

Intertek Testing and Certification Limited
(formerly ITS Testing and Certification
Limited)

Directors' report and financial statements

Registered number 3272281

31 December 2003



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

Principal activities

The principal trading activity of the company during the year was the provision of independent testing and inspection services to industry.

Business review

Another year of challenging trading conditions in the UK for our traditional testing business has made us look into new areas for continued growth. This was achieved with the acquisition of the Milton Keynes based Research & Testing Centre from the Consumers' Association in April 2002, adding the complementary performance and consumer testing to our existing services. The results for the year and the state of affairs of the company are shown in the financial statements and notes on pages 5 to 19. The loss for the year after taxation was £407,000 (2002: loss £90,000).

Change of name

On 18 August 2003 the company changed its name to Intertek Testing and Certification Limited.

Dividend

No dividends were paid in the year (2002: £nil).

Directors and directors' interests

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

Michael Vint
Gösta Fredriksson
Göran Lilja
Clive Patten

The directors who held office at the end of the financial year had the following interests in the ordinary shares of the group companies according to the register of directors' interests.

	Company	Class of share	Interest at end of year	Interest at start of year
Gösta Fredriksson	Intertek Group plc	Shares of 1p	62,029	159,469

Directors' report *(continued)*

Directors and directors' interests *(continued)*

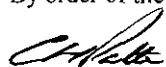
According to the register of directors' interests, no rights to subscribe for shares in or debentures of group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year except for the interests in Intertek Group plc, the Company's ultimate parent undertaking as indicated below:

	Number of options during the year			At end of year	Exercise price p	Market price at date of exercise p	Date from which exercisable	Expiry date
	At start of year	Granted	Exer- cised					
Clive Patten	5,950	4,000	-	9,950	437		30 May 2005	30 May 2012
Göran Lilja	5,903	-	-	5,903	10	-	1 March 2000	1 March 2004
	5,197	4,000	-	9,197	437		30 May 2005	30 May 2012
Gösta Fredriksson	35,416	-	35,416	-	10	512		
	11,238	10,902	-	22,140	437		30 May 2005	30 May 2012

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Clive Patten
Director

5 April 2004

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 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 departures disclosed and explained in the financial statements;
- 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

Independent auditors' report to the members of Intertek Testing and Certification Limited (formerly ITS Testing and Certification Limited)

We have audited the financial statements on pages 5 to 19.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's 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 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 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
PO Box 695
8 Salisbury Square
London EC4Y 8BB

5 April 2004

Profit and loss account

for the year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Turnover	2	6,570	6,344
Cost of sales		(4,208)	(3,802)
Gross profit		2,362	2,542
Administrative expenses (including exceptional cost of £420,000 (2002:£nil))	13	(3,072)	(2,497)
Operating (loss)/profit		(710)	45
Interest payable	4	(8)	-
(Loss)/profit on ordinary activities before taxation	3	(718)	45
Tax on (loss)/profit on ordinary activities	7	311	(135)
Loss for the financial year		(407)	(90)
Retained loss for the financial year		(407)	(90)

The company has no recognised gains and losses other than the results shown above and therefore no separate statement of total recognised gains and losses has been presented. The results shown above arise from continuing activities and are presented on an historical cost basis.

Balance sheet

at 31 December 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Intangible assets	8	1,277	1,359
Tangible assets	9	923	1,054
		<u>2,200</u>	<u>2,413</u>
Current assets			
Debtors	10	2,723	1,606
Cash at bank and in hand		92	185
		<u>2,815</u>	<u>1,791</u>
Creditors: amounts falling due within one year	11	(2,460)	(1,578)
Net current assets		<u>355</u>	<u>213</u>
Total assets less current liabilities		<u>2,555</u>	<u>2,626</u>
Creditors: amounts falling due after more than one year	12	(235)	(235)
Provisions for liabilities and charges	13	(336)	-
Net assets		<u>1,984</u>	<u>2,391</u>
Capital and reserves			
Called up share capital	16	-	-
Share premium account	18	2,800	2,800
Profit and loss account	17	(816)	(409)
Equity shareholders' funds		<u>1,984</u>	<u>2,391</u>

These financial statements were approved by the board of directors on its behalf by:



C Patten
Director

5 April

2004 and were signed on

Cash flow statement

for the year ended 31 December 2003

	<i>Note</i>	2003 £'000	2002 £'000
Cash flow statement			
Net cash outflow from operating activities	<i>19</i>	(191)	(191)
Returns on investment and servicing of finance interest paid		(8)	-
Taxation		(135)	(100)
Capital expenditure			
Purchase of tangible fixed assets		(200)	(235)
Cash outflow before financing		(534)	(526)
Decrease in cash in the year		(534)	(526)

Reconciliation of net cash flow to movement in net debt

	<i>Note</i>	2003 £'000	2002 £'000
Decrease in cash in the year		(534)	(526)
Cash inflow from increase in debt		-	-
Movement in net debt in the year		(534)	(526)
Net debt at the start of the year	<i>20</i>	(952)	(426)
Net debt at the end of the year	<i>20</i>	(1,486)	(952)

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.

Basis of preparation

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

Fixed assets and depreciation

Fixed assets are stated at cost less depreciation, which is provided on a straight line basis over the estimated useful lives of the assets, at the following annual rates:

Leasehold buildings	-	Over the life of the lease
Plant and machinery	-	10% - 33.3%

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life as assessed on a case-by-case basis up to a maximum of 20 years.

Foreign currency

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 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.

Turnover

Turnover represents the total amounts receivable for services provided, excluding sales-related taxes. Turnover is recognised when the relevant service is completed.

Notes (continued)

1 Accounting policies (continued)

Pension

The company contributes to a group pension scheme which has two sections.

One section, which was closed to new entrants from 1 April 2002 provides benefits based on final pensionable pay. The assets of the plan are held separately from those of the company. Actuarial gains and losses are recognised immediately in the financial statements together with a related asset or liability, other than where the company cannot identify its share of the underlying assets and liabilities of the scheme. If it is not possible to identify the share of underlying assets and liabilities, the company accounts for the scheme as if it was a defined contribution scheme, with amounts charged against profits representing contributions payable in respect of the accounting period.

The second section, which commenced on 1 April 2002 provides benefits based on the level of contributions made into the scheme. Contributions payable under this section of the scheme are charged to the profit and loss account as they fall due.

Taxation

Deferred taxation is provided fully using the liability method at current taxation rates on certain timing differences. Deferred tax assets in respect of timing differences are only recognised to the extent that it is more likely that not that there will be suitable taxable profits to offset the future reversal of these timing differences.

2 Segmental analysis

	2003 Turnover £'000	2002 Turnover £'000
<i>By geographical market</i>		
United Kingdom	5,144	5,268
Europe	863	471
Middle East and Asia	275	339
North America	258	251
Others	30	15
	6,570	6,344

Notes *(continued)*

3 (Loss)/profit on ordinary activities before taxation

	2003 £'000	2002 £'000
<i>(Loss)/ profit on ordinary activities before tax is stated after charging:</i>		
Auditors' remuneration	4	4
Depreciation of owned fixed assets	331	287
Provision for redundancies	420	-
Amortisation of goodwill	82	83
Hire of plant and machinery - rentals payable under operating leases	47	59
Hire of other assets - operating leases	726	668
Exchange losses	25	21
	<u> </u>	<u> </u>

4 Interest payable

	2003 £'000	2002 £'000
Intercompany interest	8	-
	<u> </u>	<u> </u>

5 Remuneration of directors

	2003 £'000	2002 £'000
Directors' emoluments	76	112
	<u> </u>	<u> </u>

The details of the directors' interests in shares of group companies are set out in the director's report.

	Number of directors 2003	2002
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	1	1
	<u> </u>	<u> </u>

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	
	2003	2002
Testing and inspection	92	79
Sales and administration	33	31
	125	110

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£'000	£'000
Wages and salaries	3,186	3,071
Social security costs	259	210
Pension costs	275	217
	3,720	3,498

7 Taxation

(a) Tax on (loss)/profit of ordinary activities

	2003	2002
	£'000	£'000
UK Corporation tax at 30% (2002:30%) on (loss)/profit of the year	(314)	135
Adjustment in respect of previous periods	3	-
	(311)	135

Notes (continued)

7 Taxation (continued)

(b) Factors affecting tax charge for the year

The tax assessed for the year is different from the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	2003 £'000	2002 £'000
(Loss)/profit on ordinary activities before tax	(718)	45
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002:30%)	(215)	13
Effect of:		
Fixed asset timing differences	(138)	91
Other short term timing differences	8	-
Expenses not deductible for tax purposes	31	31
Adjustments relating to prior periods	3	-
Current tax charge for the year (note 7a)	(311)	135

8 Intangible fixed assets

	Goodwill £'000
Cost	
At 1 January 2003 and 31 December 2003	1,647
Amortisation	
At 1 January 2003	288
Charge for year	82
At 31 December 2003	370
Net book value	
At 31 December 2003	1,277
At 31 December 2002	1,359

Notes *(continued)*

9 Tangible fixed assets

	Leasehold buildings £'000	Plant and machinery £'000	Total £'000
<i>Cost</i>			
At 1 January 2003	247	2,029	2,276
Additions	2	198	200
At 31 December 2003	249	2,227	2,476
<i>Depreciation</i>			
At 1 January 2003	39	1,183	1,222
Charge for year	29	302	331
At 31 December 2003	68	1,485	1,553
<i>Net book value</i>			
At 31 December 2003	181	742	923
At 31 December 2002	208	846	1,054

10 Debtors

	2003 £'000	2002 £'000
Trade debtors	1,328	1,085
Amounts owed by group undertakings	789	342
Other debtors	92	7
Prepayments and accrued income	203	172
Corporation tax	311	-
	2,723	1,606

Notes *(continued)*

11 Creditors: amounts falling due within one year

	2003 £'000	2002 £'000
Trade creditors	155	190
Amounts owed to group undertakings	491	55
Corporation tax	-	135
Other taxation and social security	273	229
Accruals and deferred income	198	67
Bank overdraft	1,343	902
	2,460	1,578

12 Creditors: amounts falling due after more than one year

	2003 £'000	2002 £'000
Amounts owed to group undertakings	235	235

Notes (continued)

13 Provision for liabilities and charges

At 31 December 2002

	£'000
Provided in the year	420
Utilised	(84)

At 31 December 2003

336

The above provision relates to redundancies announced during the year. As part of a reorganisation, there were a number of redundancies made during the year. The provision above represents the unused portion of the redundancies provision.

	2003	2002
	£'000	£'000
<i>Deferred tax</i>		
Provision at beginning of year	-	-
Charge for the year	-	-
Provision at end of year	-	-

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2003	2003	2002	2002
	Provided	Unprovided	Provided	Unprovided
	£'000	£'000	£'000	£'000
Fixed asset timing differences	-	454	-	590
Other short term timing differences	-	8	-	-
Deferred tax asset	-	462	-	590

A deferred tax asset of £454,000 (2002: £590,000) and £8,000 (2002 : £ nil) have not been recognised on fixed asset and other short term timing differences respectively. These assets can only be deducted against future suitable taxable profits. There is currently insufficient evidence that suitable taxable profits will be generated to offset the future reversal of these timing differences and therefore no asset has been recognised.

Notes (continued)

14 Contingent liabilities

The company is party to composite banking cross guarantees with other group companies in the UK and contingent liabilities in respect of these guarantees at 31 December 2003 were £12,050,000 (2002:£11,300,000).

15 Commitments

- (a) Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2003 £'000	2002 £'000
Contracted	-	-

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

	2003		2002	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	-	26	-	-
In the second to fifth years inclusive	-	86	19	61
Over five years	771	-	783	-
	<u>771</u>	<u>112</u>	<u>802</u>	<u>61</u>

Notes (continued)

16 Called up share capital

	2003 £'000	2002 £'000
<i>Authorised</i>		
Equity		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<i>Allotted, called up and unpaid</i>		
Equity		
380 Ordinary shares of £1 each	<u>380</u>	<u>380</u>

17 Profit and loss account

	2003 £'000	2002 £'000
At beginning of year	(409)	(319)
Retained loss for the year	<u>(407)</u>	<u>(90)</u>
At end of year	<u>(816)</u>	<u>(409)</u>

18 Reconciliation of movements in equity shareholders' funds

	Share capital £'000	Share premium £'000	Profit and loss account £'000	2003 Total shareholders' funds £'000	2002 Total shareholders' funds £'000
At beginning of year	-	2,800	(409)	2,391	2,481
Loss for the year	-	-	(407)	(407)	(90)
At end of year	<u>-</u>	<u>2,800</u>	<u>(816)</u>	<u>1,984</u>	<u>2,391</u>

Notes (continued)

19 Reconciliation of operating (loss)/profit to operating cash flows

	2003 £'000	2002 £'000
Operating (loss)/profit	(710)	45
Depreciation charge	331	287
Amortisation of goodwill	82	83
Increase in debtors	(806)	(504)
Increase/(decrease) in creditors	576	(102)
Increase in provision	336	-
Net cash outflow from operating activities	(191)	(191)

20 Analysis of changes in net debt

	At beginning of year £'000	Cash flow £'000	At end of year £'000
Cash at hand and in bank	185	(93)	92
Bank overdraft	(902)	(441)	(1,343)
Loans from ultimate parent undertaking	(717)	(534)	(1,251)
	(235)	-	(235)
Total	(952)	(534)	(1,486)

21 Pension scheme

The company is a member of a group pension scheme. The scheme has two sections. One section provides benefits based on final pensionable pay. This section was closed to new entrants from 1 April 2002. The other section, which commenced on 1 April 2002, provides benefits based on the level of contributions made into the scheme.

In respect of the final salary section of the scheme, since the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17: Retirement benefits, the scheme has been accounted for by the company as if it was a defined contribution scheme.

The FRS 17 pension deficit of the group scheme at 31 December 2003 was £7.1m (2002: deficit of £7.2m). Further details about the final salary section of the scheme and full information about the FRS 17 aspects are disclosed in the financial statements of the ultimate holding company, Intertek Group plc.

Notes *(continued)*

22 Related party transactions

During the year sales amounting to £440,000 (2002:£383,000) were made to group companies. Interest paid on loans payable to group undertakings was £8,000 (2002:£nil).

23 Ultimate parent company and ultimate controlling party

At 31 December 2003, the company's ultimate parent undertaking and ultimate controlling party was Intertek Group plc incorporated in Great Britain and copies of its financial statements may be obtained from The Secretary, 25 Savile Row, London W1S 2ES.