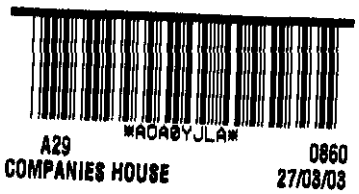
SURFACE TECHNOLOGY INTERNATIONAL LTD

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MAY 2002



S F Brocklehurst & Co
The Hollies
Woodham Road
Woking
Surrey GU21 4EN

Registration No.02292621

SURFACE TECHNOLOGY INTERNATIONAL LTD

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SURFACE TECHNOLOGY INTERNATIONAL LTD

CHAIRMAN'S REPORT

The electronics industry generally has been in recession during the year with several of its key markets severely depressed. The company has not escaped the downturn in activity and has seen a reduction in its turnover of some 36% with export sales reducing by 69% and this has contributed to the company's loss for the year of £656,000. However, I am pleased to report that following major changes in the company, we are now again trading profitably.

These changes have included the reorganisation of the management team, introduction of new efficiency incentives and the streamlining of the company's manufacturing facilities.

In addition, a new equity partner has been introduced during the year who has not only helped to enhance the company's finances but has also provided assistance to the directors in formulating the company's reorganisation. Despite these setbacks, the company has continued throughout the year to honour all its commitments.
I believe the results achieved were in line with market expectations

FUTURE

With the company's reorganisation well under way, I believe we have improved efficiency, reduced costs and met customers' increasing requirements. Despite our problems we have continued to make additional investment in further production processes and enhanced our test facilities. We have invested in modern equipment and training for our workforce to ensure we remain the first choice for complex production programmes for our major European customers.

On behalf of the Directors, I wish to thank the management team and all personnel who have helped return the company to profitability and in the implementation of the recovery plan.



Simon Best
Chairman
5 March 2003

SURFACE TECHNOLOGY INTERNATIONAL LTD

Report of the directors for the year ended 31 May 2002

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

The principal activity of the company is that of the provision of assembly services for the electronics industry.

The directors of the company during the year and their interests in the allotted shares of the company were:-

	31 May 2002	*1 June 2001*
S A Best	70,200	50,200
P M Smith	200	200

C W Lyon was appointed a director on 1 June 2002.

The results of the year's trading, the financial position of the company and the transfer to reserves are shown in the annexed financial statements.

During the year the company made charitable donations of £211.

The directors recommend that a dividend of £335,854 be paid in respect of the year

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 of the company 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 departure 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 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.

The Auditors, Messrs S F Brocklehurst & Co., have indicated their willingness to act and will be proposed for reappointment under Section 385 (2) of the Companies Act 1985.

By order of the Board

Reid & Co Professional Services Ltd
Company Secretary
Company No 02292621
5 March 2003

Report of the auditors

To the directors of Surface Technology International Ltd

We have audited the financial statements of Surface Technology International Limited for the year ended 31 May 2002 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting 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 company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an 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.



S F Brocklehurst & Co
Chartered Accountants and
Registered Auditors

The Hollies
Woodham Road
Woking
Surrey GU21 4EN

5 March 2003

SURFACE TECHNOLOGY INTERNATIONAL LTD

Balance sheet at 31 May 2002

	Note	2002 £	2001 £
Tangible Fixed Assets	2	1,986,071	2,292,398
Current assets			
Stocks	3	900,199	1,530,338
Debtors	4	1,059,519	1,259,812
Cash at bank and in hand		29,987	16,747
		1,989,705	2,806,897
Creditors : amounts falling due within one year	5	2,512,413	3,134,500
Net current liabilities		- 522,708	- 327,603
Total assets less current liabilities		1,463,363	1,964,795
Creditors : amounts falling due after more than one year	6	619,521	733,647
Provisions for liabilities and charges	7	117,000	220,000
Net Assets		£ 726,842	£1,011,148
Capital and reserves			
Called up share capital	8	125,400	100,400
Share premium account	9	475,000	0
Profit and loss account	10	126,442	910,748
Shareholders' Funds		£726,842	£ 1,101,148

On behalf of the Board

S A Best
Director

The financial statements were approved by the Board of Directors on 5 March 2003.

The annexed notes form part of these financial statements

SURFACE TECHNOLOGY INTERNATIONAL LTD

Profit and Loss Account for the year ended 31 May 2002

	NOTES	2002	2001
		£	£
TURNOVER		8,813,000	13,838,636
Cost of Sales		6,376,248	9,972,346
GROSS PROFIT		2,436,752	3,866,290
Administrative Expenses		2,877,514	2,711,536
OPERATING LOSS	11	- 440,762	1,154,754
Interest payable	13	215,727	162,587
Interest receivable		0	- 2,019
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		- 656,489	994,186
Taxation on loss on ordinary activities	14	- 209,037	294,000
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		- 447,452	700,186
Dividends	15	336,854	355,088
Loss for the year		£ - 784,306	£345,098

The only recognised loss for the period is the loss for the period.

There were no acquisitions and no discontinued operations in the year.

The annexed notes form part of these financial statements.

SURFACE TECHNOLOGY INTERNATIONAL LTD

Cash Flow Statement for the year ended 31 May 2002

	Notes	2002 £	2001 £
RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES			
Operating loss		- 440,762	1,154,754
Depreciation charges		522,795	449,831
Loss on disposal of fixed assets		3,162	10,994
Decrease in stocks		630,139	- 216,808
Decrease in debtors		200,293	191,377
Decrease in creditors		455,550	- 597,919
NET CASH INFLOW FROM OPERATING ACTIVITIES		1,371,177	992,229
CASH FLOW STATEMENT			
Net cash inflow from operating activities		1,371,177	992,229
Returns on investments and servicing of finance	19	- 215,727	- 160,568
Taxation		0	- 160,163
Capital expenditure	19	- 219,630	- 1,671,276
Issue of ordinary share capital		500,000	0
		1,435,820	-999,778
Equity Dividends Paid		- 336,854	- 355,088
INCREASE IN CASH		£1,098,966	£ - 1,354,866
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Decrease in cash in the year	20	1,098,966	- 1,354,866
Net debt at 1 June 2001		- 1,989,206	- 634,340
NET DEBT AT 31 MAY 2002		£ - 890,240	£ - 1,989,206

Notes forming part of the financial statements for the year ended 31 May 2002

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1 Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below and have remained unchanged from the previous year, and also have been consistently applied within the same accounts.

(a) *Basis of Preparation of Financial Statements.*
The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The effects of events relating to the year ended 31 May 2002 before the date of approval of the financial statements by the Board of Directors have been included in the statements to the extent required to show a true and fair view of the state of affairs at 31 May 2002 and of the results for the year ended on that date.

(b) *Depreciation*

Depreciation is provided on all tangible fixed assets to write off the cost of each asset evenly over its expected useful life as follows:-

Motor vehicles	- 25% per annum
Furniture, fixtures and equipment	- 10 - 33% per annum
Leasehold premises	- over life of lease

(c) *Stocks and Work in Progress*

Stocks and Work in Progress are stated at the lower of cost and net realisable value as follows:-

Raw Materials and Consumables – Cost means purchase price calculated on a first in, first out basis.

Work in progress and finished goods - Cost consists of direct materials and labour and attributable production overheads.

Net realisable value is based on estimated selling price less further costs to completion and disposal.

(d) *Leasing*

Tangible fixed assets acquired under finance leases or hire purchase contracts are capitalised and depreciated in the same manner as other tangible fixed assets. The related obligations, net of future finance charges, are included in creditors.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the year of the lease.

(e) *Research and Development*

Expenditure is written off to the profit and loss account in the year in which it is incurred.

(f) *Foreign exchange*

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances at the year-end denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date.

(g) *Deferred taxation*

The charge for taxation is based on the profit for the year as adjusted for tax purposes. The company has adopted financial Reporting Standard 19, Deferred Tax during 2002 which has required a change in accounting policy and a prior year adjustment in respect of deferred tax liabilities arising in prior years. In accordance with the standard, full provision is made at current rates for taxation deferred in respect of all timing differences. Deferred tax balances are not discounted.

(h) *Turnover*

The company's turnover represents the value, excluding value added tax, of goods and services supplied to customers during the year. The analysis of turnover by geographical area is as follows:

	2002 £	2001 £
United Kingdom	7,403,000	9,334,281
North America	122,000	636,370
Other European countries	1,288,000	3,867,985
	£8,813,000	£13,838,636

(i) *Pension Costs*

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 pension cost charge represents contributions payable by the company to the fund and amounted to £ 111,302 (2001 - £ 83,199). There were no outstanding or prepaid contributions at the year-end.

Notes forming part of the financial statements for the year ended 31 May 2002 *(continued)*

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2. Tangible fixed assets

	Total	Motor Vehicles	Furniture Fixtures & Equipment	Leasehold Premises
	£	£	£	£
Cost				
As at 1 June 2001	3,730,912	34,049	3,635,974	60,889
Additions	230,547	0	230,547	0
Disposals	- 43,244	0	- 43,244	0
As at 31 May 2002	3,918,215	34,049	3,823,277	60,889
Depreciation				
As at 1 June 2001	1,438,514	7,663	1,410,478	20,373
Charge for the year	522,795	8,231	508,338	6,226
Disposals	- 29,165	0	- 29,165	0
As at 31 May 2002	1,932,144	15,894	1,889,651	26,599
Net book value				
At 31 May 2002	£1,986,071	£18,155	£1,933,626	£34,290
At 31 May 2001	£2,292,398	£26,386	£2,225,496	£40,516

The net book value of the company's tangible fixed assets included £1,182,195 (2001 - £ 1,639,597) in respect of assets held under lease and hire purchase contracts.

3. Stocks

	2002	2001
	£	£
Materials and consumables	602,017	887,150
Work in progress	298,182	643,188
	£900,199	£ 1,530,338

4. Debtors

	2002	2001
	£	£
Trade debtors	1,028,685	1,091,229
Other debtors	587	70,209
Prepayments	30,247	98,374
	£1,059,519	£ 1,259,812

5. Creditors : Amounts falling due within one year

	2002	2001
	£	£
Trade creditors	1,730,401	1,426,787
Corporation tax	56,000	162,037
Other taxes and social security costs	268,272	90,745
Accruals	157,034	182,619
Lease and hire purchase – current instalments (see note 6)	260,706	443,153
Bank overdraft	0	829,153
Other creditors	0	6
Bank loan	40,000	0
	£2,512,413	£3,134,500

The bank overdraft and loan are secured over the leasehold premises of the company and a fixed and floating charge over the assets of the company.

6. Creditors : amounts falling due after more than one year

	2002	2001
	£	£
Obligations under contracts	880,227	1,176,800
Less current portion shown in current liabilities	260,706	443,153
Repayable 2 – 5 years	£619,521	£ 733,647

Obligations under lease and hire purchase contracts are shown after deducting £81,195 (2001 - £ 188,233) financing charges which are allocated to future years.

7. Provisions for liabilities and charges

	2002	2001
	£	£ (Restated)
Deferred Tax		
Accelerated capital allowances	117,000	220,000
Full provision for deferred tax	£117,000	£220,000
Provision at start of year	220,000	88,000
Deferred tax credit/charge in profit and loss account for the year	- 103,000	132,000
Provision at end of year	£117,000	£220,000

8. Called Up Share Capital

	2002 £	2001 £
Ordinary Shares of £1 each Authorised	£1,004,000	£1,004,000
Ordinary Shares of £1 each Allotted and Fully Paid		
At 1 June 2001	100,400	100,400
Issued in Year	25,000	0
At 31 May 2002	£125,400	£104,000

On 28 March 2002, 15,000 shares were issued at £20 each. Additionally, on 19 April 2002, 10,000 shares were issued at £20 each.

9. Share Premium Account

	£
At 1 June 001	0
Shares issued in Year	475,000
At 31 May 2002	£475,000

10. Profit and loss reserves

	£
At start of year as previously stated	1,130,748
Prior year adjustment – adoption of FRS 19	220,000
As restated	910,748
Loss for the year	- 784,306
At end of year	£126,442

The company has adopted FRS 19, Deferred Tax and the previous years' reserves have been restated. The impact of implementing FRS 19 on current year's losses is to reduce them by £103,000 (2001: reduce profits by £132,000).

Notes forming part of the financial statements for the year ended 31 May 2002 *(continued)*

11. Operating loss is stated after charging:

	2002	2001
	£	£
Loss on Disposal of fixed assets	3,162	10,994
Depreciation and amortisation of owned assets	346,655	229,023
Depreciation of assets held under lease and hire purchase contracts	176,140	220,808
Auditors' remuneration	7,000	6,500
Directors' emoluments	87,408	
Hire of equipment -		
Plant and machinery	109,424	41,898
Other	103,523	90,402
Research and development	7,136	0

12. Directors' Emoluments

	2002	2001
	£	£
Emoluments	54,779	46,029
Company contributions to money purchase pension schemes	32,629	19,123
	£87,408	£65,152

During the year two directors were accruing benefits under money purchase schemes.

13. Interest payable

	2002	2001
	£	£
Bank interest and charges	33,902	38,134
Lease and hire purchase interest	115,836	33,407
Discounting charges	65,989	90,711
Other interest	0	335
	£215,727	£ 162,587

14. Taxation on loss on ordinary activities

(a) Analysis of charge in period

The company has adopted FRS 19, Deferred Tax in the current year. Accordingly, the tax charge for 2001 has been restated to reflect the position had the company accounted for deferred tax on a fully provided basis in that year. The full impact on reserves is detailed in note 10.

	2002 £	2001 £ (Restated)
Current Tax		
Loss Relief	- 86,200	0
UK Corporation tax on profits of the period	0	162,000
Adjustments in respect of previous periods	- 19837	0
Total current tax (Note 15b)	- 106,037	162,000
Deferred tax		
Origination and reversal of timing differences	- 103,000	132,000
Total deferred tax (note 7)	- 103,000	132,000
Tax on loss on ordinary activities	£ - 209,037	£294,000

(b) Factors affecting tax credit for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 20% - 32.5%. The differences are explained below:

	2002 £	2001 £
Loss/Profit on ordinary activities before tax	- 656,489	994,186
Loss/Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% - 32.5%	- 199,000	285,600
Effects of:		
Expenses not deductible for tax purposes	9,800	8,400
Capital allowances for period less than/in excess of depreciation	103,000	- 132,000
Adjustments to tax charge in respect of previous periods	- 19,837	0
Current tax credit/charge for period (note 14a)	£ - 106,037	£162,000

Notes forming part of the financial statements for the year ended 31 May 2002 *(continued)*

15. Dividends

	2002	2001
	£	£
Interim dividend paid on 100 Class A ordinary shares at £2,059.90 (2001:£2,750.00) per share	205,990	275,000
Interim dividend paid on 100 Class B ordinary shares at £535.00 (2001:£275.00) per share	53,500	27,500
Interim dividend paid on 100 Class C ordinary shares at £ 534.26 (2001:£338.06) per share	53,426	33,806
Interim dividend paid on 100 Class D ordinary shares at £239,38 (2001:£187.82) per share	23,938	18,782
	£336,854	£355,088

16. Staff Costs

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

	2002 Number	2001 Number
Management and administration	25	34
Production	123	121
Sales	13	9
	161	164

The aggregated payroll costs of these persons were as follows:

	2002	2001
	£	£
Wages and salaries	2,755,719	2,753,659
Social security	236,454	233,639
Other pension costs	111,302	83,199
	£3,103,475	£ 3,070,497

17. Leasing commitments

At 31 May 2002 the company had annual commitments under non-cancellable operating leases as detailed below:-

	2002		2001	
	Land and Buildings	Other	Land and Buildings	Other
	£	£	£	£
Operating leases which expire:				
Within one year	0	7,472	0	18,992
Within two to five years	0	175,220	0	342,199
Over five years	123,144	0	123,444	0
	123,144	182,692	123,444	361,191

18. Related party disclosures

The company was under the control of Mr S A Best, a director and shareholder of the company. The directors and their transactions with the company during the year were as follows:

CHIGA Consultants Limited, a company controlled by Mr S A Best, billed the company £ Nil (2001 - £ Nil) for management services. At 31 May 2002 £556 was owed to CHIGA Consultants Ltd.

19. Gross cash flows

	2002	2001
	£	£
Returns on investments and servicing of finance		
Interest paid	- 215,727	- 162,587
Interest received	0	2,019
	£ -215,727	£ - 160,568
Capital expenditure		
Payments to acquire tangible fixed assets	- 230,547	- 1,671,216
Receipts from sales of tangible fixed assets	10,917	0
	£ -219,630	£- 1,671,216

20. Analysis of changes in net debt

	2001	Cashflows	Other changes	At 2002
	£	£	£	£
Cash in hand, at bank	16,747	13,240	0	29,987
Overdrafts	- 829,153	829,153	0	0
Debt due within one year	- 443,153	296,573	- 114,126	- 260,706
Debt due after one year	- 733,647	0	114,126	- 619,521
Bank loan	0	- 40,000	0	- 40,000
Total	£ -1,989,206	£1,098,966	£ 0	£ -890,240