

# **Orion Engineering Services Limited**

## **Report and Financial Statements**

31 August 2004

Registered No: 98014

**Directors**

A Savage  
L M Savage  
J Dixon  
B Cann  
I Martin  
B Urquhart (appointed 28 November 2003)

**Secretary**

P Savage

**Auditors**

Ernst & Young LLP  
Barony House  
Stoneyfield Business Park  
Stoneyfield  
Inverness  
IV2 9PA

**Bankers**

Bank of Scotland  
38 Albyn Place  
Aberdeen  
AB10 1ZS

**Solicitors**

Isadore Goldman  
125 High Holburn  
London  
WC1V 6QF

Stronachs  
34 Albyn Place  
Aberdeen  
AB10 1FW

**Registered Office**

Orion House  
Castle Heather  
Inverness  
IV2 6AA

## Directors' report

The directors present their report and the group financial statements for the year ended 31 August 2004.

### Results and dividends

The group profit for the year, after taxation, amounted to £983,874 and is dealt with as shown in the profit and loss account. Ordinary dividends of £56,549 were paid during the year. The directors propose a final ordinary dividend of £30,000.

### Principal activities

The principal activities of the group during the year continued to be the provision of engineering personnel on a worldwide basis to the oil and gas, petrochemical, pharmaceutical, civil, power generation, construction, nuclear and rail industries. These staff are supplied on a contract or placement basis.

### Review of the business and future developments

The trade and assets of all subsidiary companies other than Orion Project Services Houston LLP and D Gow & Son Limited were hived up on 1 September 2003 into the parent company, Orion Engineering Services Limited, to ease administration and tax issues.

The turnover increased substantially this trading year due to the sustained recovery in the oil and gas sector and, more importantly, increased international business.

The Kazakhstan joint venture KisOrion LLP (engineering and technical) continues to make headway and made a significant contribution to the Group. The Nuclear division established to service the Reactor Decommissioning market came good and a major ventilation contract was undertaken. The London office again proved to be very successful and this continues to augur well for the future. The new Belfast operation made a good start and offered the Group an insight into the use of international labour. The new office in Houston continues to contribute to the globalisation of the business.

### Directors and their interests

The directors at 31 August 2004 and their interests in the share capital of the company are as follows:

		<i>At 31 August 2004</i>	<i>At 1 September 2003</i>
	<i>Class of share</i>	<i>Ordinary shares</i>	<i>Ordinary shares</i>
A Savage	A ordinary	4,550	4,550
	F ordinary	2,500	2,500
L M Savage	A ordinary	4,450	4,450
J Dixon	C ordinary	500	500
B Cann	B ordinary	4,450	4,450
I Martin		-	-
B Urquhart		-	-

## Directors' report

### **Creditor payment policy and practice**

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 August 2004, the company had an average of 51 days purchases outstanding in trade creditors.

### **Disabled employees**

The company will treat disabled persons equally with non-disabled persons in all employment matters in general accordance with our Equal Opportunities Policy.

The definition of disability will be in accordance with the Disability Discrimination Act 1995, which defines disability as any physical, mental or sensory impairment that affects the disabled person's ability to perform normal day to day activities. The disability must also be substantial and last, or be expected to last, at least twelve months.

The company will in conjunction with its clients make every endeavour to ensure that the facilities and services offered to disabled persons during the course of their employment will be of the same standard as those offered to non-disabled persons.

Differing Standards will only be applied where the health and safety of the disabled person or anyone else is compromised and these will only be applied after sound justification for such action is established.

### **Equal opportunity policy**

As a company we are committed to the principle of equal opportunity in employment. Our employment policies for search, interview and selection of personnel are designed to ensure that no prospective job applicant or employee receives less favourable treatment on the grounds of race, colour, nationality, ethnic or national origin, disability, trade union membership or non-membership, sex or marital status.

The objective of this policy is to ensure that individuals are selected, and otherwise treated solely on the basis of their relevant aptitudes, skill and abilities.

### **Auditors**

Ernst & Young LLP were appointed as auditors during the year. A resolution to reappoint Ernst & Young LLP will be put to the members at the forthcoming Annual General Meeting.

By order of the board

P Savage

Secretary

29 June 2005

## **Statement of directors' responsibilities in respect of the financial statements**

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 group and of the profit or loss of the group 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report**

## **to the members of Orion Engineering Services Limited**

We have audited the group's financial statements for the year ended 31 August 2004 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Balance Sheet, Balance Sheet, Group Statement of Cash Flows, and the related notes 1 to 28. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

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 United Kingdom law and accounting standards.

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

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

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

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

# **Independent auditors' report**

**to the members of Orion Engineering Services Limited**

## **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 August 2004 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP  
Registered Auditor  
Inverness

29 June 2005

## Group profit and loss account

For the year ended 31 August 2004

	Notes	2004 £	2003 £
<b>Turnover: group and share of joint ventures</b>			
Continuing operations:			
ongoing		76,520,330	52,136,984
acquisitions		-	2,027,054
		<hr/>	<hr/>
		76,520,330	54,164,038
Less share of joint ventures' turnover		6,530,658	4,179,221
		<hr/>	<hr/>
<b>Group turnover</b>	2	69,989,672	49,984,817
Cost of sales	3	62,615,515	44,641,606
		<hr/>	<hr/>
<b>Gross profit</b>		7,374,157	5,343,211
Administrative expenses	3	5,410,448	5,007,409
Other operating income	3/4	-	(136,059)
		<hr/>	<hr/>
<b>Operating profit/(loss)</b>			
Continuing operations:			
ongoing		1,963,709	825,970
acquisitions		-	(354,109)
		<hr/>	<hr/>
<b>Group operating profit</b>	5	1,963,709	471,861
Share of operating profit in joint venture		373,864	245,767
Share of operating (loss) in associate		(354)	(1,000)
		<hr/>	<hr/>
<b>Profit on ordinary activities before interest and taxation</b>		2,337,219	716,628
Interest receivable		3,327	7,431
Interest payable and similar charges	8	(420,088)	(381,901)
Interest payable – joint ventures		(75,377)	(8,890)
		<hr/>	<hr/>
		(492,138)	(383,360)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>		1,845,081	333,268
Taxation on ordinary activities	9	861,207	257,826
		<hr/>	<hr/>
<b>Profit on ordinary activities after taxation</b>		983,874	75,442
Dividends	11	86,549	105,460
		<hr/>	<hr/>
<b>Retained profit/(loss) for the financial year</b>		897,325	(30,018)
		<hr/> <hr/>	<hr/> <hr/>

**Group statement of total recognised gains and losses**

for the year ended 31 August 2004

	2004	2003
	£	£
Profit/(loss) for the financial year excluding share of profits of joint venture and associate	812,645	(83,981)
Share of joint venture's profit for the year	171,583	160,423
Share of associate's loss for the year	(354)	(1,000)
	<hr/>	<hr/>
Profit for the financial year attributable to members of the parent company	983,874	75,442
Exchange difference on retranslation of investment in joint venture	(28,525)	-
Exchange difference on retranslation of net assets of subsidiary undertaking	3,863	-
	<hr/>	<hr/>
<b>Total recognised gains and losses relating to the year</b>	<b>959,212</b>	<b>75,442</b>
	<hr/> <hr/>	<hr/> <hr/>

## Group balance sheet

As at 31 August 2004

	<i>Notes</i>	<i>2004</i>	<i>2003</i>
		£	£
<b>Fixed assets</b>			
Intangible assets	12	78,884	433,387
Negative goodwill	12	-	(3,334)
Tangible assets	13	965,000	1,728,283
Investment in associates	14	-	(38,051)
Investment in joint ventures	14	152,413	126,478
		<u>1,196,297</u>	<u>2,246,763</u>
<b>Current assets</b>			
Stocks	15	108,751	15,242
Debtors	16	16,590,850	11,685,952
Cash at bank and in hand		321,629	568,961
		<u>17,021,230</u>	<u>12,270,155</u>
<b>Creditors:</b> amounts falling due within one year	17	14,250,049	11,224,343
		<u>2,771,181</u>	<u>1,045,812</u>
<b>Total assets less current liabilities</b>		3,967,478	3,292,575
<b>Creditors:</b> amounts falling due after more than one year	18	473,360	683,693
<b>Accruals and deferred income</b>			
Deferred government grants	21	13,773	1,200
		<u>487,133</u>	<u>684,893</u>
		<u>3,480,345</u>	<u>2,607,682</u>
		<u><u>3,480,345</u></u>	<u><u>2,607,682</u></u>
<b>Capital and reserves</b>			
Called-up share capital	22	21,400	21,400
Profit and loss account	23	3,458,945	2,586,282
		<u>3,480,345</u>	<u>2,607,682</u>
		<u><u>3,480,345</u></u>	<u><u>2,607,682</u></u>

A Savage  
Director

29 June 2005

## Balance sheet

as at 31 August 2004

	<i>Notes</i>	<i>2004</i> £	<i>2003</i> £
<b>Fixed assets</b>			
Intangible assets	12	78,884	194,903
Tangible assets	13	687,658	1,362,591
Investments	14	550	335,376
		<u>767,092</u>	<u>1,892,870</u>
<b>Current assets</b>			
Debtors	16	16,461,287	9,798,891
Cash at bank		289,016	234,747
		<u>16,750,303</u>	<u>10,033,638</u>
<b>Creditors:</b> amounts falling due within one year	17	13,673,530	10,539,758
		<u>3,076,773</u>	<u>(506,120)</u>
<b>Net current liabilities</b>			
		3,843,865	1,386,750
<b>Total assets less current liabilities</b>			
<b>Creditors:</b> amounts falling due after more than one year	18	473,360	683,693
		<u>3,370,505</u>	<u>703,057</u>
		<u><u>3,370,505</u></u>	<u><u>703,057</u></u>
<b>Capital and reserves</b>			
Called-up share capital	22	21,400	21,400
Profit and loss account	23	3,349,105	681,657
		<u>3,370,505</u>	<u>703,057</u>
Equity shareholders' funds		<u><u>3,370,505</u></u>	<u><u>703,057</u></u>

A Savage  
Director

29 June 2005

## Group statement of cash flows

for the year ended 31 August 2004

	<i>Notes</i>	<i>2004</i> £	<i>2003</i> £
<b>Net cash (outflow)/inflow from operating activities</b>	25(a)	(593,682)	1,299,744
<b>Dividend received from joint venture</b>		117,121	140,252
<b>Returns on investments and servicing of finance</b>	25(b)	(416,761)	(374,470)
<b>Taxation</b>	25(b)	(494,348)	(531,642)
<b>Capital expenditure and financial investment</b>	25(b)	601,317	(747,904)
<b>Financing</b>	25(b)	(320,316)	76,604
<b>Equity dividends paid</b>		(71,949)	(109,060)
		<u>(1,178,618)</u>	<u>(246,476)</u>

### Reconciliation of net cash flow to movement in net funds

		<i>2004</i> £	<i>2003</i> £
Increase/(decrease) in cash		(1,178,618)	(246,476)
Cash used to repay capital element of finance lease and hire purchase payments		215,172	-
Cash outflow/(inflow) in loan financing		105,144	(76,603)
Change in net debt resulting from cash flows	25(c)	(858,302)	(323,079)
New finance leases and hire purchase contracts	25(c)	(46,360)	(257,987)
<b>Movement in net debt</b>		<u>(904,662)</u>	<u>(581,066)</u>
<b>Net debt at 1 September</b>	25(c)	(8,206,735)	(7,625,669)
<b>Net debt at 31 August</b>	25c)	<u>(9,111,397)</u>	<u>(8,206,735)</u>

## Notes to the financial statements

at 31 August 2004

### 1. Accounting policies

#### ***Basis of preparation***

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### ***Basis of consolidation***

The group financial statements consolidate the financial statements of Orion Engineering Services Limited and all its subsidiaries as at 31 August 2003. No profit and loss account is presented for Orion Engineering Services Limited as permitted by section 230 of the Companies Act 1085. The acquisition method of accounting has been used to prepare the group financial statements.

Entities in which the group holds an interest on a long-term basis and are jointly controlled by the group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the group financial statements, joint ventures are accounted for using the group equity method.

#### ***Goodwill***

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently as and when necessary if circumstances emerge that indicate that the carrying value may not be recoverable.

Negative goodwill is recognised in the profit and loss account in the periods in which non-monetary assets acquired are depreciated or sold.

#### ***Tangible fixed assets and depreciation***

All fixed assets are recorded at cost.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, based on prices prevailing at the date of acquisition, of each asset evenly over its expected useful life as follows:

Freehold property	-	2% straight line
Office improvements	-	20% straight line
Office equipment	-	15% reducing balance
Computer equipment	-	30% reducing balance
Plant and equipment	-	20% reducing balance
Fixtures and fittings	-	15% reducing balance
Motor vehicles	-	25% reducing balance

The carrying value of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

#### ***Stocks***

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

#### ***Government grants***

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

## Notes to the financial statements

at 31 August 2004

### 1. Accounting policies (continued)

#### ***Leasing and hire purchase commitments***

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest element of the rental obligations is charged to the profit and loss account over the period of the leases and hire purchase contracts and represents a constant proportion of the balance of capital repayments outstanding.

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

#### ***Deferred taxation***

Deferred taxation 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 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;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- 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.

#### ***Foreign currencies***

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

#### ***Group***

The financial statements of overseas joint venture undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account.

#### ***Pension costs***

The group operates a defined contribution pension scheme for certain employees. The assets of the scheme are held separately from those of the group. The annual contributions payable are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

## Notes to the financial statements

at 31 August 2004

### 2. Turnover and segmental analysis

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to the principal continuing activities of the group.

An analysis of turnover by geographical area is given below:

	2004	2003
	£	£
United Kingdom	57,524,457	41,359,984
Other European countries	3,714,432	4,335,745
North America	7,574,170	3,432,928
South America	50,400	297,573
Middle East	29,696	98,992
Africa	689,078	454,199
Asia	407,439	5,396
	<u>69,989,672</u>	<u>49,984,817</u>

The profit before taxation and net assets attributable to each segment has not been disclosed.

An analysis of turnover by business class is given below:

	2004	2003
	£	£
Employment agency	69,118,313	49,550,901
Fabrication engineering	1,672,698	407,030
Information technology	41,619	72,353
	<u>70,832,630</u>	<u>50,030,284</u>
Inter-segment sales	(842,958)	(45,467)
Sales to third parties	<u>69,989,672</u>	<u>49,984,817</u>

The profit before taxation and net assets attributable to each segment has not been disclosed.

### 3. Cost of sales and operating expenses

	2004	2003	2003	2003
	<i>Continuing</i>	<i>Ongoing</i>	<i>Continuing</i>	<i>Total</i>
	<i>Total</i>	<i>Ongoing</i>	<i>acquisitions</i>	<i>Total</i>
	£	£	£	£
Cost of sales	62,615,515	43,022,524	1,619,082	44,641,606
Administrative expenses	5,410,448	4,236,076	771,333	5,007,409
Other operating income	-	126,807	9,252	136,059
	<u>68,025,963</u>	<u>47,385,407</u>	<u>1,628,334</u>	<u>49,741,069</u>

## Notes to the financial statements

at 31 August 2004

### 4. Other operating income

	2004	2003
	£	£
Grants receivable	-	9,252
Insurance claims	-	468
Management charges receivable	-	126,339
	<u>-</u>	<u>136,059</u>
	<u><u>-</u></u>	<u><u>136,059</u></u>

### 5. Operating profit

This is stated after charging/(crediting):

	2004	2003
	£	£
Depreciation of owned fixed assets	105,650	111,680
Depreciation of assets held under finance leases and hire purchase contracts	112,318	150,126
Total depreciation charge	<u>217,968</u>	<u>261,806</u>
Auditors' remuneration - audit services	20,000	15,580
- non-audit services	-	-
Amortisation of goodwill	351,169	161,861
(Gain)/loss on disposal of fixed assets	(9,642)	13,889
Foreign currency exchange loss/(gain)	141,809	(63,405)
Government grants released	(1,140)	(720)
	<u><u>-</u></u>	<u><u>-</u></u>

### 6. Staff costs

	2004	2003
	£	£
Wages and salaries	17,073,680	17,701,059
Social security costs	1,790,979	1,795,158
Other pension costs	58,172	220,094
	<u>18,922,831</u>	<u>19,716,311</u>
	<u><u>18,922,831</u></u>	<u><u>19,716,311</u></u>

## Notes to the financial statements

at 31 August 2004

### 6. Staff costs (continued)

The average monthly number of employees during the year was as follows:

	2004 <i>No.</i>	2003 <i>No.</i>
Engineering staff	496	557
Administration	81	61
Fabrication	19	15
	<u>596</u>	<u>633</u>

### 7. Directors' emoluments

	2004 £	2003 £
Emoluments	478,953	436,565
	<u>478,953</u>	<u>436,565</u>
Company contributions paid to money purchase pension schemes	14,400	211,094
	<u>14,400</u>	<u>211,094</u>

	2004 <i>No.</i>	2003 <i>No.</i>
Members of money purchase pension schemes	6	5
	<u>6</u>	<u>5</u>

The amounts in respect of the highest paid director are as follows:

	2004 £	2003 £
Emoluments	175,950	178,950
	<u>175,950</u>	<u>178,950</u>
Company contributions paid to money purchase pension schemes	-	-
	<u>-</u>	<u>-</u>

### 8. Interest payable and similar charges

	2004 £	2003 £
Bank overdraft and loans	404,597	347,184
Finance charges payable under hire purchase contracts	15,491	22,577
Other similar charges payable	-	12,140
	<u>420,088</u>	<u>381,901</u>

## Notes to the financial statements

at 31 August 2004

### 9. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2004	2003
	£	£
<b>Current tax</b>		
UK corporation tax	671,270	126,164
Tax underprovided in previous years	247	190
	<u>371,517</u>	<u>126,354</u>
Double taxation relief	(355,809)	(73,370)
	<u>315,708</u>	<u>52,984</u>
Foreign tax on income for the year	418,595	128,388
	<u>734,303</u>	<u>181,372</u>
Group current tax	126,904	76,454
Share of joint venture's current tax		
Total current tax (note 9(b))	<u>861,207</u>	<u>257,826</u>

(b) Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2003 - 30%). The differences are reconciled below:

	2004	2003
	£	£
Profit on ordinary activities before tax	1,845,081	333,268
	<u>1,845,081</u>	<u>333,268</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 - 30%)	553,524	99,980
Effects of:		
Expenses not deductible for tax purposes (including goodwill amortisation)	164,634	88,260
Depreciation in excess of capital allowances	17,576	20,914
Adjustments in respect of the previous year	247	190
Other including share of joint venture tax	125,226	48,462
	<u>164,634</u>	<u>88,260</u>
Total current tax (note 9(a))	<u>861,207</u>	<u>257,826</u>

No provision for deferred tax is considered necessary at 31 August 2004.

### 10. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company is £2,753,997 (2003 - loss of £440,486).

## Notes to the financial statements

at 31 August 2004

### 11. Dividends

	2004	2003
	£	£
Equity dividends on ordinary shares:		
Interim paid	56,549	90,060
Final proposed	30,000	15,400
	<u>86,549</u>	<u>105,460</u>

### 12. Intangible fixed assets

	<i>Negative goodwill</i>	<i>Purchased goodwill</i>
	£	£
<i>Group</i>		
Cost:		
At 1 September 2003 and 31 August 2004	(3,334)	832,582
Amortisation:		
At 1 September 2003	-	399,195
Provided during the year	-	178,552
Impairment charge in the year	(3,334)	175,951
At 31 August 2004	<u>(3,334)</u>	<u>753,698</u>
Net book value:		
At 31 August 2004	-	78,884
At 1 September 2003	<u>(3,334)</u>	<u>433,387</u>

## Notes to the financial statements

at 31 August 2004

### 12. Intangible fixed assets (continued)

<i>Company</i>	<i>Goodwill</i> £
Cost:	
At 1 September 2003	519,912
Hived up from subsidiary	62,990
	<hr/>
At 31 August 2004	582,902
	<hr/>
Amortisation:	
At 1 September 2003	325,009
Hived up from subsidiary	30,445
Provided during the year	128,617
Impairment charge in the year	19,947
	<hr/>
At 31 August 2004	504,018
	<hr/>
Net book value:	
At 31 August 2004	78,884
	<hr/> <hr/>
At 31 August 2003	194,903
	<hr/> <hr/>

Goodwill is being amortised on a straight line basis over 5 years.

## Notes to the financial statements

at 31 August 2004

### 13. Tangible fixed assets

	<i>Office improvements</i> £	<i>Freehold property</i> £	<i>Equipment</i> £	<i>Motor vehicles</i> £	<i>Fixtures &amp; fittings</i> £	<i>Total</i> £
<i>Group</i>						
Cost:						
At 1 September 2003	41,183	935,914	539,909	810,914	22,929	2,350,849
Additions	-	48,045	25,625	67,615	424	141,709
Disposals	(31,725)	(586,018)	(8,057)	(178,506)	-	(804,306)
At 31 August 2004	9,458	397,941	557,477	700,023	23,353	1,688,252
Depreciation:						
At 1 September 2003	32,410	49,739	250,134	285,088	5,195	622,566
Charge for the period	1,892	10,104	72,063	130,728	3,181	217,968
Relating to disposals	(31,725)	(12,754)	(8,057)	(64,746)	-	(117,282)
At 31 August 2004	2,577	47,089	314,140	351,070	8,376	723,252
Net book value:						
At 31 August 2004	6,881	350,852	243,337	348,953	14,977	965,000
At 31 August 2003	8,773	886,175	289,775	525,826	17,734	1,728,283
<i>Company</i>						
Cost:						
At 1 September 2003	34,975	680,960	267,767	766,907	14,024	1,764,633
Additions	6,208	56,680	97,201	63,315	9,326	2932,730
Disposals	(31,725)	(586,018)	(8,057)	(178,506)	-	(804,306)
At 31 August 2004	9,458	151,622	356,911	651,716	23,350	1,193,057
Depreciation:						
At 1 September 2003	31,996	12,953	97,908	257,184	2,001	402,042
Acquired from subsidiaries	414	2,718	23,133	-	2,004	28,269
Charge for the period	1,892	1,532	58,616	127,148	3,182	192,370
Relating to disposals	(31,725)	(12,754)	(8,057)	(64,746)	-	(117,282)
At 31 August 2004	2,577	4,449	171,600	319,586	7,187	505,399
Net book value:						
At 31 August 2004	6,881	147,173	185,311	332,130	16,163	687,658
At 31 August 2003	2,979	668,007	169,859	509,723	12,023	1,362,591

## Notes to the financial statements

at 31 August 2004

### 13. Tangible fixed assets (continued)

*Group and company*

Included within the net book value of motor vehicles above are assets with a net book value of £289,670 (2003 - £478,472), relating to assets held under hire purchase agreements.

### 14. Investments

*Group*

	£	£
Joint venture (a)	152,413	126,478
Associate (b)	-	(38,051)
	<u>152,413</u>	<u>88,427</u>

(a) Joint venture

	£
At 1 September 2003	126,478
Share of profit retained by joint venture after dividends	25,935
	<u>152,413</u>
At 31 August 2004	<u>152,413</u>

Additional disclosures are given in respect of joint ventures (which, in aggregate exceed the 15 per cent threshold under FRS 9 "Associates and Joint Ventures"). The year end of the joint venture company is 31 December. The balance sheet numbers given below are as at 31 December 2004 with an adjustment shown to reconcile back to the share of net assets at 31 August 2004. A balance sheet for the joint venture company at 31 August 2004 is not available and the directors consider that this is the only practical way to provide the information required by FRS 9.

	2004 £
<i>Share of assets</i>	
Share of fixed assets	30,070
Share of current assets	2,076,134
<i>Share of liabilities</i>	
Liabilities due within one year or less	(1,879,465)
Liabilities due after more than one year	-
	<u>226,739</u>
Share of net assets at 31 December 2004	226,739
Share of profits in the period 31 August to 31 December 2004	(74,326)
	<u>152,413</u>
Share of net assets at 31 August 2004	<u>152,413</u>

(b) Associate

The associated undertaking, Orion Engineering Ireland Limited, became a subsidiary undertaking during the year when the company increased its shareholding from 33.33% to 100% of the ordinary share capital. This company was wound up prior to the balance sheet date.

## Notes to the financial statements

at 31 August 2004

### 14. Investments (continued)

<i>Company</i>	<i>Subsidiary undertaking £</i>	<i>Associate and joint venture £</i>	<i>Total £</i>
Cost:			
At 1 September 2003 and 31 August 2004	334,888	488	335,376
Impairment:			
At 1 September 2003	-	-	-
Charge for the year	334,824	2	334,826
At 31 August 2004	334,824	2	334,826
Net book value: at 31 August 2004	64	486	550
Net book value at 1 September 2003	334,888	488	335,376

Details of the investments in which the group and the company holds 20% or more of the nominal value of any class of share capital are as follows:

	<i>Holding</i>	<i>Proportion of shares held</i>	<i>Nature of business</i>
D Gow & Son Ltd	Ordinary shares	100%	Fabrication Engineering
Orion Project Services Houston LLP	Ordinary shares	100%	Employment agency
KisOrion LLP	Ordinary shares	50%	Employment Agency
Orion Technical Services Limited	Ordinary shares	100%	Dormant
Orion Project Services Limited	Ordinary shares	100%	Dormant
Orion Internet Systems Limited	Ordinary shares	100%	Dormant
Orion Consultancy Services Limited	Ordinary shares	100%	Dormant
Orion Rail Services Limited	Ordinary shares	100%	Dormant
Black 5 Ltd	Ordinary shares	100%	Dormant
Orical Ltd	Ordinary shares	100%	Dormant
Orion Group UK Limited	Ordinary shares	100%	Dormant
Orion Rail Ltd	Ordinary shares	100%	Dormant
Bordax Ltd	Ordinary shares	100%	Dormant

All of the above entities are incorporated in the United Kingdom, except for Orion Project Services Houston LLP which is incorporated in the USA and KisOrion LLP which is incorporated in Kazakhstan.

## Notes to the financial statements

at 31 August 2004

### 15. Stock

*Group*

	2004	2003
	£	£
Work in progress	105,751	12,242
Consumables	3,000	3,000
	<u>108,751</u>	<u>15,242</u>

### 16. Debtors

	<i>Group</i>		<i>Company</i>	
	2004	2003	2004	2003
	£	£	£	£
Trade debtors	10,782,139	7,662,281	10,324,979	3,745,771
Amounts due from subsidiary undertaking	-	-	350,819	2,513,644
Other debtors	162,627	71,393	132,825	17,970
Prepayments and accrued income	5,646,084	3,640,765	5,638,240	3,259,724
Amounts due from associates and joint ventures	-	311,513	14,424	261,782
	<u>16,590,850</u>	<u>11,685,952</u>	<u>16,461,287</u>	<u>9,798,891</u>

### 17. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	2004	2003	2004	2003
	£	£	£	£
Bank loans and overdrafts	8,852,642	7,921,356	8,852,642	5,430,368
Trade creditors	565,720	162,037	270,452	65,611
Obligations under finance leases and hire purchase contracts (note 20)	107,024	170,647	107,024	170,647
Other taxes and social security costs	1,480,536	1,110,480	1,465,784	763,012
Accruals and deferred income	560,227	1,472,273	399,552	1,114,282
Other creditors	2,336,820	106,857	2,262,338	71,133
Directors' current account (note 24)	1,342	2,167	-	-
Corporation tax	315,738	75,783	315,738	-
Proposed dividends	30,000	15,400	-	15,400
Amounts owed to subsidiary undertakings	-	-	-	2,909,305
Amounts owed to associates and joint ventures	-	187,343	-	-
	<u>14,250,049</u>	<u>11,224,343</u>	<u>13,673,530</u>	<u>10,539,758</u>

The bank holds full group security (including bond and floating charge/debenture) between Orion Engineering Services Limited, Orion Project Services Limited and Orion Technical services Limited.

The bank also holds standard security over Mavesay Lybster by D Gow & Sons in favour of Orion Engineering Services Ltd for all sums.

The hire purchase agreements are secured on the assets concerned.

## Notes to the financial statements

at 31 August 2004

### 18. Creditors: amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	<i>2004</i>	<i>2003</i>	<i>2004</i>	<i>2003</i>
	£	£	£	£
Obligations under finance leases and hire purchase contracts (note 20)	35,268	140,457	35,268	140,457
Bank loans (note 19)	438,092	543,236	438,092	543,236
	<u>473,360</u>	<u>683,693</u>	<u>473,360</u>	<u>683,693</u>

The bank holds full group security (including bond and floating charge/debenture) between Orion Engineering Services Limited, Orion Project Services Limited and Orion Technical Services Limited.

The bank also holds standard security over Mavesay, Lybster by D Gow & Sons in favour of Orion Engineering services Ltd for all sums.

The hire purchase agreements are secured on the assets concerned.

### 19. Loans

<i>Group and company</i>	£	£
Amounts falling due:		
Within one year	105,144	105,144
Between one and two years	105,144	105,144
Between two and five years	315,432	315,432
After five years	17,516	122,660
	<u>543,236</u>	<u>648,380</u>
Less: included in creditors: amounts falling due within one year	105,144	105,144
	<u>438,092</u>	<u>543,236</u>

Bank loans can be analysed as follows:

	<i>2004</i>	<i>2003</i>
	£	£
Details of loans not wholly repayable within five years are as follows:		
Bank loan at 2% over bank base rate per annum repayable in monthly instalments of £8,762	543,236	648,380
Less: included in creditors: amounts falling due within one year	105,144	105,144
	<u>438,092</u>	<u>543,236</u>

## Notes to the financial statements

at 31 August 2004

### 20. Obligations under finance leases and hire purchase contracts

*Group and company*

	2004	2003
	£	£
Amounts payable:		
Within one year	107,024	170,647
In two to five years	35,268	140,457
	<u>142,292</u>	<u>311,104</u>
	<u><u>142,292</u></u>	<u><u>311,104</u></u>

### 21. Deferred government grants

*Group*

	2004	2003
	£	£
At 1 September 2003	1,200	1,920
Receivable during the year	13,713	-
Released during the year	(1,140)	(720)
	<u>13,773</u>	<u>1,200</u>
At 31 August 2004	<u><u>13,773</u></u>	<u><u>1,200</u></u>

### 22. Share capital

*Authorised*

	2004	2003
	£	£
A Ordinary shares of £1 each	30,000	30,000
B Ordinary shares of £1 each	10,000	10,000
C Ordinary shares of £1 each	5,000	5,000
F Ordinary shares of £1 each	5,000	5,000
	<u>50,000</u>	<u>50,000</u>
	<u><u>50,000</u></u>	<u><u>50,000</u></u>

*Allotted, called up and fully paid*

	2004	2003	2004	2003
	No	No	£	£
A Ordinary shares of £1 each	30,000	30,000	9,000	9,000
B Ordinary shares of £1 each	10,000	10,000	8,900	8,900
C Ordinary shares of £1 each	5,000	5,000	1,000	1,000
F Ordinary shares of £1 each	5,000	5,000	2,500	2,500
			<u>21,400</u>	<u>21,400</u>
			<u><u>21,400</u></u>	<u><u>21,400</u></u>

## Notes to the financial statements

at 31 August 2004

### 23. Reconciliation of shareholders' funds and movements on reserves

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total</i>
	£	£	£
<i>Group</i>			
At 1 September 2002	21,400	2,616,300	2,637,700
Retained profit for year	-	75,442	75,442
Dividends	-	(105,460)	(105,460)
	<hr/>	<hr/>	<hr/>
At 31 August 2003	21,400	2,586,282	2,607,682
Retained profit for period	-	983,874	983,874
Dividends	-	(86,549)	(86,549)
Exchange differences on retranslation of investment in joint venture	-	(28,525)	(28,525)
Exchange differences on retranslation of net assets of subsidiary undertaking	-	3,863	3,863
	<hr/>	<hr/>	<hr/>
At 31 August 2004	21,400	3,458,945	3,480,345
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total</i>
	£	£	£
<i>Company</i>			
At 1 September 2002	21,400	1,227,603	1,249,003
Retained profit for year	-	(440,486)	(440,486)
Dividends	-	(105,460)	(105,460)
	<hr/>	<hr/>	<hr/>
At 31 August 2003	21,400	681,657	703,057
Retained profit for year	-	2,753,997	2,753,997
Dividends	-	(86,549)	(86,549)
	<hr/>	<hr/>	<hr/>
At 31 August 2004	21,400	3,349,105	3,370,505
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

### 24. Related party transactions

On 23 May 2003 Mr P Savage, who is company secretary, and son of Mr A Savage, director, received an interest free loan of £13,500 from the company. At 31 August 2004 the balance outstanding was £7,560. The maximum amount outstanding during the year was £12,240.

On 12 September 2003 the company sold Orion House to Orion Engineering Services Directors Retirement Benefits Scheme for £600,000 (excluding VAT). This transaction was at market value. The company now rents the property from the Retirement Benefits Scheme at a commercial rent of £54,000 per annum.

## Notes to the financial statements

at 31 August 2004

### 25. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2004	2003
	£	£
Operating profit	2,337,219	716,628
Share of operating loss in associate	354	1,000
Share of operating profit in joint venture	(373,864)	(245,767)
Depreciation	217,968	261,806
Amortisation	351,169	170,633
Receipt of government grants	13,713	1,920
Amortisation of government grants	(1,140)	(720)
(Gain)/loss on disposal of fixed assets	(9,642)	13,889
(Increase) in debtors	(4,904,898)	(488,847)
(Increase)/decrease in stocks	(93,509)	15,998
Increase in creditors	1,868,948	853,204
	<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities	(593,682)	1,299,744
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the financial statements

at 31 August 2004

### 25. Notes to the statement of cash flows (continued)

(b) Analysis of cash flows for headings netted in the statement of cash flows

	2004	2003
	£	£
<i>Returns on investments and servicing of finance</i>		
Interest received	3,327	7,431
Interest paid	(404,597)	(359,324)
Interest element of finance lease rentals payments	(15,491)	(22,577)
	<u>(416,761)</u>	<u>(374,470)</u>
	=====	=====
	2004	2003
	£	£
<i>Taxation</i>		
Corporation tax paid	(494,348)	(531,642)
	<u>                    </u>	<u>                    </u>
	2004	2003
	£	£
<i>Capital expenditure and financial investment</i>		
Payment to acquire tangible fixed assets	(95,349)	(566,758)
Receipts from sales of tangible fixed assets	696,666	113,678
Payments to acquire intangible fixed assets	-	(294,824)
	<u>601,317</u>	<u>(747,904)</u>
	=====	=====
	2004	2003
	£	£
<i>Financing</i>		
Repayments of capital element of finance leases and hire purchase contracts	(215,172)	(261,058)
(Decrease)/increase in long term borrowings	(105,144)	337,662
	<u>(320,316)</u>	<u>76,604</u>
	=====	=====

A number of presentational changes to the comparative numbers have been made in order to comply with FRS 1.

## Notes to the financial statements

at 31 August 2004

### 25. Notes to the statement of cash flows (continued)

(c) Analysis of changes in net debt

	<i>At</i> <i>1 September</i> <i>2003</i> £	<i>Cash</i> <i>flow</i> £	<i>Other</i> <i>changes</i> £	<i>At</i> <i>31 August</i> <i>2004</i> £
Cash at bank and in hand	568,961	(247,332)	-	321,629
Bank overdraft	(7,816,212)	(931,286)	-	(8,747,498)
Cash	(7,247,251)	(1,178,618)	-	(8,425,869)
Debt due within one year	(105,144)	-	-	(105,144)
Debt due after one year	(543,236)	105,144	-	(438,092)
Hire purchase agreements	(311,104)	215,172	(46,360)	(142,292)
	(8,206,735)	(858,302)	(46,360)	(9,111,397)

### 26. Pension commitments

The group operates a defined contribution pension scheme for certain employees. The assets of the scheme are held separately from those of the group. The unpaid contributions at the year end are £Nil (2003 - £Nil).

### 27. Other financial commitments

At 31 August 2004 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>	
	<i>2004</i>	<i>2003</i>
	£	£
Operating leases which expire:		
Within one year	-	-
In two to five years	-	-
In over five years	54,000	-
	54,000	-

### 28. Ultimate controlling party

In the directors' opinion the ultimate controlling party is A Savage.