

GRAHAM ENGINEERING LIMITED
ABBREVIATED ACCOUNTS
FOR
31ST AUGUST 2004



K M
Chartered Accountants & Registered Auditors
4 - 6 Grimshaw Street
Burnley
Lancs
BB11 2AZ

GRAHAM ENGINEERING LIMITED

ABBREVIATED ACCOUNTS

YEAR ENDED 31ST AUGUST 2004

CONTENTS	PAGES
Report of the directors	1 to 3
Report of the auditors to the company	4
<i>Abbreviated profit and loss account</i>	5
Note of historical cost profits and losses	6
Reconciliation of movements in shareholders' funds	6
Abbreviated balance sheet	7
Cash flow statement	8 to 10
Notes to the abbreviated accounts	11 to 22

GRAHAM ENGINEERING LIMITED
THE DIRECTORS' REPORT
YEAR ENDED 31ST AUGUST 2004

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31st August 2004.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the company during the year were those of precision stainless fabricators, deep-drawn press work, machining, laser cutting, laser engraving and 5 axis laser welding, all to high quality standards backed with our in-house detail design.

The Directors report a trading profit of £602,755 and an exceptional profit on disposal of fixed assets of £597,390 giving a total profit for the year of £1,200,145.

An outlying factory has been sold to Woodhead Bros., creating a substantial cash gain.

A central factory unit has been purchased from Decorpart and Pendle Council has unadopted our two estate roads. Our site now totals some 200,000 sq feet, which during the year we have had securely fenced, creating a new tarmaced internal car park.

We now have plenty of room for building factory extensions within our secure site for future expansion.

To keep abreast of technology and give us increased capacity a new state of the art robotic 5 axis laser cutting and welding machine with senate software is being installed in January 2005.

Nuclear contracts are continuing steady but there is additional work for the future.

Aerospace we see as our main growth area.

Satellite dish sales have increased during the year.

Stainless water cylinder manufacture has been perfected and fully foamed units are now being shipped. Specials are a growing market, with our flexibility any permutation is possible. We need to secure volume sales during this year to justify R&D.

We have an excellent daily receipt of orders and forecast turnover for this current year at £8 million.

RESULTS AND DIVIDENDS

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements.

The directors have recommended the following dividends:

	2004	2003
	£	£
Proposed dividends on ordinary shares	<u>200,000</u>	<u>150,000</u>

RESEARCH AND DEVELOPMENT

The company has continuous research and development programmes established with the objective of extending and improving existing products and the introduction of new ones.

GRAHAM ENGINEERING LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31ST AUGUST 2004

THE DIRECTORS AND THEIR INTERESTS IN THE SHARES OF THE COMPANY

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows:

	Ordinary Shares of £1 each	
	At 31 August 2004	At 1 September 2003
Mr C T Graham	89,000	89,000
Mrs P Graham	—	—
Mr P Manley	10,000	10,000
Mr W K McMurtrie	1,000	1,000
Mr M A Fowler	—	—
Mr S Fraser	—	—

FIXED ASSETS

The most recent valuation of freehold land and buildings stands at £1,385,000. This valuation was not brought into the financial statements.

EURO

There are no indications that the company's customers and suppliers intend to account in Euro's and the company has no other exposure to possible currency fluctuations brought about by its introduction in 1999.

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 at the end of the year and of the profit or loss for the year then ended.

In preparing those financial statements, the directors are required to select suitable accounting policies, as described on pages 11 to 12, and then apply them on a consistent basis, making judgements and estimates that are prudent and reasonable. The directors must also 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. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

GRAHAM ENGINEERING LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31ST AUGUST 2004

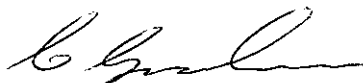
AUDITORS

A resolution to re-appoint K M as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Registered office:
Whitewalls Industrial Estate
Edward Street
Nelson
Lancs
BB9 8SY

Signed by order of the directors

✓



C T GRAHAM
Company Secretary

Approved by the directors on 6th January 2005

GRAHAM ENGINEERING LIMITED
INDEPENDENT AUDITORS' REPORT TO THE COMPANY
PURSUANT TO SECTION 247B OF THE COMPANIES ACT 1985

We have examined the abbreviated accounts on pages 5 to 22, together with the financial statements of the company for the year ended 31st August 2004 prepared under Section 226 of the Companies Act 1985.

This report is made solely to the company, in accordance with Section 247B of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE AUDITORS

The directors are responsible for preparing the abbreviated accounts in accordance with Section 246A of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts prepared in accordance with Section 246A(3) of the Act to the Registrar of Companies and whether the accounts to be delivered are properly prepared in accordance with those provisions and report our opinion to you.

BASIS OF OPINION

We have carried out the procedures we consider necessary to confirm, by reference to the financial statements, that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts to be delivered are properly prepared. The scope of our work for the purpose of this report did not include examining or dealing with events after the date of our report on the financial statements.

OPINION

In our opinion the company is entitled to deliver abbreviated accounts prepared in accordance with Section 246A(3) of the Act, and the abbreviated accounts on pages 5 to 22 are properly prepared in accordance with those provisions.



K M
Chartered Accountants
& Registered Auditors
4 - 6 Grimshaw Street
Burnley
Lancs
BB11 2AZ

6th January 2005

GRAHAM ENGINEERING LIMITED
ABBREVIATED PROFIT AND LOSS ACCOUNT
YEAR ENDED 31ST AUGUST 2004

	Note	2004 £	2003 £
GROSS PROFIT		1,521,038	1,198,053
Distribution costs		(87,600)	(96,440)
Administrative expenses		(814,981)	(747,347)
OPERATING PROFIT	2	618,457	354,266
Profit on disposal of fixed assets		597,390	—
Loss on Subsidiary's debt		—	(137,923)
		1,215,847	216,343
Interest receivable		680	—
Interest payable	5	(16,382)	(25,045)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,200,145	191,298
Tax on profit on ordinary activities	6	(280,990)	(94,349)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		919,155	96,949
Dividends	7	(200,000)	(150,000)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR		<u>719,155</u>	<u>(53,051)</u>

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

GRAHAM ENGINEERING LIMITED
NOTE OF HISTORICAL COST PROFITS AND LOSSES
YEAR ENDED 31ST AUGUST 2004

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2004 £	2003 £
Reported profit on ordinary activities before taxation	1,200,145	191,298
Difference between a historical cost depreciation charge and the actual charge calculated on the revalued amount	19,270	9,875
Historical cost profit on ordinary activities before taxation	<u>1,219,415</u>	<u>201,173</u>
Historical cost profit/(loss) for the year retained after taxation and dividends	<u>738,425</u>	<u>(43,176)</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004 £	2003 £
Profit for the financial year	919,155	96,949
Dividends	(200,000)	(150,000)
	719,155	(53,051)
Opening shareholders' equity funds	<u>1,687,903</u>	<u>1,740,954</u>
Closing shareholders' equity funds	<u>2,407,058</u>	<u>1,687,903</u>

GRAHAM ENGINEERING LIMITED

ABBREVIATED BALANCE SHEET

31ST AUGUST 2004

	Note	2004 £	2003 £
FIXED ASSETS			
Intangible assets	8	61,000	109,000
Tangible assets	9	2,555,819	2,682,248
Investments	10	43,996	40,874
		<u>2,660,815</u>	<u>2,832,122</u>
CURRENT ASSETS			
Stocks	11	416,880	427,707
Debtors	12	1,637,923	1,088,898
Cash at bank		50,819	—
		<u>2,105,622</u>	<u>1,516,605</u>
CREDITORS: Amounts falling due within one year	13	<u>(1,981,110)</u>	<u>(2,141,439)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>124,512</u>	<u>(624,834)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,785,327</u>	<u>2,207,288</u>
CREDITORS: Amounts falling due after more than one year	14	<u>—</u>	<u>(90,083)</u>
		<u>2,785,327</u>	<u>2,117,205</u>
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	16	(378,269)	(429,302)
		<u>2,407,058</u>	<u>1,687,903</u>
CAPITAL AND RESERVES			
Called-up equity share capital	20	100,000	100,000
Revaluation reserve	21	216,471	245,318
Profit and loss account	22	2,090,587	1,342,585
SHAREHOLDERS' FUNDS		<u>2,407,058</u>	<u>1,687,903</u>

These abbreviated financial statements have been prepared in accordance with the special provisions for medium-sized companies under Part VII of the Companies Act 1985.

These abbreviated accounts were approved by the directors on the 6th January 2005 and are signed on their behalf by:

MR C T GRAHAM
Director



GRAHAM ENGINEERING LIMITED

CASH FLOW STATEMENT

YEAR ENDED 31ST AUGUST 2004

	2004	2003
	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES	254,301	918,529
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	680	—
Interest paid	(3,528)	(5,809)
Interest element of hire purchase	<u>(12,854)</u>	<u>(19,236)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(15,702)	(25,045)
TAXATION	26,600	(2,047)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Payments to acquire tangible fixed assets	(306,960)	(98,153)
Receipts from sale of fixed assets	850,960	—
Acquisition of Investments brought forward	(3,122)	(2,370)
Disposal of Investments brought forward	<u>—</u>	<u>(137,923)</u>
NET CASH INFLOW/(OUTFLOW) FOR CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	540,878	(238,446)
EQUITY DIVIDENDS PAID	(150,000)	(75,000)
CASH INFLOW BEFORE FINANCING	656,077	577,991
FINANCING		
(Repayment) of bank loans	(35,833)	(30,000)
Capital element of hire purchase	<u>(175,967)</u>	<u>(91,799)</u>
NET CASH OUTFLOW FROM FINANCING	(211,800)	(121,799)
INCREASE IN CASH	<u>444,277</u>	<u>456,192</u>

GRAHAM ENGINEERING LIMITED

CASH FLOW STATEMENT *(continued)*

YEAR ENDED 31ST AUGUST 2004

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004	2003
	£	£
Operating profit	618,457	354,266
Amortisation	48,000	48,000
Depreciation	184,819	179,911
Profit on disposal of fixed assets	(5,000)	—
Decrease/(increase) in stocks	10,827	(49,076)
(Increase)/decrease in debtors	(573,611)	185,062
(Decrease)/increase in creditors	(29,191)	200,366
Net cash inflow from operating activities	<u>254,301</u>	<u>918,529</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2004	2003
	£	£
Increase in cash in the period	444,277	456,192
Net cash outflow from bank loans	35,833	30,000
Cash outflow in respect of hire purchase	<u>175,967</u>	<u>91,799</u>
	656,077	577,991
Change in net funds	656,077	577,991
Net debt at 1 September 2003	<u>(605,258)</u>	<u>(1,183,249)</u>
Net funds at 31 August 2004	<u>50,819</u>	<u>(605,258)</u>

GRAHAM ENGINEERING LIMITED

CASH FLOW STATEMENT *(continued)*

YEAR ENDED 31ST AUGUST 2004

ANALYSIS OF CHANGES IN NET FUNDS

	At 1 Sep 2003 £	Cash flows £	At 31 Aug 2004 £
Net cash:			
Cash in hand and at bank	—	50,819	50,819
Overdrafts	(393,458)	393,458	—
	<u>(393,458)</u>	<u>444,277</u>	<u>50,819</u>
Debt:			
Debt due within 1 year	(29,918)	29,918	—
Debt due after 1 year	(5,915)	5,915	—
Hire purchase agreements	(175,967)	175,967	—
	<u>(211,800)</u>	<u>211,800</u>	<u>—</u>
Net funds	<u>(605,258)</u>	<u>656,077</u>	<u>50,819</u>

GRAHAM ENGINEERING LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
YEAR ENDED 31ST AUGUST 2004

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

Consolidation

In the opinion of the directors, the company and its subsidiary undertakings comprise a medium-sized group. The company has therefore taken advantage of the exemption provided by Section 248 of the Companies Act 1985 not to prepare group accounts.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, including payments on account, exclusive of Value Added Tax. Payments on account in advance of work undertaken are added to cost of sales and shown as creditors.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Deferred development expenditure - 20% per annum on cost (or 5 years)

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold land and buildings	- 2% per annum on cost
Plant and equipment	- 10% per annum on nbv
Motor vehicles	- 25% per annum on cost

An amount equal to the excess of the annual depreciation charge on revalued assets over the notional historical cost depreciation charge on those assets is transferred annually from the revaluation reserve to the profit and loss reserve.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Work in progress

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal levels of activity. Profit on individual contracts is taken only when their outcome can be foreseen with reasonable certainty, based on the lower of the margin earned to date and the proportion of that prudently forecast at completion, taking account of agreed claims. Provision is made for any foreseeable losses where appropriate, taking a prudent view of future claims income. Profit for the year includes the benefit of claims settled on contracts completed in prior years.

GRAHAM ENGINEERING LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
YEAR ENDED 31ST AUGUST 2004

1. ACCOUNTING POLICIES *(continued)*

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

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 the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Research and development

Development expenditure on clearly defined projects whose outcome can be assessed with reasonable certainty is capitalised and amortised over the lesser of the period the company expects to benefit from the expenditure or five years from the commencement of the benefit.

All other expenditure on research and development is written off as a cost of sale as incurred.

GRAHAM ENGINEERING LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
YEAR ENDED 31ST AUGUST 2004

2. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	2004	2003
	£	£
Amortisation	48,000	48,000
Depreciation of owned fixed assets	184,819	139,347
Depreciation of assets held under hire purchase agreements	—	40,564
Profit on disposal of fixed assets	(5,000)	—
Auditors' remuneration		
- as auditors	<u>8,050</u>	<u>8,400</u>

3. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to:

	2004	2003
	No	No
Number of production staff	67	69
Number of administrative staff	<u>30</u>	<u>30</u>
	<u>97</u>	<u>99</u>

The aggregate payroll costs of the above were:

	2004	2003
	£	£
Wages and salaries	2,143,011	2,033,943
Social security costs	218,104	193,324
Other pension costs	74,679	76,484
	<u>2,435,794</u>	<u>2,303,751</u>

4. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	2004	2003
	£	£
Emoluments receivable	367,167	306,805
Value of company pension contributions to money purchase schemes	<u>28,109</u>	<u>28,090</u>
	<u>395,276</u>	<u>334,895</u>

GRAHAM ENGINEERING LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
YEAR ENDED 31ST AUGUST 2004

4. DIRECTORS' EMOLUMENTS *(continued)***Emoluments of highest paid director:**

	2004 £	2003 £
Total emoluments (excluding pension contributions)	119,141	117,099
Value of company pension contributions to money purchase schemes	17,579	17,576
	<u>136,720</u>	<u>134,675</u>

The number of directors who accrued benefits under company pension schemes was as follows:

	2004 No	2003 No
Money purchase schemes	<u>6</u>	<u>6</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £	2003 £
Finance charges	12,854	19,236
Other similar charges payable	3,528	5,809
	<u>16,382</u>	<u>25,045</u>

6. TAXATION ON ORDINARY ACTIVITIES

	2004 £	2003 £
Current tax:		
UK Corporation tax based on the results for the year at 19% (2003 - 19%)	297,130	—
Over/under provision in prior year	34,893	2,047
Total current tax	<u>332,023</u>	<u>2,047</u>
Deferred tax:		
Origination and reversal of timing differences (note 16)		
Capital allowances	(51,033)	92,302
Tax on profit on ordinary activities	<u>280,990</u>	<u>94,349</u>

GRAHAM ENGINEERING LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
YEAR ENDED 31ST AUGUST 2004

6. TAXATION ON ORDINARY ACTIVITIES *(continued)*

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:-

Profit on ordinary activities before tax	<u>1,200,145</u>	<u>191,298</u>
Profit on ordinary activities at standard rate of 30%	360,043	36,347
Expenses not deductible for tax purposes	1,117	11,702
Depreciation of assets not attracting capital allowances	7,969	2,347
Profit on disposal of assets not attracting capital allowances	(1,500)	—
Group relief claimed	—	(9,155)
R & D tax credit	(15,504)	9,120
Change in tax rate	—	33,744
Underprovision in previous year	34,893	2,319
Losses carried forward	—	7,925
Capital gain	(106,028)	—
Current tax charge for period	<u>280,990</u>	<u>94,349</u>

7. DIVIDENDS

The following dividends have been proposed in respect of the year:

	2004	2003
	£	£
Proposed dividend on ordinary shares	<u>200,000</u>	<u>150,000</u>

GRAHAM ENGINEERING LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
YEAR ENDED 31ST AUGUST 2004

8. INTANGIBLE FIXED ASSETS

	Deferred Development expenditure £
COST	
At 1st September 2003 and 31st August 2004	<u>241,444</u>
AMORTISATION	
At 1st September 2003	132,444
Charge for the year	<u>48,000</u>
At 31st August 2004	<u>180,444</u>
NET BOOK VALUE	
At 31st August 2004	<u>61,000</u>
At 31st August 2003	<u>109,000</u>

9. TANGIBLE FIXED ASSETS

	Freehold Property £	Plant & Machinery £	Motor Vehicles £	Total £
COST OR VALUATION				
At 1st September 2003	1,575,823	3,276,552	29,719	4,882,094
Additions	229,494	58,901	18,565	306,960
Disposals	(325,370)	—	—	(325,370)
At 31st August 2004	<u>1,479,947</u>	<u>3,335,453</u>	<u>48,284</u>	<u>4,863,684</u>
DEPRECIATION				
At 1st September 2003	308,711	1,861,417	29,718	2,199,846
Charge for the year	37,408	145,090	2,321	184,819
On disposals	(76,800)	—	—	(76,800)
At 31st August 2004	<u>269,319</u>	<u>2,006,507</u>	<u>32,039</u>	<u>2,307,865</u>
NET BOOK VALUE				
At 31st August 2004	<u>1,210,628</u>	<u>1,328,946</u>	<u>16,245</u>	<u>2,555,819</u>
At 31st August 2003	<u>1,267,112</u>	<u>1,415,135</u>	<u>1</u>	<u>2,682,248</u>

The potential corporation tax liability on capital gains which might arise in the event of the disposal of the freehold land and buildings at their book value would be approximately £8,800 (2003 £7,800). The maximum liability on their disposal at their revalued amount would be approximately £49,000.

It is not possible to analyse Freehold Property between Land and Buildings and depreciation is provided on the total amount, shown at cost or valuation.

GRAHAM ENGINEERING LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
YEAR ENDED 31ST AUGUST 2004

The freehold land and buildings were professionally revalued on 31st August 1991 on an open market value basis. The company has adopted the transitional provisions of FRS15 to retain the book amounts of the freehold land and buildings. The most recent revaluation was undertaken in June 1997 but this was not brought into the financial statements.

In respect of certain fixed assets stated at valuations, the comparable historical cost and depreciation values are as follows:

	2004 £	2003 £
Net book value at end of year	<u>1,057,364</u>	<u>1,100,520</u>
Historical cost:		
At 1st September 2003	1,082,065	1,082,065
Cost of additions to revalued assets	224,124	—
Disposals in year	(289,889)	—
At 31st August 2004	<u>1,016,300</u>	<u>1,082,065</u>
Depreciation:		
At 1st September 2003	230,189	208,548
On disposals	(69,576)	—
Charge for year	18,138	21,641
At 31st August 2004	<u>178,751</u>	<u>230,189</u>
Net historical cost value:		
At 31st August 2004	<u>837,549</u>	<u>851,876</u>
At 1st September 2003	<u>851,876</u>	<u>873,517</u>

Hire purchase agreements

Included within the net book value of £2,555,819 is £Nil (2003 - £365,078) relating to assets held under hire purchase agreements. The depreciation charged to the abbreviated accounts in the year in respect of such assets amounted to £Nil (2003 - £40,564).

GRAHAM ENGINEERING LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
YEAR ENDED 31ST AUGUST 2004

10. INVESTMENTS

	Shares	Life assurance policies	Total
	£	£	£
COST			
At 1st September 2003	100	40,774	40,874
Additions	—	3,122	3,122
At 31st August 2004	<u>100</u>	<u>43,896</u>	<u>43,996</u>
NET BOOK VALUE			
At 31st August 2004	<u>100</u>	<u>43,896</u>	<u>43,996</u>
At 31st August 2003	<u>100</u>	<u>40,774</u>	<u>40,874</u>

The policies correspond to premiums paid on the life of C T Graham and had a surrender value of £47,310 at 31st August 2004 (2003 £43,559).

The shares are an investment in a subsidiary undertaking, Quantum Heating Limited registered in England which is 100% owned with 100 Ordinary shares of £1 each. Its principal activity is development and manufacture of heating systems. The profit for its financial period amounted to £2,544 and the aggregate of its capital and reserves at its year end, 31st August 2004 was a deficit of £490,695.

11. STOCKS

	2004 £	2003 £
Raw materials	51,809	50,848
Work in progress	2,216,097	1,555,553
Payments on account	<u>(1,851,026)</u>	<u>(1,178,694)</u>
	<u>416,880</u>	<u>427,707</u>

GRAHAM ENGINEERING LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
YEAR ENDED 31ST AUGUST 2004

12. DEBTORS

	2004 £	2003 £
Trade debtors	1,377,891	824,676
Corporation tax repayable	—	24,586
Corporation tax repayable	26,600	—
Amounts due from group company	97,170	117,660
Prepayments and accrued income	136,262	121,976
	<u>1,637,923</u>	<u>1,088,898</u>

The company's total investment in its subsidiary, Quantum Heating Ltd., comprises the above debt of £97,170, and an element of deferred development expenditure amounting to £26,200. The recoverability of these amounts is dependent upon Quantum making sufficient sales and profits to meet its liabilities. Whilst the directors have no reason to expect that Quantum will not be able to meet its liabilities they feel it prudent to draw attention to this matter because of the amounts involved and the fact that any business is subject to risk which may not be apparent at the time financial statements are prepared.

13. CREDITORS: Amounts falling due within one year

	2004 £	2003 £
Bank loans and overdrafts	—	423,376
Payments received on account	334,582	462,691
Trade creditors	552,463	494,946
Other creditors including taxation and social security:		
Corporation tax	334,037	—
PAYE and social security	60,774	59,207
VAT	98,913	112,333
Hire purchase agreements	—	91,799
Dividends payable	200,000	150,000
Directors current accounts	271,586	249,585
	<u>965,310</u>	<u>662,924</u>
Accruals and deferred income	128,755	97,502
	<u>1,981,110</u>	<u>2,141,439</u>

The directors' current accounts are interest free and repayable on demand.

The following liabilities disclosed under creditors falling due within one year are secured by mortgage on the freehold property and by a fixed and floating charge over all current and future assets of the company:

	2004 £	2003 £
Bank loans and overdrafts	—	423,376

GRAHAM ENGINEERING LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
YEAR ENDED 31ST AUGUST 2004

14. CREDITORS: Amounts falling due after more than one year

	2004 £	2003 £
Bank loans and overdrafts	—	5,915
Other creditors:		
Hire purchase agreements	—	84,168
	<u>—</u>	<u>90,083</u>

The following liabilities disclosed under creditors falling due after more than one year are secured by mortgage on the freehold property and by a fixed and floating charge over all current and future assets of the company:

	2004 £	2003 £
Bank loans and overdrafts	—	<u>5,915</u>

15. COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

Future commitments under hire purchase agreements are as follows:

	2004 £	2003 £
Amounts payable within 1 year	—	111,035
Amounts payable between 1 and 2 years	—	101,782
	—	212,817
Less interest and finance charges relating to future periods	—	(36,850)
	<u>—</u>	<u>175,967</u>

16. DEFERRED TAXATION

	2004 £	2003 £
The movement in the deferred taxation provision during the year was:		
Provision brought forward	429,302	337,000
Profit and loss account movement arising during the year	(51,033)	92,302
Provision carried forward	<u>378,269</u>	<u>429,302</u>

GRAHAM ENGINEERING LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
YEAR ENDED 31ST AUGUST 2004

16. DEFERRED TAXATION *(continued)*

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2004		2003	
	Provided £	Unprovided £	Provided £	Unprovided £
Excess of taxation allowances over depreciation on fixed assets	378,269	—	429,302	—
Deferred tax not provided - other	—	49,000	—	7,800
	<u>378,269</u>	<u>49,000</u>	<u>429,302</u>	<u>7,800</u>
	<u>378,269</u>	<u>49,000</u>	<u>429,302</u>	<u>7,800</u>

17. CONTINGENCIES

The company has given an unlimited guarantee of the overdraft and bank loan of its subsidiary undertaking. The amount outstanding in respect of this facility at 31st August 2004 was £Nil.

18. RELATED PARTY TRANSACTIONS

The company has a subsidiary undertaking, Quantum Heating Limited. At 31st August 2004 the debtor outstanding from the subsidiary was as shown in note 13 and details of a guarantee of its overdraft and loan are in note 19.

During the year the company expended £32,221 on behalf of its subsidiary undertaking. During the year the company made sales of £27,476 to its subsidiary undertaking. All these transactions were on normal commercial terms. The subsidiary occupies part of the company's premises, currently on a rent free basis.

20. SHARE CAPITAL**Authorised share capital:**

	2004 £	2003 £
100,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

Allotted, called up and fully paid:

	2004		2003	
	No	£	No	£
Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>

21. REVALUATION RESERVE

	2004 £	2003 £
Balance brought forward	245,318	255,193
Transfer to the Profit and Loss Account on realisation	<u>(28,847)</u>	<u>(9,875)</u>
Balance carried forward	<u>216,471</u>	<u>245,318</u>

GRAHAM ENGINEERING LIMITED
NOTES TO THE ABBREVIATED ACCOUNTS
YEAR ENDED 31ST AUGUST 2004

22. PROFIT AND LOSS ACCOUNT

	2004 £	2003 £
Balance brought forward	1,342,585	1,385,761
Retained profit/(accumulated loss) for the financial year	719,155	(53,051)
Transfer from revaluation reserve	28,847	9,875
Balance carried forward	<u>2,090,587</u>	<u>1,342,585</u>