

Surface Transforms PLC

**Directors' report and financial
statements**

Registered number 03769702

31 May 2002



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 May 2002.

Principal activity

The principal activity of the company during the year was the development and manufacture of carbon fibre reinforced ceramic friction products.

Review of business

During the year the company made commercial sales of aerospace engine components, Formula 1 car braking components and carbon performs. The company has continued to develop materials for other applications where the board consider commercial opportunities to exist. All research and development activities performed by the company have continued in accordance with the Boards expectations.

Future developments

The board aims to continue its corporate strategies which are to:

- convert test sales into commercial sales
- expand the product range
- form strategic alliances with major customers
- obtain additional funding for the company

Research and development

The majority of the company's staff are employed in research and development activities which is concentrated on the ongoing development of carbon ceramic friction materials for new products and applications.

Capital expenditure

The company has continued to invest in plant and equipment to expand its testing and manufacturing facilities. Details of the movement in fixed assets are contained in the notes to the accounts.

Events since the year end

On 23 August 2002 the company issued a circular to shareholders explaining the planned move from OFEX to the Alternative Investment Market and associated fund raising.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend.

The loss retained in the company for the year is £561,065.

Directors' and directors' interests

The directors' who held office during the year were as follows:

J J Faria
Professor DT Clark
D E Levis
D M Whitney
D Williams

Directors' report *(continued)*

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the company according to the register of directors interests:

	Number of £0.01 ordinary shares	
	Interest at end of year	Interest at start of year
J J Faria	2,623,845	2,623,845
Professor D T Clark	782,161	1,054,661
D E Levis	664,982	664,982
D M Whitney	182,374	182,374
D Williams	166,245	166,245

Supplier payment policy

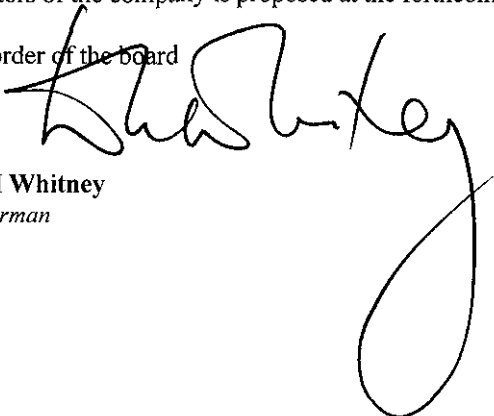
It is the company's policy to settle suppliers' invoices in line with the terms agreed and the company will endeavour to ensure the policy is achieved in practice. The company does not follow any code or standard on payment practice.

Auditors

On 19 June 2002, Walmsley & Co Accountants Limited resigned as auditors of the company and on 24 June 2002 KPMG Audit Plc were appointed in their place to fill a casual vacancy.

In accordance with Section 385 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors of the company is proposed at the forthcoming Annual General Meeting.

By order of the board



D M Whitney
Chairman

Statement of directors' responsibilities

Company law 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 of the profit or loss for that period. In preparing those financial statements, the 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc
St James' Square
Manchester M2 6DS
United Kingdom

Independent auditors' report to the members of Surface Transforms PLC

We have audited the financial statements on pages 5 to 22.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and 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 company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 company'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 the company's affairs as at 31 May 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

*27
28 August 2002*

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 May 2002

	<i>Note</i>	2002	2001 Restated (note 3)
		£	£
Turnover	2	104,063	32,049
Cost of goods sold		(156,812)	(87,630)
Gross loss		(52,749)	(55,581)
Distribution costs		(12,043)	(1,951)
Administrative expenses		(514,241)	(357,405)
Other operating income		10,000	20,000
Operating loss		(569,033)	(394,937)
Interest receivable and similar income	7	7,968	23,738
Loss on ordinary activities before taxation	2-7	(561,065)	(371,199)
Tax on loss on ordinary activities	8	-	-
Loss for the financial year		(561,065)	(371,199)
Loss per ordinary share			
Basic and diluted	22	(7.5p)	(6.1p)

All amounts relate to continuing activities.

The company has no recognised gains or losses in either the current or preceding year other than those reported above.

Balance sheet

at 31 May 2002

		2002		2001 Restated (note 3)	
		£	£	£	£
Fixed assets					
Intangible assets	9		12,976		9,344
Tangible assets	10		130,376		122,381
			<u>143,352</u>		<u>131,725</u>
Current assets					
Stocks	11	338,171		37,902	
Debtors	12	76,834		73,110	
Cash at bank and in hand	20	139,595		360,392	
		<u>554,600</u>		<u>471,404</u>	
Creditors: amounts falling due within one year	13	<u>(118,442)</u>		<u>(55,406)</u>	
Net current assets			<u>436,158</u>		415,998
Net assets			<u>579,510</u>		<u>547,723</u>
Capital and reserves					
Called up share capital	15		79,156		71,449
Share premium	16		1,023,873		438,728
Other reserves	16		520,399		520,399
Profit and loss account	16		<u>(1,043,918)</u>		<u>(482,853)</u>
Equity shareholder's funds			<u>579,510</u>		<u>547,723</u>

These financial statements were approved by the board of directors on

and were signed on its behalf by:



JJ Faria
Director

Reconciliation of operating profit to operating cash flows

for the year ended 31 May 2002

	2002	2001
	£	Restated £
Operating loss	(569,033)	(394,937)
Depreciation charge	38,886	30,784
Amortisation charge	2,224	1,437
Increase in stocks	(300,269)	(30,250)
Increase in debtors	(3,724)	(72,042)
Increase in creditors	63,036	12,359
Net cash outflow from operating activities	(768,880)	(452,649)

Cash flow statement

for the year ended 31 May 2002

	Note	2002	2001
		£	Restated £
Net cash outflow from operating activities		(768,880)	(452,649)
Return on investments and servicing of finance	19	7,968	23,738
Capital expenditure	19	(52,737)	(151,479)
Cash outflow before financing		(813,649)	(580,390)
Financing	19	592,852	939,432
(Decrease)/increase in cash in the period	20	(220,797)	359,042

Reconciliation of net cash flow to movement in net funds

for the year ended 31 May 2002

	Note	2002	2001
		£	Restated £
(Decrease)/increase in cash in the year		(220,797)	359,042
Change in net funds resulting from cash flows		(220,797)	359,042
Movement in net funds in the year		(220,797)	359,042
Net funds at the start of the year	20	360,392	1,350
Net funds at the end of the year	20	139,595	360,392

Statement of total recognised gains and losses
for the year ended 31 May 2002

	2002	2001
	£	Restated £
Loss for the financial year	(561,065)	(371,199)
Total recognised gains and losses relating to the financial year	<u>(561,065)</u>	<u>(371,199)</u>
Prior year adjustment (note 3 and 16)	(134,317)	<u> </u>
Total gains and losses recognised since last annual report	<u><u>(695,382)</u></u>	<u> </u>

The company has no recognised gains and losses relating to the financial year other than the loss for the financial year.

Reconciliation of movements in shareholders' funds
for the year ended 31 May 2002

	2002	2001
	£	Restated £
Loss for the financial year	(561,065)	(371,199)
Share capital issued in year	592,852	939,432
Net addition to shareholders' funds	<u>31,787</u>	<u>568,233</u>
Opening shareholders' funds (originally £682,040 before deducting prior year adjustment of £134,317)	547,723	(20,510)
Closing shareholders' funds	<u><u>579,510</u></u>	<u><u>547,723</u></u>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below. The company has adopted FRS 18 'Accounting Policies' and FRS 19 'Deferred Tax' in these financial statements. The comparative figures have been restated accordingly.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Intangible fixed assets and amortisation

Expenditure on patents is capitalised and amortised to nil by equal annual instalments over the useful economic life of seven and a half years.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Plant and machinery	-	20% per annum
Fixtures and fittings,	-	25% per annum

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date or at the rate the transaction was contracted for and the gains or losses on translation are included in the profit and loss account.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Government Grants

Revenue grants are credited to the profit and loss account, and included within other operating income, so as to match them with expenditure to which they relate.

Post retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting year.

Notes *(continued)*

1 Accounting policies *(continued)*

Research and development

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred. This represents a change in accounting policy, see note 3.

Stock and Work in progress

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials and consumables the standard purchase price is used. For work in progress manufactured by the company, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

As a result of the adoption of Financial Reporting Standard 19 'Deferred Taxation', there was no material change to the accounts because the company has an unrecognised deferred tax asset in both 2002 and 2001. The adjustment has not therefore affected profits in either years. An analysis of the unrecognised deferred tax asset is included in note 14.

Cash

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

Notes *(continued)*

2 Analysis of turnover and loss on ordinary activities before taxation

Turnover and loss on ordinary activities before taxation is wholly attributable to the principal activity of the company.

Turnover by destination is analysed as follows:

	2002	2001
	£	£
<i>By geographical market:</i>		
United Kingdom	93,992	32,049
Rest of European Community	10,071	-
	104,063	32,049
	104,063	32,049

Turnover by origin, net assets and profit before interest and tax all relate to the UK.

3 Prior year adjustments

In adopting FRS 18 'Accounting Policies' the directors have given consideration to the appropriateness of the company's accounting policies and accounting treatment, and have accordingly made the following change to previous practice.

During the year the directors decided to change their accounting policy with respect to research and development costs. Previously expenditure on research was written off but, where appropriate, the cost of research and development projects had been capitalised as an intangible asset and amortised over 10 years; however, this policy has been changed to one of immediate write off for all such costs. This policy has been changed to reflect industry practise.

As a result of this change the shareholder funds as at 1 June 2000 have been decreased by £95,536 in respect of development expenditure which has been written off to the profit and loss prior to 31 May 2000. The expenditure on development projects incurred during the year of £80,109 (2001: £53,705) which would previously have been capitalised has been recorded as an administrative expense. The amortisation charge for the year of £22,935 (2001: £14,924) has been written back to the profit and loss account. The net effect of all of the above changes is to increase the loss for the year by £58,174 (2001: £38,781).

As a result of the change in accounting policy in respect of research and development costs the unrecognised deferred tax asset has increased by £24,033 in 2002 (2001: £16,111).

The comparative figures have also been amended to recategorise a £20,000 grant from Interest receivable and similar income to Other operating income.

See note 15 in respect of the details of a further prior year adjustment regarding the issue of warrants.

Notes (continued)

4 Loss on ordinary activities before taxation

	2002	2001
	£	Restated £
<i>Loss on ordinary activities before taxation is stated:</i>		
<i>after charging</i>		
Auditors' remuneration: - audit	10,000	1,500
- other	2,000	3,200
Depreciation:		
Owned tangible fixed assets	38,866	30,784
Research and development expenditure	83,102	60,949
Amortisation:		
Patents and licences	2,224	1,437
Rentals payable under operating leases		
- land and building	6,000	6,000
Exchange losses	22	-
<i>after crediting</i>		
Government grants	10,000	20,000

5 Remuneration of directors

	2002	2001
	£	£
Directors' emoluments:	121,840	134,553
Company contributions to money purchase schemes	560	3,580
	122,400	138,133

The company contracted four directors to provide consultancy services as follows:

		2002	2001
Director		£	£
Professor DT Clarke	(Non Executive)	9,150	10,036
D Williams	(Non Executive)	2,400	-
DM Whitney	(Non Executive)	6,000	5,384
		17,550	15,420

Management and consultancy charges are based on hourly rates and are charged on a monthly basis. All of these amounts have been included as directors emoluments above.

Notes *(continued)*

6 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2002	2001
Directors	2	3
Other employees	11	8
	<hr/>	<hr/>
	13	11
	<hr/> <hr/>	<hr/> <hr/>

The above analysis excludes the directors contracted to provide consultancy services as outlined in note 5.

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£	£
Wages and salaries	285,340	201,798
Social security costs	27,339	15,339
Other pension costs	2,870	3,580
	<hr/>	<hr/>
	315,549	220,717
	<hr/> <hr/>	<hr/> <hr/>

7 Other interest receivable and similar income

	2002	2001
	£	£
Bank interest receivable	7,968	23,738
	<hr/>	<hr/>

Notes *(continued)*

8 Taxation

There is no charge to taxation due to the incidence of tax losses (*2001: no charge*).

Analysis of charge in period

	2002	2001
	£	£
<i>UK corporation tax</i>		
Current tax on income for the period	-	-
	<hr/>	<hr/>
Total current tax	-	-
<i>Deferred tax (see note 14)</i>		
Origination and reversal of timing differences	-	-
	<hr/>	<hr/>
Tax on loss on ordinary activities	-	-
	<hr/>	<hr/>

Details of the unrecognised deferred tax asset are included in note 14.

Factors affecting the tax charge for the current period

The effective rate of tax for the year of nil is lower than the standard rate of corporation tax in the UK of 30% due principally to losses incurred by the company. The differences are explained below.

	2002	2001
	£	£
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(561,065)	(371,199)
	<hr/>	<hr/>
Current tax at standard rate of 30% (<i>2001: 30%</i>)	(168,319)	(111,360)
<i>Effects on actual tax charge for the year:</i>		
Expenses not deductible for tax purposes	1,536	-
Capital allowances for period in excess of depreciation	(1,960)	(8,362)
Tax losses incurred in the period	168,743	119,722
	<hr/>	<hr/>
Total current tax charge (see above)	-	-
	<hr/>	<hr/>

Factors that may affect future tax charges

The company expects to become within the charge to tax within the next 24 months. Its effective rate in future years is expected to be below the standard rate of corporation tax in the UK due principally to historical losses which have been carried forward.

Notes *(continued)*

9 Intangible fixed assets

	Patents & licences £
<i>Cost</i>	
At beginning of year	10,781
Additions	5,856
	16,637
<i>Amortisation</i>	
At beginning of year	1,437
Charge for year	2,224
	3,661
<i>Net book value</i>	
At 31 May 2002	12,976
At 31 May 2001	9,344

Patent costs are amortised over seven and a half years.

Notes (continued)

10	Fixed assets	Plant & Machinery £	Fixtures & fittings £	Totals £
	<i>Cost</i>			
	At beginning of year	151,064	3,024	154,088
	Additions	43,024	3,857	46,881
		<hr/>	<hr/>	<hr/>
	At end of year	194,088	6,881	200,969
		<hr/>	<hr/>	<hr/>
	<i>Depreciation</i>			
	At beginning of year	30,951	756	31,707
	Charge for year	37,183	1,703	38,886
		<hr/>	<hr/>	<hr/>
	At end of year	68,134	2,459	70,593
		<hr/>	<hr/>	<hr/>
	<i>Net book value</i>			
	At 31 May 2002	125,954	4,422	130,376
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	At 31 May 2001	120,113	2,268	122,381
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

11	Stocks	2002 £	2001 £
	Raw materials and consumables	6,802	37,902
	Work in progress	331,369	-
		<hr/>	<hr/>
		338,171	37,902
		<hr/> <hr/>	<hr/> <hr/>

Work in progress has increased in the year ended 31 May 2002 as the company has commenced the manufacture of products for resale in anticipation of commercial sales.

12	Debtors	2002 £	2001 £
	Trade debtors	38,780	19,961
	Other debtors	29,792	47,964
	Prepayments and accrued income	8,262	5,185
		<hr/>	<hr/>
		76,834	73,110
		<hr/> <hr/>	<hr/> <hr/>

All debtors fall due within one year.

Notes *(continued)*

13	Creditors: amounts falling due within one year	2002	2001
		£	£
	Trade creditors	79,029	39,785
	Taxes and social security	9,622	6,725
	Other creditors	444	-
	Accruals and deferred income	29,347	8,896
		118,442	55,406

14 **Provisions for liabilities and charges**

Analysis of the amounts provided are set out below:

	2002	2001
	£	Restated £
Difference between accumulated depreciation and amortisation and capital allowances	11,215	9,255
Tax losses	(11,215)	(9,255)
Deferred tax liability	-	-

The company has £300,598 of unrecognised deferred tax asset at 31 May 2002 (2001: £143,070, 2000: £32,603) relating to tax losses which the company can off set against future taxable profits. The deferred tax asset has not been recognised in the accounts because it is not possible to assess whether there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Notes *(continued)*

15 Called up share capital

	2002	2001
	£	£
<i>Authorised</i>		
20,000,000 ordinary shares of £0.01 each	200,000	200,000
<i>Allotted, called up and fully paid</i>		
7,915,623 ordinary shares of £0.01 each	79,156	71,449
(2001: 7,144,915 ordinary shares of £0.01 each)		

As at 31 May 2002, the following held interests in 3% or more of the issued ordinary share capital of the Company:

	Number of shares	%
Joy Clarke	242,500	3.1
Philip Securities (UK) Nominees	290,532	3.7

In January 2002 186,350 ordinary shares were issued through a private placing, the consideration received was £214,303. On the 23 March 2002 a further 150,000 ordinary shares were issued, the consideration received was £185,250.

All the additional funds were raised in the year to facilitate the ongoing development of the carbon fibre reinforce ceramic friction products.

The ordinary allotted shares rank equally, have the same voting rights and rights to dividends.

Warrants and prior year adjustment

On 4 December 2000, the date of admission to the OFEX, 566,667 offer warrants and 615,799 financial arranger warrants were granted to the purchasers of the ordinary shares and the financial adviser respectively. One offer warrant was issued with every three ordinary shares purchased. The financial arranger warrants were issued to the financial adviser in lieu of consultancy fees. The financial statements for the previous year did not attribute a fair value to the offer and financial arranger warrants, these have now been calculated as £212,500 and £307,899 respectively. Adjustments have been made to reduce the share premium account and increase the warrant reserve in respect of both amounts as the first relates to a reduction in the consideration received for the shares and the second relates to issue costs that would have been set off against the share premium account. There is no effect on the profit and loss account for either year.

Notes *(continued)*

15 **Called up share capital** *(continued)*

The warrants remaining at the end of the year are exercisable as follows;

There are 146,770 offer warrants (2001: £476,829) exercisable at;

- £0.5 in the period from the date of admission to OFEX (4 December 2000) until one year from the date of admission to OFEX.
- £0.6 in the period from one year until two years from the date of admission to OFEX (4 December 2000)
- £0.7 in the period from two years from the date of admission to three years from the date of admission to date (4 December 2000).

There are 483,500 financial arranger warrants exercisable at £0.5 per ordinary share at any time until three years from the date of admission (2001: 587,799).

Once the period has lapsed the right to exercise the warrants will lapse.

None of the warrants hold voting rights.

The offer warrants and the arranger warrants have been exercised as follows:

	Offer warrants Number	Arranger warrants Number	Share capital Number
At 31 May 2000	-	-	4,999,500
Share issue	-	-	327,577
OFEX flotation:			
Share issue	-	-	1,700,000
Warrants issued	566,667	615,799	
Warrants exercised	(89,838)	(28,000)	117,838
At 31 May 2001	476,829	587,799	7,144,915
Share issue	-	-	336,350
Warrants exercised	(330,059)	(104,299)	434,358
At 31 May 2002	146,770	483,500	7,915,623

When the warrants are exercised the fair value of the warrants is transferred to the capital reserve and the premium credited to the share premium account in accordance with FRS 4.

A number of offer and arranger warrants were exercised at £0.5 in the year ended 31 May 2001, the total consideration received was £58,919. During the year ended 31 May 2002, 320,126 offer warrants were exercised at £0.5 and 9,933 offer warrants were exercised at £0.6 the total consideration received was £166,023. The financial arranger warrants were all exercised at £0.5 in the year ended 31 May 2002 the consideration received was £52,149.

Notes *(continued)*

16 Reserves

	Share premium account £	Warrant reserve £	Capital reserve £	Profit and loss account £
At beginning of year	959,127	-	-	(348,536)
Prior year adjustment	(520,399)	472,710	47,689	(134,317)
	<hr/>	<hr/>	<hr/>	<hr/>
At beginning of year as restated	438,728	472,710	47,689	(482,853)
Premium on issue of shares	396,190	-	-	-
Premium on exercise of warrants	213,827	-	-	-
Transfer on exercise of warrants	-	(175,921)	175,921	-
Issue costs	(24,872)	-	-	-
Retained loss for the year	-	-	-	(561,065)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,023,873	296,789	223,610	(1,043,918)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The warrant reserve and the capital reserve were 'created' at the beginning of the year to correctly account for warrants (see note 15 for explanation).

The profit and loss account at the beginning of the year has been restated as a consequence of a prior year adjustment (see note 3 for explanation)

17 Commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land & Buildings 2002 £	Land & Buildings 2001 £
Operating leases which expire: In the second to fifth years inclusive	6,000	6,000
	<hr/>	<hr/>
	6,000	6,000
	<hr/> <hr/>	<hr/> <hr/>

18 Pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £2,870 (2001:£3,580).

There were no outstanding or prepaid contributions either at the beginning or end of the financial year.

Notes *(continued)*

19 Analysis of cash flows

	2002	2001
	£	Restated £
Returns on investments and servicing of finance		
Interest received	7,968	23,738
<hr/>		
Capital expenditure and financial investment		
Purchase of intangible assets	(5,856)	(3,547)
Purchase of tangible fixed assets	(46,881)	(147,932)
	<u>(52,737)</u>	<u>(151,479)</u>
<hr/>		
Financing		
Issue of ordinary share capital	7,707	21,454
Premium from issue of ordinary share capital (net of issue costs)	371,318	860,237
Premium on exercise of warrants	213,827	57,741
	<u>592,852</u>	<u>939,432</u>

20 Analysis of changes in net funds

	At 1 June 2001	Net cash flow	At 31 May 2002
	£	£	£
Cash at bank and in hand	360,392	(220,797)	139,595
	<hr/>	<hr/>	<hr/>

Notes *(continued)*

21 Related party disclosures

The results of the company include the following transactions with related parties:

Company/entity	Relationship	Purchase	2002 £	2001 £
April Training Executive	JJ Faria is a director and has a controlling interest	Administrative services	21,279	13,777
April Property Partnership	JJ Faria is a director and has a controlling interest	Rent	6,000	6,000

All purchases from related parties are conducted on an arms length basis under normal commercial trading terms.

At the year end there was £781 (2001: £nil) owing in respect of April Training Executive which is included in trade creditors.

22 Loss on ordinary shares

The calculation of basic loss per ordinary share is based on the loss for the financial year divided by the weighted average number of shares in issue during the year.

Losses and number of shares used in the calculations of loss per ordinary share are set out below:

Basic

	2002 £	2001 £
Loss after tax	(561,065)	(371,199)
Weighted average number of shares	7,515,251	6,058,615
Loss per share	<u>(0.075)</u>	<u>(0.061)</u>

The calculation of diluted loss per ordinary share is identical to that used for the basic loss per ordinary share. This is because the exercise of warrants would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of FRS14.