actuarial valuations, are allocated on the same basis. The difference between the charge to the profit and loss account and the contributions paid to the schemes is shown as an asset or a liability in the balance sheet.

**Defined contribution scheme**

Contributions to the group personal pension plan are charged to the profit and loss account as incurred.

**FOREIGN CURRENCY TRANSLATION**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

**FINANCIAL INSTRUMENTS**

The group does not trade in financial derivatives. Income and expenditure arising on financial instruments is recognised on an accruals basis and taken to the profit and loss account in the period to which it relates. Financial assets are recognised in the balance sheet at the lower of cost and net realisable value and provision is made for diminution in value.

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
**for the year ended 31 May 2005**

1. **TURNOVER** **2005** **2004**

The group turnover was derived from its principal activities arising primarily in the United Kingdom:

Turnover was generated from the following industries:

Water and sewerage	7,888,691	8,048,701
Power generation	100,400	99,416
Rail and transport	1,912,527	1,299,057
Maintenance	102,679	-
Controls and instrumentation	71,900	150,830
	<u>£ 10,076,197</u>	<u>£ 9,598,004</u>
	=====	=====

2. **SEGMENTAL INFORMATION**

The group results were as follows:

	<b>Operating Profit</b>		<b>Net assets</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Principal activities	208,520	180,015	£ 769,519	£ 417,277
Pension provision (Note 4)	(90,000)	(90,000)	=====	=====
	<u>£ 118,520</u>	<u>£ 90,015</u>		
	=====	=====		

**NOTES TO THE GROUP FINANCIAL STATEMENTS  
for the year ended 31 May 2005**

	<b>2005</b>	<b>2004</b>
<b>3. NET OPERATING EXPENSES</b>		
Sales costs	130,869	98,086
Administrative expenses		
- defined benefit pension cost	90,000	90,000
- other administrative expenses	504,515	534,907
	<u>594,515</u>	<u>624,907</u>
	£ 725,384	£ 722,993
	=====	=====

**4. DEFINED BENEFIT PENSION COST**

The cost of £90,000 recognised in the 2005 financial statements (2004 £90,000) relates to the deficit on the defined benefit scheme operated by a subsidiary company, arising from the 2003 actuarial valuation.

The deficit is allocated over the expected remaining periods to retirement of current members on the basis of a constant percentage of retirement benefits.

The actuarial valuation calculates the deficit on the scheme using the difference between the actuarial value of scheme liabilities and the market value of scheme assets. The provision recognised in the financial statements uses this valuation updated for the market value of assets as at the balance sheet date.

**5. INTEREST RECEIVABLE**

Bank interest	£ 6,721	£ 5,087
	=====	=====

**6. INTEREST PAYABLE**

Finance leases and hire purchase contracts	4,074	2,976
Loans and overdrafts	9,425	17,338
On other loans	-	6,148
	<u>£ 13,499</u>	<u>£ 26,462</u>
	=====	=====

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
**for the year ended 31 May 2005**

	<b>2005</b>	<b>2004</b>
<b>7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation charged for the year:		
owned assets	59,939	25,401
leased assets	35,616	20,785
Operating lease rentals:		
Motor vehicles	928	13,141
Land and buildings	41,447	38,750
Auditors' remuneration – audit services	11,500	11,500
– non-audit services	1,500	1,500
	=====	=====
Non-audit services are attributable to tax compliance work.		
<b>8. EMPLOYEES</b>		
The average monthly number of persons (including directors) employed by the group during the year was:	No.	No.
Operations	96	97
Administration and management	7	7
	-----	-----
	103	104
	=====	=====
Staff costs for the above persons:		
Wages and salaries	3,248,113	3,151,254
Social security costs	348,413	333,344
Other pension costs	149,325	128,827
	-----	-----
	£3,745,851	£3,613,425
	=====	=====

The group operates a funded pension scheme with defined benefits and also a group personal pension plan. Contributions during the year to the defined benefits scheme amount to £32,000 (2004 £28,000) and contributions to personal pension plans amount to £117,325 (2004 £100,827).

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
for the year ended 31 May 2005

		2005	2004
8.	<b>EMPLOYEES (Continued)</b>		
	<b>DIRECTORS' REMUNERATION</b>		
	Emoluments for qualifying services	£ 198,621	£ 178,118
		=====	=====
	Contributions to defined contribution pension scheme	£ 21,780	£ 13,437
		=====	=====
	<b>HIGHEST PAID DIRECTOR</b>		
	Emoluments for qualifying services	£ 66,552	£ 61,447
		=====	=====
	Contributions to defined contribution pension scheme	£ 7,260	£ 4,479
		=====	=====
	None of the directors' share options were exercised during the year. Retirement benefits accrued to directors under a defined contribution scheme.		
9.	<b>TAXATION</b>	<b>2005</b>	<b>2004</b>
	Based on the profit of the year:		
	UK Corporation tax at 19% (2004:19%)	-	-
	Deferred tax at 19% (2004:19%)	9,500	(28,500)
		-----	-----
		£ 9,500	£ (28,500)
		=====	=====
	<b>Factors affecting tax charge for the year:-</b>		
	Profit on ordinary activities before tax	111,742	68,640
		=====	=====
	Profit on ordinary activities multiplied by the standard rate of corporation tax of 19% (2004: 19%)	21,000	13,000
	Effects of:		
	Origination and reversal of timing differences	4,000	(3,000)
	Transactions not deductible / (chargeable)	2,000	1,000
	Utilisation of tax losses	(38,000)	(24,000)
	Pension provisions	11,000	13,000
		-----	-----
		£ -	£ -
		=====	=====

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
for the year ended 31 May 2005

10. **TANGIBLE FIXED ASSETS**

<b>GROUP</b>	Motor vehicles	Plant and machinery	TOTAL
Cost:			
1 June 2004	47,820	411,749	459,569
Additions	-	91,240	91,240
31 May 2005	<u>47,820</u>	<u>502,989</u>	<u>550,809</u>
Depreciation:			
1 June 2004	18,436	298,500	316,936
Charge in the year	11,985	83,570	95,555
31 May 2005	<u>30,421</u>	<u>382,070</u>	<u>412,491</u>
Net book value:			
31 May 2005	<u>17,399</u>	<u>120,919</u>	<u>£ 138,318</u>
	=====	=====	=====
31 May 2004	<u>29,384</u>	<u>113,249</u>	<u>£ 142,633</u>
	=====	=====	=====

The net book value of motor vehicles includes £10,303 (2004: £19,097) and the net book value of plant and machinery includes £51,667 (2004: £50,760) in respect of assets held under finance leases.

11. **FIXED ASSET INVESTMENTS**

	<b>2005</b>	<b>2004</b>
Subsidiary undertakings		
At 1 June 2004	417,279	311,921
Provisions released	60,721	105,358
At 31 May 2005	<u>£ 478,000</u>	<u>£ 417,279</u>
	=====	=====

Investments are included at cost less amounts written off. A provision was made in 2002 against the carrying value of the company's investment in its subsidiary, Field Systems Designs Limited, to reflect that company's net book value. This provision has now been fully reversed by a final release this period, to reflect that company's return to profit.

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
**for the year ended 31 May 2005**

**11. FIXED ASSET INVESTMENTS (continued)**

The group and the company hold more than 20% of the equity of the following material undertakings:

<b>Undertaking</b>	<b>Country of incorporation</b>	<b>Class of shares held</b>	<b>Proportion held</b>	<b>Nature of business</b>
Field Systems Designs Ltd	England	Ordinary	100%	Electrical contracting

**12. DEBTORS** **2005**      **2004**

**GROUP**

Due within one year:

Trade debtors	2,176,020	1,958,296
Amounts recoverable on contracts	550,107	285,771
Other debtors	10,166	60,367
Deferred tax asset	19,000	28,500
Prepayments and accrued income	27,772	40,386

2,783,065	2,373,320
-----------	-----------

Due after one year:

Trade debtors	96,566	116,301
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£ 2,879,631	£ 2,489,621
-------------	-------------

**COMPANY**

Due after one year:

Amounts due from subsidiary undertakings	£ 250,000	£ 250,000
--	-----------	-----------

£ 250,000	£ 250,000
-----------	-----------

**13. CREDITORS**

Amounts falling due within one year:

**GROUP**

Convertible loan stock	-	250,000
Obligations under finance leases	34,426	27,650
Trade creditors	1,438,025	1,027,650
Payments received in advance	570,588	349,116
Other taxation and social security costs	626,090	545,242
Other creditors	183,211	117,311
Accruals and deferred income	64,411	68,382

£ 2,916,751	£ 2,385,351
-------------	-------------

**COMPANY**

Convertible loan stock	-	250,000
Other creditors	-	1

£ -	£ 250,001
-----	-----------

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
for the year ended 31 May 2005

	<b>2005</b>	<b>2004</b>
<b>14. CREDITORS</b>		
Amounts falling due in more than one year:		
Obligations under finance leases	20,259	34,418
	£ 20,259	£ 34,418
	=====	=====

The company issued £250,000 convertible redeemable 5.5% loan stock which was converted into ordinary 10p shares and the funds made available to its subsidiary on a long term basis.

Finance leases repayable by instalments:		
between 2 and 5 years	£ 20,259	£ 34,418
	=====	=====

**15. PROVISIONS FOR LIABILITIES AND CHARGES**

<b>GROUP</b>	<b>2005</b>	<b>2004</b>
Pension fund accrual	£ 124,000	£ 66,000
	=====	=====

A provision has been made for the deficit on the company's defined benefit pension scheme, following periodic actuarial valuations, allocated over the expected remaining term to retirement of current members of the scheme.

The remaining unprovided potential assets are as follows:-

	Amount provided		Unprovided asset	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Accelerated capital allowances	-	-	(8,000)	-
Other timing differences	-	-	(33,000)	(33,000)
Unrelieved losses	(19,000)	(28,500)	(137,000)	(178,500)
	£ (19,000)	£ (28,500)	£ (178,000)	£ (211,500)
	=====	=====	=====	=====

A deferred taxation asset of £19,000 has been provided in debtors, as in the opinion of the directors, it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

The deferred asset provided for in the accounts is calculated at 19% whereas the remaining deferred tax assets are stated at 30% to reflect the short-term and longer-term corporation tax rates expected.

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
**for the year ended 31 May 2005**

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**16. FINANCIAL INSTRUMENTS**

The group uses financial instruments, other than derivatives, such as borrowings and cash, and credit given and taken as part of its business, to provide a financing base for the group's operations. The operating risks arising from these financial instruments relate mainly to fluctuating interest rates, liquidity risk and on occasion foreign exchange risk.

Short term debtors and creditors arising directly from the group's operations are excluded from the following disclosures other than the currency risk disclosure.

**Financial Risks**

The Group finances its operations through a mixture of share capital and reserves and bank and other borrowings. The Group borrows in sterling at both fixed and floating rates of interest.

The Group seeks to ensure continuity of funding and manage operational cash flows to produce sufficient liquidity to meet foreseeable needs.

**Financial Assets and Liabilities**

The group has no financial assets other than debtors which arise from the operations of the group and cash at bank and in hand. The group has the following financial assets / (liabilities):

**Interest rate**

The directors do not consider that the Group is exposed to material interest rate risk. The group finances its operations through cash reserves. The cash reserves held by the group have negated the need to use significant interest bearing short-term borrowings.

**Currency risk**

The group conducted some transactions in foreign currencies during the year. The table below shows the extent to which group companies have monetary assets and liabilities in currencies other than their local currency.

Foreign exchange differences on retranslation of the assets and liabilities are taken to the profit and loss account of the group companies and the group.

	<b>2005</b>	<b>2004</b>
	<b>Euro</b>	<b>Euro</b>
Cash balances	43,396	-
	=====	=====

**Maturity**

The group financial liabilities are repayable on demand. The £250,000 convertible redeemable 5.5% loan stock was converted into ordinary shares during the year.

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
**for the year ended 31 May 2005**

<b>17. SHARE CAPITAL</b>	<b>2005</b>	<b>2004</b>
Authorised:		
50,000,000 ordinary shares of 10p each	£ 5,000,000	£ 5,000,000
	=====	=====
Allotted, issued and fully paid:		
5,692,500 ordinary shares of 10p each	£ 569,250	£ 478,000
	=====	=====

There were 912,500 new ordinary 10p shares issued during the year to satisfy the redemption of the company's £250,000 convertible redeemable 5.5% loan stock.

The diluted earnings per share disclosure on the face of the profit and loss account is calculated using a total of 5,825,500 shares, taking into account the outstanding 133,000 options over shares and the potential future exercise of those options.

**18. SHARE PREMIUM ACCOUNT**

**GROUP & COMPANY**

Arising on the issue of shares during the year	£ 158,750	£ -
	=====	=====

There were 912,500 new ordinary 10p shares issued during the year to satisfy the redemption of the company's £250,000 convertible redeemable 5.5% loan stock.

**19. RESERVES**

**GROUP**

Profit And Loss Account Reserve:		
At 1 June 2004	(468,756)	(565,896)
Profit for the year	102,242	97,140
	-----	-----
At 31 May 2005	(366,514)	(468,756)
Merger reserve	408,033	408,033
	-----	-----
	£ 41,519	£ (60,723)
	=====	=====

The merger reserve arose on consolidation of the 1998 financial statements.

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
**for the year ended 31 May 2005**

	<b>2005</b>	<b>2004</b>
<b>19. RESERVES (continued)</b>		
<b>COMPANY</b>		
At 1 June 2004	(60,722)	(166,080)
Profit for the year	60,722	105,358
At 31 May 2005	£ -	£ (60,722)
	=====	=====

The company has taken advantage of the exemption conferred by s230 Companies Act 1985 and has not published its own profit and loss account. The result of the company for the year was £60,722 (2004: £105,358) relating solely to the release of provisions made previously against its investments.

**20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

**GROUP**

Profit for the financial year	102,242	97,140
New shares issued	250,000	-
Net addition to shareholders' funds	352,242	97,140
Opening shareholders' funds	417,277	320,137
Closing shareholders' funds	£ 769,519	£ 417,277
	=====	=====

The Group's funds would be as follows if the company had recognised in the financial statements the net pension liability disclosed in accordance with Financial Reporting Standard 17 under note 23:

Shareholders' funds as stated	769,519	417,277
Add back defined benefit pension provision	124,000	66,000
Net pension liability	(645,000)	(451,000)
Amended closing shareholders' funds	£ 248,519	£ 32,277
	=====	=====

**COMPANY**

Profit for the financial year	60,722	105,358
New shares issued	250,000	-
Net addition to shareholders' funds	310,722	105,358
Opening shareholders' funds	417,278	311,920
Closing shareholders' funds	£ 728,000	£ 417,278
	=====	=====

**NOTES TO THE GROUP FINANCIAL STATEMENTS  
for the year ended 31 May 2005**

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**21. COMMITMENTS UNDER OPERATING LEASES**

At 31 May 2005 the group had annual commitments under non-cancellable operating leases as follows:

Motor vehicles:		
expiring within 1 year	-	928
Land and buildings:		
expiring within 1 year	4,500	14,375
expiring between 2 and 5 years	41,000	-
	=====	=====

**22. CONTINGENT LIABILITIES**

The group has arranged bonding facilities in respect of contract duration and maintenance periods which amounted to £260,000 as at 31 May 2005 (2004:£84,000).

**23. PENSION FUNDS**

A group subsidiary operates a funded pension scheme with defined benefits and a group personal pension plan. A group personal pension plan was commenced on 1 April 1999 open to all new eligible employees of this subsidiary.

Membership of the defined benefit scheme was offered to all permanent employees including executive directors until 31 March 1999 when it was closed to new entrants. The scheme was closed to future service accrual on 8 April 2002 and therefore liabilities for future service are no longer accruing.

The assets of the scheme are held separately from those of the subsidiary. Contributions were determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method to meet the cost of employees' future service benefits. Contributions ceased on 8 April 2002.

The pension scheme assets and liabilities for employees transferring to the subsidiary were transferred to the pension scheme in November 1995.

The last actuarial valuation for the fund was as at 31 March 2003 and the next valuation is due as at 31 March 2006.

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
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23. **PENSION FUNDS (continued)**

**Actuarial valuation**

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on future investments and the level of future discount rates.

It was assumed for the 2003 valuation that the rate of interest secured on the assets of the scheme would be 6% per annum (2000: 7%), (1997: 8.5%), and that benefits would be revalued at the rate of 2.5% per annum (2000:3%), (1997:4.5%).

The actuarial valuation of the scheme's assets was £1,135,000 which was 55% (2000:89%) of the benefits that had accrued to members at the valuation date leaving a deficit of assets over past service liabilities amounting to £915,000 (2000:£139,000).

Following consideration of the recommendations of the actuary, the board agreed to make annual company contributions of £24,000 with effect from 1 April 2003 so as to start reducing the deficit on the fund. This was increased to £72,000 with effect from 1 April 2005 following continued pressure from the trustees to increase the amount paid.

**FRS17 Valuation**

The most recent actuarial valuation on 31 March 2003 of the group's defined benefit scheme has been updated to take account of Financial Reporting Standard 17 (FRS17) in order to assess the liabilities of the scheme as at 31 May 2005.

The assumptions used in the FRS17 valuation and the allocation of assets and long-term rates of return were as follows:

<b>FRS17 Valuation Assumptions</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Increase for pensions in payment	2.4%	2.7%	2.6%
Discount rate	5.1%	5.8%	5.1%
Inflation assumption	2.7%	3.1%	2.6%

  

<b>Scheme Assets</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Equities	1,361,000	1,194,000	986,000
Bonds	119,000	130,000	164,000
Other assets	103,000	61,000	119,000
	<u>£1,583,000</u>	<u>£1,385,000</u>	<u>£1,269,000</u>

  

<b>Rates of return</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Equities	6.9%	7.1%	6.3%
Bonds	5.1%	5.8%	4.6%
Other assets	4.75%	4.25%	3.75%

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
for the year ended 31 May 2005

23. **PENSION FUNDS (continued)**

**FRS17 valuation**

The funded status of the scheme as at 31 May 2005 was as follows:

<b>Funded Status</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Market value of assets	1,583,000	1,385,000	1,269,000
Scheme liabilities	2,505,000	2,030,000	2,103,000
<b>Deficit in the scheme</b>	<u>(922,000)</u>	<u>(645,000)</u>	<u>(834,000)</u>
Deferred tax asset	277,000	194,000	250,000
<b>Net pension liability</b>	<u>£(645,000)</u>	<u>£(451,000)</u>	<u>£(584,000)</u>

The FRS17 valuation is a market-based valuation and therefore this measure of its funded status is extremely volatile being significantly affected by the state of the markets at the valuation date.

The above increase in deficit was mainly due to the change in assumptions underlying the present value of scheme liabilities. The reduction in corporate bond yields during the year has impacted on the assumptions used to value the liabilities of the scheme, which have moved upwards as a result.

An analysis of the movement in the deficit is set out below:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Current service cost	(20,000)	(20,000)	(10,000)
Contributions	46,000	48,000	10,000
Other finance costs	(23,000)	(33,000)	-
Actuarial (loss) / gain	(280,000)	194,000	(570,000)
	<u>(277,000)</u>	<u>189,000</u>	<u>(570,000)</u>
Opening net deficit	(645,000)	(834,000)	(264,000)
<b>Closing net deficit</b>	<u>£(922,000)</u>	<u>£(645,000)</u>	<u>£(834,000)</u>

An analysis of the profit and loss account entries that would be required under FRS 17 is as follows:

**Operating profit**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Current service cost	20,000	20,000	10,000
Past service cost	-	-	-
	<u>£20,000</u>	<u>£20,000</u>	<u>£10,000</u>

**NOTES TO THE GROUP FINANCIAL STATEMENTS**  
**for the year ended 31 May 2005**

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23. **PENSION FUNDS (continued)**

**Finance income**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Expected asset return	94,000	74,000	101,000
Interest on liabilities	(117,000)	(107,000)	(101,000)
	<u>£(23,000)</u>	<u>£(33,000)</u>	<u>£ -</u>

An analysis of the entries that would be required under FRS 17 in the statement of total recognised gains and losses is as follows:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Actual return less expected asset return	97,000	35,000	(256,000)
	6.1%	2.5%	20.2%
Experience gains and losses on liabilities	-	(1,000)	(12,000)
	0.0%	0.0%	0.6%
Changes in assumptions underlying the liabilities	(377,000)	160,000	(302,000)
	15.0%	7.9%	14.4%
Actuarial gain/(loss)	<u>£(280,000)</u>	<u>£194,000</u>	<u>£(570,000)</u>