

**Company Registration No. 04834424
(England and Wales)**

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**DIRECTORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2007

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

COMPANY INFORMATION

Directors	T Middleton L R Litwinowicz P D Miller K Hilton
Secretary	T Middleton
Company number	04834424
Registered Office	5 The Courtyard Timothy's Bridge Road Stratford Upon Avon Warwickshire CV37 9NP
Auditors	HLB Vantis Audit plc Stoughton House Harborough Road Oadby Leicester LE2 4LP
Bankers	Barclays Bank plc Barclays Business Centre 15 Colmore Row Birmingham B3 2WN
Solicitors	Gateley Wareing One Eleven Edmund Street Birmingham B3 2BH

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

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STS INTERNATIONAL LIMITED AND SUBSIDIARY COMPANIES

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2007

The directors present their report and financial statements for the year ended 30 June 2007.

Principal activities and review of the business

The principal activity of the company continued to be that of a holding company for the STS group of companies:

STS Defence Limited, whose principal activity is the manufacture of industrial and scientific equipment and the supply of technical services;

STS Motors Limited, whose principal activity is the design, manufacture and repair of electrical motors;

STS Signals Limited, whose principal activity is the design, manufacture and repair of electronic and electro-mechanical equipment for railway applications;

STS Switchgear Limited, whose principal activity is the design, manufacture and installation of switchgear;

STS Fabrications Limited and Space Technology Systems Limited are dormant companies.

The directors are pleased with the progress made by the group during the year due to buoyant market conditions. The principal measures for monitoring the performance of the business are operating profit and free cash flow. In the year, operating profit increased to £1,910,000 (2006 - £1,032,000) and free cash flow was £2,726,000 (2006 - £651,000).

The group continues to encourage the subsidiary companies to invest in profitable growth opportunities particularly in new product development and improving operating efficiency. The directors consider these investments as key to the future success of the business in the medium to long term and as a means to mitigate the risks posed by competitive pressures from around the world.

The principal financial instruments of the group comprise bank balances and borrowings, trade creditors, trade debtors and invoice discounting. The main purpose of these instruments is to raise funds for the group's operations and to finance its continuing operations. Liquidity risk is managed by the use of bank balances, overdraft and invoice discounting facilities along with efficient monitoring and forecasting of cashflow to ensure there are sufficient funds to meet liabilities. Interest rate risk is managed by the use of a base rate swap transaction in respect of the bank loan to the group, in order to stabilise the interest charged on the loan. Trade debtors are managed in respect of credit and cashflow risk by policies monitoring the credit offered to customers and regular monitoring of amounts outstanding for both time and total exposure.

Results and dividends

The results for the year are set out on page 6.

The directors recommend the payment of a dividend for the year to 30 June 2007 of £95,875 (2006 : £29,600) on the A shares in line with the agreement.

Directors

The following directors have held office since 1 July 2006:

T Middleton
L R Litwinowicz
P D Miller
K Hilton

**STS INTERNATIONAL LIMITED
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**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007**

Directors' interests

The directors' interests in the shares of the company were as stated below:

	A Ordinary Shares of 50p each	
	30 June 2007	1 July 2006
T Middleton	-	-
L R Litwinowicz	-	-
P D Miller	-	-
K Hilton	-	-

	B Ordinary Shares of 50p each	
	30 June 2007	1 July 2006
T Middleton	20,400	20,400
L R Litwinowicz	20,400	20,400
P D Miller	-	-
K Hilton	-	-

	C Ordinary Shares of 50p each	
	30 June 2007	1 July 2006
T Middleton	-	-
L R Litwinowicz	-	-
P D Miller	10,000	10,000
K Hilton	6,000	6,000

	D Ordinary Shares of 50p each	
	30 June 2007	1 July 2006
T Middleton	-	-
L R Litwinowicz	-	-
P D Miller	-	-
K Hilton	-	-

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that HLB Vantis Audit plc be reappointed as auditors of the company will be put to the Annual General Meeting.

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 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.

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2007

Statement of disclosure to auditor

- (a) So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board

T Middleton
Secretary

Date: 19th December 2007

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF STS INTERNATIONAL LIMITED**

We have audited the group and parent company financial statements of STS International Limited on pages 6 to 29 for the year ended 30 June 2007. These financial statements have been prepared under 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 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 the directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether, in our opinion, the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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.

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**INDEPENDENT AUDITORS' REPORT CONTINUED
TO THE SHAREHOLDERS OF STS INTERNATIONAL LIMITED**

Opinion

In our opinion:

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group and company's affairs as at 30 June 2007 and of the profit for the group for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

HLB Vantis Audit plc
Chartered Accountants
Registered Auditors

Date: 28th January 2008



Stoughton House
Harborough Road
Oadby
Leicester
LE2 4LP

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2007**

	Note	Year ended 30 June 2007 £000	As restated Year ended 30 June 2006 £000
Turnover	2	16,350	13,944
Cost of sales		(10,678)	(9,461)
Gross profit		5,672	4,483
Administrative expenses		(4,053)	(3,733)
Operating profit	3	1,619	750
Interest payable and similar charges	4	(545)	(512)
Other finance income	22	21	19
Profit on ordinary activities before taxation		1,095	257
Tax on profit on ordinary activities	5	(410)	(148)
Retained profit for the year	15	685	109

The profit and loss account has been prepared on the basis that all operations are continuing operations.

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30 JUNE 2007**

		2007	As restated
	Note	£000	2006
			£000
Profit for the financial year		685	109
Actuarial gain/(loss) on pension scheme	22	61	(12)
Movement on deferred tax relating to pension assets		(18)	3
Prior year adjustment relating to pension assets		-	173
Prior year adjustment	24	(55)	(31)
Total gains and losses recognised since last financial statements		<u>673</u>	<u>242</u>

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2007**

	Notes	2007 £000	As restated 2006 £000
Fixed assets			
Intangible assets	6	4,902	5,175
Tangible assets	7	499	457
		<u>5,401</u>	<u>5,632</u>
Current assets			
Stocks	9	1,516	1,069
Debtors	10	3,125	3,209
Cash at bank and in hand		299	270
		<u>4,940</u>	<u>4,548</u>
Creditors: amounts falling due within one year	11	<u>(7,612)</u>	<u>(7,131)</u>
Net current liabilities		(2,672)	(2,583)
Total assets less current liabilities		<u>2,729</u>	<u>3,049</u>
Creditors: amounts falling due after more than one year	12	(1,182)	(2,222)
Provision for liabilities	13	(449)	(412)
Pension Scheme Asset	21	1,098 209	415 164
		<u>1,307</u>	<u>579</u>
Capital and reserves			
Called up share capital	14	62	62
Share premium account	15	120	120
Other reserves	15	209	164
Profit and loss account	15	916	233
Shareholders' funds	16	<u>1,307</u>	<u>579</u>

Approved by the Board and authorised for issue on 19th December 2007.

**K Hilton
Director**

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**COMPANY BALANCE SHEET
AS AT 30 JUNE 2007**

	Notes	2007		As restated 2006	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	7		66		91
Investments	8		7,493		7,493
			<u>7,559</u>		<u>7,584</u>
Current assets					
Debtors	10	28		47	
		<u>28</u>		<u>47</u>	
Creditors: amounts falling due within one year	11	(6,676)		(5,954)	
Net current liabilities			<u>(6,648)</u>		<u>(5,907)</u>
Total assets less current liabilities			911		1,677
Creditors: amounts falling due after more than one year	12		(1,108)		(2,214)
			<u>(197)</u>		<u>(537)</u>
Capital and reserves					
Called up share capital	14		62		62
Share premium account	15		120		120
Profit and loss account	15		(379)		(719)
Shareholders' funds	16		<u>(197)</u>		<u>(537)</u>

Approved by the Board and authorised for issue on 19th December 2007.

**K Hilton
Director**

**STS INTERNATIONAL LIMITED
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**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007**

	Note	Year ended 30 June 2007 £000	As restated Year ended 30 June 2006 £000
Net cash inflow from operating activities	1	1,678	1,570
Returns on investments and servicing of finance			
Interest paid		(513)	(480)
Net cash outflow for returns on investments and servicing of finance		(513)	(480)
Taxation			
Corporation tax paid		(126)	(172)
Capital expenditure			
Payments to acquire tangible fixed assets		(114)	(223)
Payments to acquire intangible assets		(20)	-
Receipts from sales of fixed assets		10	12
Net cash outflow from capital expenditure		(124)	(211)
Net cash inflow before management of liquid resources and financing		915	707
Financing			
• Long term bank loan repayments		(975)	(650)
• Other new short term loans		-	31
• Other short term loan repayments		(31)	-
• Capital element of hire purchase contracts		(35)	(3)
Net cash outflow from financing		(1,041)	(622)
(Decrease)/increase in cash in the year		(126)	85

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007**

1. Reconciliation of operating profit to net cash inflow from operating activities

	2007 £000	As restated 2006 £000
Operating profit	1,619	750
Depreciation of tangible fixed assets	209	182
Company contributions to defined benefit schemes	(22)	(29)
Current service cost of defined benefit schemes	39	48
Profit on disposal of tangible assets	-	(11)
Amortisation of goodwill and licences	293	293
(Increase)/decrease in stocks	(447)	129
Decrease/(increase) in debtors	84	(1,099)
(Increase)/decrease in creditors within one year	(132)	1,381
Increase/(decrease) in provisions	35	(74)
Net cash inflow from operating activities	1,678	1,570

2. Analysis of net debt

	1 July 2006 £000	Cash flow £000	Other non- cash changes £000	30 June 2007 £000
Net cash:				
Cash at bank and in hand	270	29	-	299
Bank overdrafts	(261)	(155)	-	(416)
	<u>9</u>	<u>(126)</u>	<u>-</u>	<u>(117)</u>
Debt:				
Hire purchase contracts	(10)	35	(147)	(122)
Debts falling due within one year	(1,297)	31	(163)	(1,429)
Debts falling due after one year	(2,189)	975	131	(1,083)
	<u>(3,496)</u>	<u>1,041</u>	<u>(179)</u>	<u>(2,634)</u>
Net debt	<u>(3,487)</u>	<u>915</u>	<u>(179)</u>	<u>(2,751)</u>

3. Reconciliation of net cash flow to movement in net debt

	2007 £000	2006 £000
(Decrease)/increase in cash in the year	(126)	85
Cash outflow from decrease in debt	1,041	622
Change in net debt resulting from cashflow	915	707
Other	(179)	(45)
Movement in net debt in the year	736	662
Opening net debt	(3,487)	(4,149)
Closing net debt	(2,751)	(3,487)

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

Although the company balance sheet of STS International Limited shows net liabilities at 30 June 2007, the group balance sheet shows net assets. The accounts have been prepared on the going concern basis as the company is fully supported by its subsidiaries.

1.2 Basis of consolidation

The consolidated financial statements include the Company and all its subsidiary undertakings:

In accordance with the Companies Act 1985, Section 230, a separate profit and loss account of STS International Limited is not presented.

1.3 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards which have been applied consistently except for the following:

FRS25 has been applied in full for the first time in these financial statements and as such a prior year adjustment has been made. The effect of the prior year adjustment is outlined in note 24 to the financial statements.

1.4 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

1.5 Goodwill and other intangible assets

Goodwill on acquisitions is capitalised and amortised over the useful economic life of 20 years.

Licences are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal instalments over their estimated useful life of 5 years.

1.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Leasehold improvements - over the length of the lease

Plant and equipment - 20%-25%, 33% per annum straight line

Motor vehicles - 20%, 25% per annum straight line

Fixtures, fittings and equipment - 20% per annum straight line.

1.7 Investments

Fixed assets investments are stated at cost less provision for diminution in value.

1.8 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

1.9 Stocks and work in progress

Stocks are stated the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition as follows:

Raw materials, consumables and goods for resale - purchase cost on a first in, first out basis.

Work in progress and finished goods - costs of direct materials and labour plus attributable overheads based on a normal level of activity.

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

A provision is made for obsolete and slow moving stock.

1.10 Long term contracts

Turnover on contracts is recognised according to the stage reached in the contract by reference to the value of work done. A prudent estimate of the profit attributable to work completed is recognised once the outcome of the contract can be assessed with reasonable certainty.

Amounts recoverable on contracts are stated at cost plus attributable profits, less provision for any known or anticipated losses, and are included in debtors. Payments on account in excess of amounts recoverable are included in creditors.

Where a contract is determined to be insufficiently complete to recognise a profit, an appropriate adjustment is made to both profit and loss account and balance sheet.

1.11 Foreign currency translation

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

1.12 Research and development

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

1.13 Pension scheme arrangements

The group operates two defined benefit pension schemes, both of which require contributions to be made to separately administered funds. These schemes are treated as defined benefit schemes in line with FRS17.

The group operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

1.14 Warranty provision

Provision is made for the estimated future cost of fulfilling the company's warranty obligations, based upon historical warranty experience.

1.15 Deferred taxation

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance had not been discounted.

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

1.16 Confidential invoice discounting

The company uses confidential invoice discounting and at the year end the amounts advanced from the facility provider are included within other creditors as a liability. Amounts due to the company are included in other debtors. The interest element of the related charges is charged on accruals basis and included in the profit and loss account within bank interest. Other related costs are similarly charged on an accruals basis against revenue.

2. Turnover

An analysis of turnover by geographical market is given below:

	2007	2006
	£000	£000
United Kingdom	15,869	13,680
European Union	160	124
Rest of World	321	140
	<u>16,350</u>	<u>13,944</u>

3. Operating profit

	2007	2006
	£000	£000
Operating profit is stated after charging:		
Reorganisational costs	121	-
Depreciation of fixed assets	209	182
Research and development	16	23
Operating lease rentals - Land and Buildings	724	703
Plant and machinery	12	19
Amortisation of goodwill	291	291
Amortisation of licences	2	2
Fees payable to company's auditor for the audit of the company's annual accounts.	6	5
Fees payable to company's auditor for other services:		
The audit of the company's subsidiaries pursuant to legislation	19	16
Other services	5	4
Loss on foreign exchange		9
And other crediting:		
Profit on disposals of fixed assets	-	11
Profit on foreign exchange	8	-
	<u>8</u>	<u>-</u>

During the year the directors of the company decided that certain expenses should be reanalysed to be included within cost of sales rather than within administrative expenses in order to better reflect the nature of the cost. The comparative figures have been restated and the financial effect of the reanalysis is that cost of sales has increased by £774,721 (2006 - £731,112) and the gross profit percentage has decreased from 39% to 35% (2006 - 37% to 32%).

**STS INTERNATIONAL LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

4. Interest payable	2007 £000	2006 £000
On bank loans and overdrafts	216	272
Other loans	143	144
Amortisation of debt issue costs	32	32
Other interest	54	34
Dividends payable on A Ordinary shares classed as a liability	100	30
	545	512
5. Taxation	2007 £000	2006 £000
Domestic current year tax		
UK Corporation tax	420	140
adjustment for prior years	(14)	8
	406	148
Current tax charge		
Deferred tax		
Deferred tax charge current year	4	-
	410	148
Factors affecting the tax charge for the year		
Profit on ordinary activities before taxation	1,095	257
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2006: 30%)	328	77
Expenses not deductible for tax purposes	101	88
Capital allowances in advance of depreciation	(15)	(26)
Dividends payable on A Ordinary shares classed as a liability	30	9
Roundings	-	(1)
Short term timing differences	-	16
Small companies relief	(19)	(9)
Tax losses utilised	(4)	(12)
Other tax adjustments	(15)	6
	406	148

A deferred tax asset has not been recognised in respect of timing differences, as there is insufficient evidence that the assets will be recovered. The amount of the asset not recognised is £47,468 (2006: £328,577).

The asset would be recovered if the group considered that sufficient taxable profits would arise in the future.

**STS INTERNATIONAL LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

6. Intangible fixed assets	Licences £000	Goodwill £000	Total £000
Group Cost			
At 1 July 2006	10	5,822	5,832
Additions	20	-	20
	<u>30</u>	<u>5,822</u>	<u>5,852</u>
At 30 June 2007			
Amortisation			
At 1 July 2006	2	655	657
Provided during the year	2	291	293
	<u>4</u>	<u>946</u>	<u>950</u>
At 30 June 2007			
Net book value			
At 30 June 2007	<u>26</u>	<u>4,876</u>	<u>4,902</u>
At 30 June 2006	<u>8</u>	<u>5,167</u>	<u>5,175</u>

7. Tangible fixed assets	Group		Company	
	Leasehold improvements £000	Plant, office equipment and vehicles £000	Total £000	Plant, office equipment and vehicles £000
Cost				
At 1 July 2006	210	536	746	116
Additions	15	246	261	-
Disposals	-	(38)	(38)	-
	<u>225</u>	<u>744</u>	<u>969</u>	<u>116</u>
At 30 June 2007				
Depreciation				
At 1 July 2006	143	146	289	25
On disposals	-	(28)	(28)	-
Charge for year	64	145	209	25
	<u>207</u>	<u>263</u>	<u>470</u>	<u>50</u>
At 30 June 2007				
Net Book Value				
At 30 June 2007	<u>18</u>	<u>481</u>	<u>499</u>	<u>66</u>
At 30 June 2006	<u>67</u>	<u>390</u>	<u>457</u>	<u>91</u>

Included above are assets held under finance leases or hire purchase contracts as follows:

	Net book value		Depreciation charge for the year	
	2007 £000	2006 £000	2007 £000	2006 £000
Plant, office equipment and vehicles	<u>119</u>	<u>12</u>	<u>27</u>	<u>1</u>

**STS INTERNATIONAL LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

**8. Fixed asset investments
Company**

**Shares in
subsidiary undertakings
£000**

Cost

At 1 July 2006 and at 30 June 2007

7,493

Interests in group undertakings

Name of undertaking	Country of Incorporation	Description of shares held	Proportion of nominal value of issued shares held by the group %
STS Signals Ltd	England and Wales	Ordinary	100
STS Motors Ltd	England and Wales	Ordinary	100
STS Defence Ltd	England and Wales	Ordinary	100
STS Switchgear Ltd	England and Wales	Ordinary	100
STS Fabrications Ltd	England and Wales	Ordinary	100
Space Technology Systems Ltd*	England and Wales	Ordinary	100

The shares of subsidiary undertakings marked * are held by subsidiary undertakings of the company.

All the above subsidiary undertakings have been consolidated in the financial statements using the acquisition method.

STS Fabrications Limited and Space Technology Systems Limited are dormant companies.

9. Stocks

	2007		2006	
	Group £000	Company £000	Group £000	Company £000
Raw materials and consumables	634	-	489	-
Work in progress	882	-	580	-
	1,516	-	1,069	-

In the opinion of the directors there is no significant difference between the replacement cost and the value disclosed for stocks.

10. Debtors

	2007		2006	
	Group £000	Company £000	Group £000	Company £000
Trade debtors	2,345	-	2,857	-
Amounts due from group companies	-	-	-	-
Other debtors and prepayments	780	28	352	47
	3,125	28	3,209	47

All United Kingdom trade debtor balances up to a maximum of 85% of the trade debtors balance are available to be drawn upon under the confidential invoice discounting agreement.

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

11. Creditors: amounts falling due within one year

	2007		As restated 2006	
	Group £000	Company £000	Group £000	Company £000
Bank loans and overdrafts	1,695	1,563	1,527	1,418
Other loans	150	150	31	31
Trade creditors	2,630	192	2,285	217
Corporation tax payable	420	-	140	-
Other taxation and social security	619	-	610	-
Amounts owed to group companies	-	4,485	-	4,147
Net obligations under hire				
purchase contracts	48	-	2	-
Other creditors	396	-	1,074	-
Accruals and deferred income	1,554	186	1,432	111
Dividends payable on A Ordinary				
Shares classed as a financial liability	100	100	30	30
	<u>7,612</u>	<u>6,676</u>	<u>7,131</u>	<u>5,954</u>

For information on security see note 12.

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

	2007		As restated 2006	
	Group £000	Company £000	Group £000	Company £000
Bank loans	933	933	1,889	1,889
Other loans	150	150	300	300
Net obligations under hire				
purchase contracts	74	-	8	-
A Ordinary Shares classed as a financial liability	25	25	25	25
	<u>1,182</u>	<u>1,108</u>	<u>2,222</u>	<u>2,214</u>
Analysis of loans				
Wholly repayable within five years	2,512	2,512	3,486	3,486
	2,512	2,512	3,486	3,486
Included in current liabilities	(1,429)	(1,429)	(1,297)	(1,297)
	<u>1,083</u>	<u>1,083</u>	<u>2,189</u>	<u>2,189</u>
Loan maturity analysis				
Within one year or on demand	1,450	1,450	1,331	1,331
Between one and two years	1,124	1,124	1,125	1,125
Between two and five years	-	-	1,125	1,125
	2,574	2,574	3,581	3,581
Less: unamortised issue costs	(62)	(62)	(95)	(95)
	<u>2,512</u>	<u>2,512</u>	<u>3,486</u>	<u>3,486</u>

**STS INTERNATIONAL LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

12. Creditors: amounts falling due after more than one year continued

	2007		As restated 2006	
	Group £000	Company £000	Group £000	Company £000
Net obligations under hire purchase contracts				
Repayable within one year	48		2	-
Repayable between one and five years	74		8	-
	122		10	-
Included in liabilities falling due within one year	(48)		(2)	-
	74		8	-

Interest on bank loans accrues at a variable rate based upon LIBOR.

Included within other creditors are amounts totaling £381,915 (2006 : £919,530) secured under the confidential invoice discounting agreement. Included within other debtors and prepayments are amounts totaling £510,287 (2006 - £nil) due to the group under the confidential invoice discounting agreement. At the year end there was a net amount of £128,372 due to the group (2006 - £919,530 creditor) under the confidential invoice discounting agreement.

Bank loans and overdrafts totaling £1,865,932 (2006 : £2,241,277) are secured by fixed and floating charges over assets and group companies.

Net obligations under hire purchase contracts totaling £120,935 (2006: £10,613) are secured on the individual assets to which they relate.

The costs of raising the above debt finance are being amortised over the period of the relevant loan. £32,000 was amortised during the year to 30 June 2007 (2006 : £32,000).

13. Provisions for liabilities

	Group £000	Company £000
Balance at 1 July 2006	412	486
Profit and loss account	37	(74)
Balance at 30 June 2007	449	412

Including within provisions for liabilities is an amount of £2,095 (2006 : £nil) relating to a deferred tax liability on capital allowances. The remaining provisions relate to provisions for costs of dilapidation or contractual repairs to properties held under current or expired leases or costs expected to be incurred in relation to rectifying goods sold under contracts.

**STS INTERNATIONAL LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

14. Share capital	2007	2006
Group and Company	£	£
Authorised		
50,000 A Ordinary Shares of 50p each	25,000	25,000
102,000 B Ordinary Shares of 50p each	51,000	51,000
40,000 C Ordinary shares of 50p each	20,000	20,000
8,000 D Ordinary Shares of 50p each	4,000	4,000
	<hr/>	<hr/>
	100,000	100,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
50,000 A Ordinary Shares of 50p each	25,000	25,000
102,000 B Ordinary Shares of 50p each	51,000	51,000
22,000 C Ordinary Shares of 50p each	11,000	11,000
	<hr/>	<hr/>
	87,000	87,000
50,000 A Ordinary Shares of 50p each classed as a liability in accordance with FRS 25	(25,000)	(25,000)
	<hr/>	<hr/>
Total called up share capital classed as equity	62,000	62,000
	<hr/>	<hr/>

Rights of shareholders

The A ordinary shareholders are entitled to a dividend in respect of accounting years ending on 30 June 2007 and thereafter based upon the greater of 9% of the amount credited and paid up on the A ordinary shares and a percentage of profits which increases on annual intervals from 6.5% in 2007 to 20% in year ended 30 June 2014, subject to a maximum of 50% of profits. The dividend is cumulative and takes priority over all other dividend payments.

Any further profits the Company determines to distribute will be applied on a non cumulative basis, provided the Company has redeemed all the Loan Notes, in the following priority order:

1. The B, C and D ordinary shareholders are entitled to a dividend up to the total dividend as paid to the A ordinary shareholders in the year.
2. Thereafter, the A, B, C and D ordinary shareholders are entitled to a dividend payable pro rata to their holding.

Each fully paid up share ranks pari passu regardless of class unless there is a Dividend Breach or Loan Note Breach. In the event of a breach and subject to notice, the A Ordinary Shareholders would be conferred 95% of the votes.

During the year dividends totaling £29,600 were declared and paid (2006: £30,700). On 19 December 2007 a further dividend was declared and paid totaling £95,875 in line with the shareholders agreement.

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

15. Statement of movements on reserves

	Group			Company		
	Share premium account £000	Other reserves (see below) £000	Profit and loss account £000	Share premium account £000	Other reserves £000	Profit and loss account £000
Balance at 1 July 2006	120	164	263	120	-	(689)
Prior year adjustment	-	-	(30)	-	-	(30)
Balance at 1 July 2006	120	164	233	120	-	(719)
Profit for the year	-	-	685	-	-	340
Actuarial gains or losses on pension scheme assets	-	-	61	-	-	-
Movement on deferred tax relating to pension asset	-	-	(18)	-	-	-
Transfer between profit and loss account reserve & pension scheme reserve	-	45	(45)	-	-	-
Balance at 30 June 2007	120	209	916	120	-	(379)
Other reserves						
Pension scheme reserve						£
Balance at 1 July 2006						164,000
Increase						45,000
Balance at 30 June 2007						209,000

16. Reconciliation of movements in shareholders' funds

	2007		2006	
	Group £000	Company £000	Group £000	Company £000
Profit/(loss) for the financial year	685	340	109	(444)
Other recognised gains and losses	61	-	(12)	-
Movement on deferred tax relating to pension asset	(18)	-	3	-
Net addition to/(depletion of) shareholders' funds	728	340	100	(444)
Opening shareholders' funds as previously reported	634	(482)	535	(37)
Prior year adjustment - A shares transferred from equity to debt	(25)	(25)	(25)	(25)
Prior year adjustment - Dividend on A Shares recognised as an expense	(30)	(30)	(31)	(31)
Opening shareholding funds as restated	579	(537)	479	(93)
Closing shareholders funds	1,307	(197)	579	(537)

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

16. Reconciliation of movements in shareholders' funds continued

Opening group shareholders funds were originally £634,000 before accounting for the prior year adjustment of £55,000. £25,000 of the prior year adjustment relates to reanalysis of the A Ordinary shares transferred from equity to creditors due after one year in accordance with FRS25. The remaining £30,000 relates to the dividends payable on A Ordinary shares recognised as interest provided for in the previous year in accordance with FRS25.

Also note that the comparative opening group shareholders funds were originally £362,000 before adding prior year adjustments of £173,000 relating to the inclusion of the two defined benefit schemes in line with FRS17.

17. Contingent liabilities

Company only

There is a cross company guarantee dated 7 April 2004 which ensures that each company within the group is jointly and severally liable for any amounts owed to the bank. At the year end the contingent liability of STS International Limited in respect of this amounted to £132,009 (2006 : £109,401)

18. Financial commitments

At 30 June 2007 the group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Others	
	2007	2006	2007	2006
	£000	£000	£000	£000
Expiring within one year	3	60	1	6
Expiring between two and five years	29	29	19	8
Expiring after five years	766	488	-	4
	<u>798</u>	<u>577</u>	<u>20</u>	<u>18</u>

19. Directors' emoluments

	2007	2006
	£	£
Emoluments for qualifying services	108,444	80,245
Contributions to money purchase pension schemes	4,871	8,511
	<u>113,315</u>	<u>88,756</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2006 -1).

20. Transactions with directors

During the year STS Switchgear Limited sold a motor car with a net book value of £10,219 to Mr K Hilton, a director of the company, for proceeds of £7,958.

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

**21. Employees
Number of Employees**

The average monthly number of employees (including directors) during the year was:

	2007 Number	2006 Number
Manufacturing	204	171
Sales and administration	41	53
	<u>245</u>	<u>224</u>
	2007 £000	2006 £000
Employment costs		
Wages and salaries	5,242	4,586
Social Security costs	504	446
Pension costs	95	83
	<u>5,841</u>	<u>5,115</u>

**22. Pension costs
Defined contribution**

The group operates a defined contribution scheme. The assets of the scheme are held separately from those of the group in independently administered funds. The pension cost charge represents contributions payable by the group to the funds.

	2007 £000	2006 £000
Contributions payable by the group for the year	<u>73</u>	<u>50</u>
Contributions accrued and payable at the year end	<u>7</u>	<u>8</u>

Defined benefit

The group provides pension arrangements through two funded defined benefit schemes. Both schemes are closed to new members.

Spectar Switchgear Limited Retirement Benefits Scheme

The pension costs relating to this scheme are assessed every three years in accordance with the advice of a qualified actuary using the projected unit method. The most recent valuation at 1 July 2004, indicates that, on the basis of service to date and current salaries, the schemes' assets were sufficient to meet liabilities.

At 30 June 2007 the scheme, which is contracted out of the state scheme, had assets of approximately £5,199,000 (2006: £4,549,000) at market value.

STS Field Grant Limited Pension Scheme

The pension costs relating to this scheme are assessed every three years in accordance with the advice of a qualified actuary using the project unit method. The most recent valuation at 1 July 2003, indicates that, on the basis of service to date and current salaries, the schemes' assets were sufficient to meet liabilities.

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

22. Pension costs continued

At 30 June 2007 the scheme, which is contracted out of the state scheme, had assets of approximately £1,580,000 (2006: £1,469,000) at market value.

Contributions to both schemes by employees and the group have been maintained in accordance with the recommendations of the actuary in their previous valuations.

Financial Reporting Standard 17 'Retirement Benefits' disclosures

The company operates two defined benefits schemes, the Spectar Switchgear Limited Retirements Benefits Scheme and the STS Field Grant Limited Pension Scheme. A full valuation was undertaken as at 1 July 2004 and 1 July 2003 respectively and updated to 30 June 2007 by a qualified independent actuary.

The major assumptions used by the Actuary were as follows:

	Spectar Switchgear Limited Retirement Benefits Scheme			STS Field Grant Limited Pension Scheme		
	At 30 June 2007	At 30 June 2006	At 30 June 2005	At 30 June 2007	At 30 June 2006	At 30 June 2005
Discount rate	5.7%	5.2%	4.9%	5.7%	5.2%	4.9%
Retail price inflation	3.0%	2.9%	2.5%	3.0%	2.9%	2.5%
Salary increase rate	3.0%	4.0%	4.5%	3.0%	4.0%	4.5%
Pensions increases (at Limited Price Indexation)	3.0%	2.9%	2.5%	3.0%	2.9%	2.5%
Deferred pension revaluation	3.0%	2.9%	2.5%	3.0%	2.9%	2.5%

The market value of the assets held and the expected rates of return assumed are as follows:

Spectar Switchgear Limited Retirement Benefits Scheme

	Expected rate of return, year commencing 30 June 2007	Value at 30 June 2007 £000's	Expected rate of return, year commencing 30 June 2006	Value at 30 June 2006 £000's	Expected rate of return, year commencing 30 June 2005	Value at 30 June 2005 £000's
Equities	7.8%	4,397	7.2%	3,798	6.7%	3,345
Bonds	5.5%	481	5.0%	464	4.6%	308
Cash	5.8%	241	4.8%	287	4.8%	343
Total		<u>5,119</u>		<u>4,549</u>		<u>3,996</u>

STS Field Grant Limited Pension Scheme

	Expected rate of return, year commencing 30 June 2007	Value at 30 June 2007 £000's	Expected rate of return, year commencing 30 June 2006	Value at 30 June 2006 £000's	Expected rate of return, year commencing 30 June 2005	Value at 30 June 2005 £000's
Equities	7.8%	793	7.2%	677	6.7%	575
Bonds	5.5%	87	5.0%	83	4.6%	53
Cash	5.8%	700	4.8%	709	4.8%	689
Total		<u>1,580</u>		<u>1,469</u>		<u>1,317</u>

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

22. Pension costs continued

The funding position was as follows

	Spectar Switchgear Limited Retirement Benefits Scheme			STS Field Grant Limited Pension Scheme		
	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2005 £000's	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2005 £000's
Total market value of assets	5,119	4,549	3,996	1,580	1,469	1,317
Value of Scheme liabilities	(2,472)	(2,667)	(2,722)	(1,359)	(1,438)	(1,370)
Surplus/(deficit) in the scheme	<u>2,647</u>	<u>1,882</u>	<u>1,274</u>	<u>221</u>	<u>31</u>	<u>(53)</u>
Restriction of pension surplus to the value of the schemes future pension cost	110	203	299	189	31	(53)
Related deferred tax (liability)/asset	(33)	(61)	(89)	(57)	(9)	16
Net pension asset/(liability)	<u>77</u>	<u>142</u>	<u>210</u>	<u>132</u>	<u>22</u>	<u>(37)</u>
	Totals					
	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2005 £000's			
Total market value of assets	6,699	6,018	5,313			
Value of Scheme liabilities	(3,831)	(4,105)	(4,092)			
Surplus in the scheme	<u>2,868</u>	<u>1,913</u>	<u>1,221</u>			
Restriction of pension surplus to the value of the schemes future pension cost	299	234	246			
Related deferred tax liability	(90)	(70)	(73)			
Net pension asset	<u>209</u>	<u>164</u>	<u>173</u>			

In accordance with paragraph 41 of FRS17 the net pension asset must be restricted to the value of the scheme's future pension cost.

Analysis of amount chargeable to operating profit:

	Spectar Switchgear Limited Retirement Benefits Scheme		STS Field Grant Limited Pension Scheme		Total	
	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2007 £000's	At 30 June 2006 £000's
Current service cost	8	10	31	38	39	48
Total operating charge	<u>8</u>	<u>10</u>	<u>31</u>	<u>38</u>	<u>39</u>	<u>48</u>

Employee contributions to the two schemes totaling £9,000 (2006 : £7,000) have been offset against company service costs.

**STS INTERNATIONAL LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

22. Pension costs continued

Analysis of the amount to be credited to other finance income:

	Spectar Switchgear Limited Retirement Benefits Scheme		STS Field Grant Limited Pension Scheme		Total	
	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2007 £000's	At 30 June 2006 £000's
Expected return on pension scheme assets	308	252	86	74	394	326
Interest on pension scheme Liabilities	(139)	(133)	(75)	(67)	(214)	(200)
Net return	<u>169</u>	<u>119</u>	<u>11</u>	<u>7</u>	<u>180</u>	<u>126</u>

In accordance with paragraph 67 of FRS17, when the net pension asset is restricted by paragraph 41 the expected return on assets is restricted to the service cost plus the interest cost and any increase in recoverable surplus. The amount credited to other finance income in the years to 30 June 2006 and 30 June 2007 therefore becomes:

	Spectar Switchgear Limited Retirement Benefits Scheme		STS Field Grant Limited Pension Scheme		Total	
	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2007 £000's	At 30 June 2006 £000's
Expected return on pension scheme assets	149	145	86	74	235	219
Interest on pension scheme Liabilities	(139)	(133)	(75)	(67)	(214)	(200)
Net return	<u>10</u>	<u>12</u>	<u>11</u>	<u>7</u>	<u>21</u>	<u>19</u>

Analysis of amount recognisable in statement of total recognised gains and losses (STRGL):

	Spectar Switchgear Limited Retirement Benefits Scheme		STS Field Grant Limited Pension Scheme		Total	
	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2007 £000's	At 30 June 2006 £000's
Actual return less expected return on assets	327	486	60	66	387	552
Experience on (losses)/gains scheme liabilities	(659)	(672)	(8)	8	(667)	(664)
Gain arising from changes in assumptions	<u>237</u>	<u>88</u>	<u>104</u>	<u>12</u>	<u>341</u>	<u>100</u>
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	<u>(95)</u>	<u>(98)</u>	<u>156</u>	<u>86</u>	<u>61</u>	<u>(12)</u>

**STS INTERNATIONAL LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

**22. Pension costs continued
Movement in surplus/(deficit) during the year:**

	Spectar Switchgear Limited Retirement Benefits Scheme		STS Field Grant Limited Pension Scheme		Total	
	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2007 £000's	At 30 June 2006 £000's	At 30 June 2007 £000's	At 30 June 2006 £000's
	Surplus/(deficit) in Scheme at beginning of year	203	299	31	(53)	234
Current service cost	(10)	(12)	(38)	(43)	(48)	(55)
Contributions	2	2	29	34	31	36
Net return from other finance income	10	12	11	7	21	19
Actuarial (loss)/gain	(95)	(98)	156	86	61	(12)
Surplus/(deficit) in Scheme at end of year	110	203	189	31	299	234
Associated deferred tax (liability)/asset	(33)	(61)	(57)	(9)	(90)	(70)
Surplus/(deficit) after deferred tax provision	77	142	132	22	209	164

History of experience gains and losses:

	Spectar Switchgear Limited Retirement Benefits Scheme				STS Field Grant Limited Pension Scheme			
	30 June 2007	30 June 2006	30 June 2005	30 June 2004	30 June 2007	30 June 2006	30 June 2005	30 June 2004
Difference between expected return and actual return on Scheme assets:								
Amount (£000's)	327	486	308	177	60	66	50	33
Percentage of scheme assets (%)	6%	11%	8%	5%	4%	4%	4%	3%
Experience gains and losses on scheme liabilities								
Amount (£000's)	(659)	(672)	16	(423)	(8)	8	(18)	(14)
Percentage of present value of scheme liabilities (%)	27%	25%	0%	18%	1%	1%	1%	1%
Total amount recognised in statement of total recognised gains and losses								
(Loss)/gain (£000's)	(95)	(98)	(2)	(102)	156	86	(63)	32
Percentage of present value of Scheme liabilities (%)	4%	4%	0%	4%	11%	6%	5%	3%

The contribution rates of each scheme were as follows:

	Spectar Switchgear Limited Retirement Benefits Scheme		STS Field Grant Limited Pension Scheme	
	2007	2006	2007	2006
Contribution rate (as a % of pensionable earnings)	0%	0%	15.5%	15.5%
Contribution rate agreed until	Next valuation		24 August 2009	

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

23. Related party transactions

The company has taken advantage of the exemption available under FRS '8' Related party disclosures' not to disclose transactions with group companies.

GIL Management Limited is a related party through common directors and shareholders. GIL Management Limited charges during the year in respect of finance arrangement and management fees were £66,565 (2006: £70,400). At the year end, £19,661 (2006: £19,860) of this was outstanding.

Grove Industries Limited is a related party through common directors and shareholders. Loan interest of £26,998 (2006: £27,000) had accrued during the year. At the year end £6,732 (2006: £6,732) was outstanding.

The loan balance due to Grove Industries Limited at the year end stood at £300,000 (2006 : £331,000)

Miller Management Services Limited is a related party through common directors and shareholders. Miller Management Services Limited charges in the year were £61,075 (2006: £86,615). At the year end £6,218 (2006: £10,648) was outstanding.

Barclays Unquoted Investments Limited is a related party through its ability to exert influence. During the year the company charged interest of £116,064 (2006 : £117,000) and monitoring fees of £14,145 (2006 : £15,000) to STS International Limited. The outstanding balance at the year end in respect of these fees was £13,915 (2006 : £16,156). There is also a loan balance due to the company amounting to £975,000 (2006 : £1,300,000).

24. Prior year adjustment

	Balance Sheet net assets £000's	Profit and loss account £000's	Statement of total recognised gains and losses £000's
Original balance per prior year accounts	634	139	-
A Ordinary shares classed as a liability in accordance with FRS25	(25)	-	-
Dividends on A shares recognised as interest in accordance with FRS25	(30)	(30)	-
Restated comparative balance per accounts	<u>579</u>	<u>109</u>	<u>-</u>

Both adjustments have been reflected in this years statement of total recognised gains and losses.

**STS INTERNATIONAL LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 30 JUNE 2007**

25. Control

There is no ultimate controlling party as no shareholder individually holds more than 50% of the issued share capital.

STS INTERNATIONAL LIMITED

DETAILED TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2007

	Year ended 30 June 2007 £	As restated Year ended 30 June 2006 £
Administrative expenses	(567,777)	(712,745)
Operating loss	(567,777)	(712,745)
Other interest receivable and similar income		
Bank interest received	-	348
Income from subsidiary undertakings	1,125,000	420,000
Interest payable		
Bank and other interest paid	(496,120)	(511,580)
Profit/(loss) before taxation	61,103	(803,977)

STS INTERNATIONAL LIMITED

SCHEDULE OF ADMINISTRATIVE EXPENSES FOR THE YEAR ENDED 30 JUNE 2007

	Year ended 30 June 2007	Year ended 30 June 2006
	£	£
Administrative expenses		
Wages and salaries	146,184	190,833
Directors' remuneration	106,811	94,520
Directors' pension costs	4,871	8,511
Management charges	179,900	199,989
Insurance	3,661	2,972
Doulton Road	-	97,652
Reorganisation costs	-	46,125
Motor running expenses	11,537	9,612
Legal and professional	48,156	3,404
Accountancy	-	8,125
Audit fees	12,475	5,000
Bank charges	10,980	11,397
Sundry expenses	17,636	10,104
Depreciation on fixtures and fittings	25,566	24,501
	<u>567,777</u>	<u>712,745</u>