Tricorn Group plc

Annual Report and Accounts 2004

Tricorn Group plc

Our Business

We develop, manufacture and supply products and services for the environmental engineering market.

Our Group of Companies

Malvern Tubular Components Limited

Manufactures and supplies metal tubular components, which are typically used in engines for independent electricity generation.

Issquared Limited

A specialist company focussed on tools for the pipeline integrity market in oil, gas and water.

Redman Fittings Limited

Markets and supplies the Redman pipe jointing system, which is an innovative method of joining polyethylene and other industrial plastic pipes.

Contents

Chairman's Statement

In my report this time last year I indicated that there had been a significant re-shaping of the Group and that costs had been attacked with considerable success. Our interim results confirmed that we were seeing the benefits of that action and our results to the end of March 2004 show that trend continuing. In addition we have significantly strengthened the Group's financial position through the sale and leaseback of the Malvern Tubular Components (MTC) factory and the issue of new shares in March 2004. The combined amount raised from both actions totalled over £1.4 million. The continuing drive to lean manufacturing at MTC and resourcing of components from low cost countries brought MTC firmly into profit for the year. Sales of the new Redman fitting doubled year on year, albeit from a low base, and acceptance of the product is growing steadily. Issquared has had protracted, but as yet inconclusive, negotiations with a number of key customers for its pipeline integrity management software (PipeHorizon).

The trading performance for the 12 months ending 31 March 2004 shows a turnover of £5.5 million (2003: £4.3m) up 28% with a much reduced net loss of £88,000 (2003 loss: £1,499,000) representing a loss per share of 0.31p (2003 loss per share: 5.52p).

MTC the Group's tube manipulation business saw fluctuating demand throughout the year but ended strongly. As anticipated further productivity improvements were achieved as part of the continuous improvement programme and additional savings were realised as the transfer of component purchases to low cost countries was extended to more products. MTC sales were 23% higher in 2004 than 2003 and reflect a general recovery in the market place and also some market share gains.

Redman continues to make good progress in the UK and has also started to appoint sales distributors on the continent of Europe. As reported previously the target market for Redman fittings is by its nature extremely conservative but demand is growing in line with expectations. With the broadening of the application areas for the product and the identification of further potential markets the management remain convinced that the innovative Redman fittings range has very encouraging potential.

The top priority for Issquared remains the pipeline integrity management software (PipeHorizon). Negotiations with potential USA customers throughout the year were frustratingly slow but

The Group is well placed to take advantage of the generally improving economic climate and the initiatives already underway.

are expected to reach a crucial stage in the new financial year. Safety legislation in the USA is becoming increasingly onerous and is generating significant interest in PipeHorizon from pipeline operators as they look to find cost effective methods for compliance.

At the interim stage we indicated that the project to develop a new pipeline inspection system for a consortium of water companies had been successfully completed and handed over to our customers. Since then one of the water companies included in the original consortium has expressed interest in developing a larger pipeline inspection vehicle. Issquared anticipate a decision later this calendar year.

Looking to the future, with a strong order book and ongoing resourcing of materials from low cost countries, MTC is well positioned to make further progress. Redman continues to grow in line with expectations and Issquared has considerable potential to capitalise on the interest in PipeHorizon. Overall therefore the Group is well placed to take advantage of the generally improving economic climate and the initiatives already underway.

Finally this has been another very demanding year for all our employees as we strive to improve our performance. Many thanks to them, our customers, suppliers and shareholders for their continuing support.

Nick Paul

Chairman

30 June 2004

Directors, Secretary and Advisors

Company registration number:	1999619
Registered office:	Spring Lane Malvern Link Malvern Worcestershire WR14 1DA
Directors:	Nicholas Campbell Paul (Chairman and Non-Executive Director) Steven William Cooper (Chief Executive) Michael Ian Welburn (Director) Roger Allsop (Non-Executive Director) Jeffrey Rubins F.C.A.(Non-Executive Director)
Secretary:	Michael Greensmith
Nominated Adviser and Broker:	Collins Stewart Limited 9th Floor 88 Wood Street London EC2V 7QR
Bankers:	National Westminster Bank plc 30 Church Street Malvern Worcestershire WR14 2AD
Solicitors:	Halliwell Landau St James' Court Brown Street Manchester M2 2JF
	Orme Dykes & Yates National Westminster Bank Chambers The Homend Ledbury Herefordshire HR8 1AB
Auditors:	Grant Thornton Registered Auditors Chartered Accountants Enterprise House 115 Edmund Street Birmingham B3 2HJ
Registrars:	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA

Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 March 2004.

Principal activity
Tricorn Group plc is the parent company of a group of specialist engineering subsidiaries whose activities incorporate high precision tube manipulation, systems engineering and specialist fittings.

Business review
A review of the progress of the Group during the year, and its prospects for the future, are included in the Chairman's Statement.

There was a loss for the year after taxation amounting to £87,533 (2003: £1,498,853). The Directors do not recommend the payment of a dividend.

Directors
The present membership of the Board is set out below. All served on the Board throughout the year, except for M I Welburn who was appointed on 10 March 2004.

The interests of the Directors and their families in the shares of the Company as at 1 April 2003 and 31 March 2004 were as follows:

	Ordinary shares of 10p each	
	2004	2003 or date of appointment
N C Paul	**100,000**	100,000
J Rubins (1,378,000 beneficial, 76,666 non beneficial)	**1,454,666**	1,454,666
R Allsop (10,520,000 beneficial, 700,000 non beneficial)	**11,220,000**	11,220,000
S W Cooper	**–**	–
M I Welburn (appointed 10 March 2004)	**–**	–

Details of directors' share options are provided in the report on corporate governance.

Share capital
The Company issued 3,398,330 ordinary shares of 10p on 8 March 2004, at the par value of 10p per share to be utilised for working capital.

Substantial shareholdings
Apart from the interests of Directors the only interests in excess of 3% of the issued share capital of the Company, which have been notified as at 7 June 2004 were as follows:

	Ordinary shares of 10p each	Percentage of capital
Gartmore Investment Management Plc	**5,117,692**	16.51%
Rock Nominees Limited	**1,440,150**	4.65%

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

At 31 March 2004 the Group had an average of 62 days (2003: 54 days) purchases outstanding in third party trade creditors.

Directors' responsibilities for the financial statements

United Kingdom 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 Group and Company 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
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors
On 1 July 2004 the Grant Thornton partnership will transfer its business to a limited liability partnership, Grant Thornton UK LLP, and the directors have agreed to extend the audit appointment to Grant Thornton UK LLP with effect from 1 July 2004 in accordance with Section 26(5) of the Companies Act 1989.

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

Roger Allsop
Director

30 June 2004

Corporate Governance

The Group has, since admission to AIM in December 2001, applied principles of corporate governance commensurate with its size.

Directors

The Directors support the concept of an effective Board leading and controlling the Group. The Board is responsible for approving the Group's policy and strategy. It meets on a regular basis and has a schedule of matters specifically reserved to it for decision. Management supply the Board with appropriate and timely information and the Directors are free to seek any further information they consider necessary. All Directors have access to advice from the Company Secretary and independent professional advice at the Company's expense.

The Board consists of two executive Directors, who hold the key operational positions in the Group and three non-executive Directors, who bring a breadth of experience and knowledge. This provides a balance whereby the Board's decision making cannot be dominated by an individual. The Chairman of the Board is N C Paul and the other non-executive directors are R Allsop and J Rubins. The Group's business is run by S W Cooper and M I Welburn with S W Cooper having overall responsibility as the Chief Executive.

Relations with shareholders

The Group values the views of its shareholders and recognises their interest in the Group's strategy and performance. The Annual General Meeting will be used to communicate with private investors and they are encouraged to participate. The Directors will be available to answer questions. Separate resolutions will be proposed on each issue so that they can be given proper consideration and there will be a resolution to approve the annual report and accounts.

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investment and the Group's assets and for reviewing its effectiveness. The system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

An audit committee has been established comprising the non-executive Directors, chaired by N C Paul, which will meet at least twice per annum and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on as well as meeting the auditors and reviewing any reports from the auditors regarding accounts and internal control systems.

The Board has considered the need for an internal audit function but has decided the size of the Group does not justify it at present. However, it will keep the decision under annual review.

The key features of the Group's systems of internal control are as follows:

- the Group is headed by an effective Board, which leads and controls the Group;
- there is a clear division of responsibilities in running the Board and running the Group's business;
- the Board includes a balance of executive and non-executive Directors; and
- the Board receives and reviews on a timely basis financial and operating information appropriate to be able to discharge its duties.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

International Financial Reporting Standards ("IFRS")

The Board recognises that there is a requirement to prepare its financial statements under IFRS for the financial year ending 31 March 2006. The Board intends to keep this matter under review and monitor its impact in the period to the transition date.

Directors' remuneration

The Board recognises that Directors' remuneration is of legitimate concern to the shareholders and is committed to following current best practice. The Group operates within a competitive environment, performance depends on the individual contributions of the Directors and employees and it believes in rewarding vision and innovation.

Policy on executive directors' remuneration

Detail of individual Directors' remuneration is set out in note 2 to the financial statements. The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Directors of the calibre necessary to maintain the Group's position and to reward them for enhancing shareholder value and return. It aims to provide sufficient levels of remuneration to do this, but to avoid paying more than is necessary and reflects the Directors' responsibilities. A separate remuneration committee has been established comprising the non-executive Directors and is chaired by N C Paul.

Basic annual salary
The Remuneration Committee reviews each Executive Director's basic salary annually. In deciding upon appropriate levels of remuneration the Board believes that the Group should offer levels of base pay reflecting individual responsibilities and commensurate with similar jobs in other business sectors.

Annual bonus payments, benefits and pension arrangements
There are no bonus arrangements in place for the Directors.

R Allsop benefits from the provision of private medical insurance.

S W Cooper and M I Welburn benefit from the provision of company cars. M I Welburn benefits from the provision of private medical insurance and participates in a contributory pension scheme.

N C Paul receives no benefits in kind.

J Rubins receives no benefits in kind.

Notice periods
S W Cooper, M I Welburn and R Allsop have service agreements with the Group which are terminable on not less than 12 months notice given by either party to the other at any time.

N C Paul and J Rubins have letters of appointment with the Company which are terminable upon 6 months' written notice being given by either party.

Share option incentives
The Company has adopted a number of individual unapproved share option agreements to motivate and retain key personnel of the Group.

At 31 March 2004, the following options were held by the Directors:

	At beginning of period Number	Granted in period Number	At end of period Number	Exercise price £
Unapproved share options				
N C Paul	200,000	–	200,000	0.30
J Rubins	100,000	–	100,000	0.30
R Allsop	600,000	–	600,000	0.20

N C Paul's and J Rubins' options are exercisable between 1 January 2002 and 31 December 2009.

R Allsop's options were granted on 23 June 1998 and are exercisable between 2 and 7 years after that date.

No performance conditions apply to these unapproved share options.

During the year the Board approved the following share options for S W Cooper and M I Welburn, although the options have not yet been implemented.

S W Cooper's EMI share options are to be exercisable in tranches. The first option over 500,000 ordinary 10p shares is to be exercisable before 16 October 2010 at a price of 10p per share. The second option over 250,000 shares is to be exercisable at their par value of 10p once the mid-market price has been maintained at 20p per share for ten consecutive working days. The third option over 250,000 shares is to be exercisable at their par value of 10p once the mid-market price has been maintained at 30p per share for ten consecutive working days. All share disposals are to be limited to one third of the option in any given year without prior Board approval.

M I Welburn is to have two separate EMI share options. The first option is to be over 500,000 ordinary shares which are exercisable after 12 months continuous employment and will remain in force for seven years. The second option over 250,000 shares is to be exercisable at their par value of 10p once the mid-market price has been maintained at 20p per share for ten consecutive working days. All share disposals will be limited to one third of the option in any given year without prior Board approval.

The market price of the Company's shares at 31 March 2004 was 10p and the range during the year was 4p to 14p.

Report of the Independent Auditors

to the members of Tricorn Group plc

We have audited the financial statements of Tricorn Group plc for the year ended 31 March 2004 which comprise the principal accounting policies, the group profit and loss account, the balance sheets, the group cash flow statement and notes 1 to 27. 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 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 the directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the Report of the Directors.

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 Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' report, the Chairman's statement and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of 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.

Opinion

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

GRANT THORNTON
Registered Auditors
Chartered Accountants
Birmingham

30 June 2004

Principal Accounting Policies

Basis of accounting
The financial statements are prepared under the historical cost convention, using accounting policies consistent with the previous year, and in accordance with applicable accounting standards.

Turnover
Turnover is the total amount receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts.

Basis of consolidation
The Group financial statements consolidate the financial statements of the Company and all its subsidiaries. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting. Where subsidiary companies are disposed of during the period, the profit or loss attributable to shareholders includes the profits or losses to the date of disposal.

The Company is entitled to the merger relief offered by section 131 of the Companies Act 1985 in respect of the consideration received in excess of the nominal value of equity shares issued in connection with acquisitions.

Goodwill
Positive goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and amortised on a straight line basis over its useful economic life which is determined separately for each acquisition. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Purchased goodwill first accounted for in accounting periods ending before 23 December 1998, the implementation date of Financial Reporting Standard No 10, was eliminated from the financial statements by immediate write-off on acquisition against reserves. Such goodwill will be charged or credited to the profit and loss account on the subsequent disposal of the business to which it relates.

Tangible fixed assets
Depreciation is provided on all tangible fixed assets other than freehold land, at rates calculated to write off the cost in annual instalments over the estimated useful lives of the assets. The rate of depreciation is as follows:

Freehold buildings	–	2% per annum
Plant and machinery	–	10% to 33.3% per annum
Motor vehicles	–	20% per annum

Investments
Investments are stated at cost less provision for any impairment write down.

Stocks and work in progress
Stocks and work in progress are stated at the lower of cost and net realisable value. Cost represents materials, direct labour and appropriate production overheads. Net realisable value is based on estimated selling price less all further costs to completion and all relevant selling and distribution costs.

Deferred taxation
Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantially enacted by the balance sheet date.

Research and development
Research and development expenditure is charged to the profit and loss account as incurred.

Principal Accounting Policies continued

Pensions cost

The defined contribution retirement benefits to employees are funded by contributions from the Group. Payments are made to insurance companies. These payments are charged to the profit and loss account as incurred.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Group, are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligation is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

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

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.

Financial instruments

Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate.

Interest payable/receivable is accrued and charged/credited to the profit and loss account in the year to which it relates.

Group Profit and Loss Account

for the year ended 31 March 2004

	Note	**2004** **£**	2003 £
Turnover	*1*	**5,550,755**	4,316,273
Cost of sales		**(3,090,618)**	(3,090,962)
Gross profit		**2,460,137**	1,225,311
Distribution costs		**(57,364)**	(91,447)
Administrative expenses		**(2,451,159)**	(2,646,874)
Operating loss		**(48,386)**	(1,513,010)
Profit on disposal of freehold property		**76,050**	–
Interest payable and similar charges	*4*	**(121,510)**	(92,218)
Loss on ordinary activities before taxation	*1*	**(93,846)**	(1,605,228)
Tax on loss on ordinary activities	*5*	**6,313**	106,375
Retained loss on ordinary activities after taxation	*18*	**(87,533)**	(1,498,853)
Loss per ordinary share	*6*	**(0.31p)**	(5.52p)

There were no recognised gains or losses other than the loss for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

Group Balance Sheet

at 31 March 2004

	Note	**2004 £**	2003 £
Fixed assets			
Intangible assets	7	**607,218**	682,971
Tangible assets	8	**669,596**	1,916,239
		1,276,814	2,599,210
Current assets			
Stocks	10	**671,807**	622,196
Debtors	11	**1,318,632**	1,207,695
Cash at bank and in hand		**476,829**	90,104
		2,467,268	1,919,995
Creditors: amounts falling due within one year	12	**(1,880,955)**	(2,265,434)
Net current assets/(liabilities)		**586,313**	(345,439)
Total assets less current liabilities		**1,863,127**	2,253,771
Creditors: amounts falling due after more than one year	13	**(44,658)**	(679,025)
		1,818,469	1,574,746
Capital and reserves			
Called up share capital	17	**3,100,000**	2,760,167
Share premium account	18	**1,371,236**	1,379,813
Merger reserve	18	**1,387,533**	1,387,533
Profit and loss account	18	**(4,040,300)**	(3,952,767)
Shareholders' funds – equity interests	19	**1,818,469**	1,574,746

The financial statements were approved by the Board of Directors on 30 June 2004.

R Allsop
Director

M I Welburn
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Group Cash Flow Statement

for the year ended 31 March 2004

	Note	**2004** **£**	2003 £
Net cash outflow from operating activities	*20a*	**(254,824)**	(791,917)
Returns on investments and servicing of finance			
Interest paid		**(81,114)**	(55,911)
Finance lease and hire purchase interest paid		**(40,396)**	(36,307)
Net cash outflow from returns on investments and servicing of finance		**(121,510)**	(92,218)
Taxation		**13,558**	7,093
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(53,753)**	(65,733)
Receipts from sales of tangible fixed assets		**1,170,609**	36,238
Net cash inflow/(outflow) from capital expenditure and financial investment		**1,116,856**	(29,495)
Acquisition			
Purchase of subsidiary undertaking		**–**	(56,037)
Net cash inflow/(outflow) before financing		**754,080**	(962,574)
Financing			
Issue of ordinary share capital		**339,833**	–
Share issue costs		**(8,577)**	(21,424)
(Repayment)/receipt of loans		**(384,975)**	216,877
Capital element of finance lease rentals	*15*	**(129,151)**	(144,391)
Net cash (outflow)/inflow from financing		**(182,870)**	51,062
Increase/(decrease) in cash	*20b,20c*	**571,210**	(911,512)

The accompanying accounting policies and notes form an integral part of these financial statements.

Company Balance Sheet

at 31 March 2004

	Note	2004 £	2003 £
Fixed assets			
Tangible assets	8	**21,306**	1,118,329
Investments	9	**2,552,024**	3,724,270
		2,573,330	4,842,599
Current assets			
Debtors	11	**2,102,327**	2,686,585
Cash at bank and in hand		**200,000**	–
		2,302,327	2,686,585
Creditors: amounts falling due within one year	12	**(445,359)**	(832,892)
Net current assets		**1,856,968**	1,853,693
Total assets less current liabilities		**4,430,298**	6,696,292
Creditors: amounts falling due after more than one year	13	**(1,945)**	(574,975)
		4,428,353	6,121,317
Capital and reserves			
Called up share capital	17	**3,100,000**	2,760,167
Share premium account	18	**1,371,236**	1,379,813
Merger reserve	18	**1,592,500**	1,592,500
Profit and loss account	18	**(1,635,383)**	388,837
Shareholders' funds - equity interests		**4,428,353**	6,121,317

The financial statements were approved by the Board of Directors on 30 June 2004.

R Allsop
Director

M I Welburn
Director

The accompanying accounting policies and notes form an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 31 March 2004

1 Turnover and loss on ordinary activities before taxation

The turnover is attributable to the principal activities and is all within the UK.

The loss on ordinary activities before taxation is stated after charging/(crediting):

	2004	2003
	£	£
Auditors' remuneration – audit services	**19,500**	18,000
– tax services	**10,000**	9,250
Research and development costs	**195,872**	245,726
Depreciation of tangible fixed assets:		
Owned assets	**129,528**	156,873
Assets held under finance leases and hire purchase contracts	**69,125**	75,585
(Profit)/loss on sale of tangible fixed assets	**(53,206)**	9,114
Amortisation of goodwill	**75,753**	44,560
Operating lease rentals – land and buildings	**92,095**	80,258
– plant and equipment	**3,471**	1,003
– motor vehicles	**28,433**	17,411

2 Directors' emoluments

	2004				2003			
	Basic	***Benefits in kind***	***Pension***	***Total***	Basic	Benefits in kind	Pension	Total
	£	**£**	**£**	**£**	£	£	£	£
N C Paul	**15,000**	**–**	**–**	**15,000**	25,000	–	–	25,000
J Rubins	**12,436**	**–**	**–**	**12,436**	12,000	–	–	12,000
R Allsop	**26,250**	**1,271**	**–**	**27,521**	45,000	15,198	4,500	64,698
S W Cooper	**60,000**	**9,934**	**–**	**69,934**	17,213	–	–	17,213
M I Welburn+	**4,315**	**372**	**302**	**4,989**	–	–	–	–
A M Cowan*	**–**	**–**	**–**	**–**	30,000	10,238	–	40,238
N Silverthorne*	**–**	**–**	**–**	**–**	21,600	5,671	1,665	28,936
T J Ballard*	**–**	**–**	**–**	**–**	23,350	5,432	1,500	30,282
	118,001	**11,577**	**302**	**129,880**	174,163	36,539	7,665	218,367

During the year the amount due to R Allsop of £Nil (2003: £45,000) was paid to Malvair Properties Limited for his services as a director.

* Remuneration to the dates of their resignation.

+ Remuneration from the date of his appointment.

3 Staff costs

	2004	2003
	£	£
Wages and salaries	**2,281,991**	2,290,886
Social security costs	**216,894**	194,815
Other pension costs	**47,521**	74,262
	2,546,406	2,559,963

The average weekly number of employees during the year was made up as follows:

	2004	2003
	Number	Number
Production	**80**	76
Sales, distribution and administration	**38**	45
	118	121

Notes to the Financial Statements

continued

4 Interest payable and similar charges

	2004	2003
	£	£
Bank loans and overdrafts	**58,305**	11,655
Interest on finance leases and hire purchase contracts	**40,396**	36,307
Other interest charges	**22,809**	44,256
	121,510	92,218

5 Tax on loss on ordinary activities

(a) The taxation credit is made up as follows:

	2004	2003
	£	£
Tax credit in respect of research and development expenditure	**(24,771)**	(49,675)
Adjustment in respect of prior year - research and development tax credit	**18,458**	–
Total current tax (note 5 b)	**(6,313)**	(49,675)
Deferred taxation (note 16)	**–**	(56,700)
	(6,313)	(106,375)

Unrealised tax losses of approximately £1,350,000 (2003: £1,618,000) remain available to offset against future taxable trading profits.

(b) The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	2004	2003
	£	£
Loss on ordinary activities before tax	**(93,846)**	(1,605,228)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	**(28,153)**	(481,568)
Effects of:		
Expenses not deductible for tax purposes	**39,098**	26,724
Depreciation for year in excess of capital allowances	**53,445**	63,302
Deferred tax asset not provided for	**–**	391,542
Credit on research and development	**(24,771)**	(49,675)
Utilisation of tax losses	**(64,390)**	–
Adjustment in respect of prior year	**18,458**	–
Current tax charge/(credit) for year	**(6,313)**	(49,675)

6 Loss per share

The loss per share is based on the loss for the financial year divided by the weighted average number of equity shares ranking for dividend during the year being 27,815,811 shares (2003: 27,140,820 shares). The share options in issue are not dilutive.

7 Intangible fixed assets

	Goodwill
	£
Cost	
At 1 April 2003 and 31 March 2004	757,531
Amortisation	
At 1 April 2003	74,560
Provided in the year	75,753
At 31 March 2004	**150,313**
Net book amount at 31 March 2004	**607,218**
Net book amount at 31 March 2003	682,971

Goodwill arising on the acquisitions of Redman Fittings Limited and Integrated Statistical Solutions Limited is being amortised evenly over the Directors' estimate of its useful economic life of 10 years.

8 Tangible fixed assets

Group	**Freehold land and buildings**	**Plant and machinery**	**Motor vehicles**	**Total**
	£	**£**	**£**	**£**
Cost				
At 1 April 2003	1,198,571	2,539,744	210,083	3,948,398
Additions	–	53,913	15,500	69,413
Disposals	(1,198,571)	–	(84,253)	(1,282,824)
At 31 March 2004	**–**	**2,593,657**	**141,330**	**2,734,987**
Depreciation				
At 1 April 2003	108,181	1,835,681	88,297	2,032,159
Provided in the year	16,640	153,381	28,632	198,653
Eliminated on disposals	(124,821)	–	(40,600)	(165,421)
At 31 March 2004	**–**	**1,989,062**	**76,329**	**2,065,391**
Net book amount at 31 March 2004	**–**	**604,595**	**65,001**	**669,596**
Net book amount at 31 March 2003	1,090,390	704,063	121,786	1,916,239

The net book value of fixed assets includes £320,293 (2003: £412,930) in respect of assets held under finance leases and hire purchase contracts.

The carrying value of freehold land not depreciated is £Nil (2003: £200,000).

Notes to the Financial Statements

continued

8 Tangible fixed assets *(continued)*

Company	**Freehold land and buildings £**	**Plant and machinery £**	**Motor vehicles £**	**Total £**
Cost				
At 1 April 2003	1,198,571	11,789	22,320	1,232,680
Additions	–	778	–	778
Disposals	(1,198,571)	–	–	(1,198,571)
At 31 March 2004	**–**	**12,567**	**22,320**	**34,887**
Depreciation				
At 1 April 2003	108,181	5,054	1,116	114,351
Provided in the year	16,640	2,947	4,464	24,051
Eliminated on disposals	(124,821)	–	–	(124,821)
At 31 March 2004	**–**	**8,001**	**5,580**	**13,581**
Net book amount at 31 March 2004	**–**	**4,566**	**16,740**	**21,306**
Net book amount at 31 March 2003	1,090,390	6,735	21,204	1,118,329

The net book value of motor vehicles includes £16,740 (2003: £21,204) in respect of vehicles held under hire purchase contracts.

9 Investments

Group	**Unlisted investments £**
Cost	
At 1 April 2003 and 31 March 2004	**164,500**
Amounts written off	
At 1 April 2003 and at 31 March 2004	**164,500**
Net book amount at 31 March 2004	**–**
Net book amount at 31 March 2003	–

The Directors consider that there has been a permanent diminution in the value of the unlisted investment.

Company	**Unlisted investments £**	**Subsidiary undertakings £**	**Total £**
Cost at 1 April 2003 and at 31 March 2004	**145,000**	**3,724,270**	**3,869,270**
Amounts written off			
At 1 April 2003	145,000	–	145,000
Written off during the year	–	1,172,246	1,172,246
At 31 March 2004	**–**	**1,172,246**	**1,317,246**
Net book amount at 31 March 2004	**–**	**2,552,024**	**2,552,024**
Net book amount at 31 March 2003	–	3,724,270	3,724,270

9 Investments *(continued)*

Details of the investments in which the Group or the Company holds 20% or more of the nominal value of the share capital at 31 March 2004 are as follows:

Subsidiary undertaking	Holding	Proportion of voting rights and shares held	Nature of business
MTC Holdings Limited	Ordinary shares	100%	Intermediate holding company
Malvern Tubular Components Limited *	Ordinary shares	100%	Manufacturer of tubular components
Searchwell Limited	Ordinary shares	100%	Dormant
Redman Fittings Limited	Ordinary shares	100%	Sales and marketing company for specialist pipe fittings
Issquared Limited	Ordinary shares	100%	Systems engineering and pipeline project management
Integrated Statistical Solutions Limited	Ordinary shares	100%	Dormant

* held by a subsidiary undertaking

10 Stocks

Group	***2004*** **£**	2003 £
Raw materials	**284,986**	251,064
Work in progress	**143,373**	185,139
Finished goods	**243,448**	185,993
	671,807	622,196

11 Debtors

	Group		**Company**	
	2004 **£**	2003 £	***2004*** **£**	2003 £
Trade debtors	**1,069,874**	979,591	**–**	–
Taxation recoverable	**76,490**	83,735	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**2,058,909**	2,624,947
Other debtors	**28,838**	71,137	**7,515**	52,524
Prepayments and accrued income	**143,430**	73,232	**35,903**	9,114
	1,318,632	1,207,695	**2,102,327**	2,686,585

Included within amounts owed by subsidiary undertakings are amounts due after more than one year of £1,486,929 (2003: £1,532,705).

Notes to the Financial Statements

continued

12 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	***2004***	2003
	£	£	**£**	£
Bank loans (note 14)	**–**	50,000	**–**	50,000
Bank overdrafts	**704,967**	889,452	**3,240**	631,925
Other loans	**240,000**	–	**240,000**	–
Trade creditors	**471,280**	466,107	**67,735**	53,277
Obligations under finance leases and hire purchase contracts (note 15)	**69,248**	123,347	**3,333**	8,611
Amounts owed to subsidiary undertakings	**–**	–	**103,363**	–
Other taxes and social security	**151,615**	245,300	**3,510**	5,458
Other creditors	**243,845**	491,228	**24,178**	83,621
	1,880,955	2,265,434	**445,359**	832,892

Bank loans and overdrafts are secured by a fixed and floating charge over the assets of the Group. Included in bank overdrafts is £451,715 which is secured upon trade debtors.

Other loans are unsecured and are repayable on demand. Interest is payable at varying rates between 9 and 12% per annum.

Finance leases are secured on the particular assets to which they relate.

13 Creditors: amounts falling due after more than one year

	Group		Company	
	2004	2003	***2004***	2003
	£	£	**£**	£
Bank loans (note 14)	**–**	311,274	**–**	311,274
Other loans	**–**	263,701	**–**	263,701
Obligations under finance leases and hire purchase contracts (note 15)	**44,658**	104,050	**1,945**	–
	44,658	679,025	**1,945**	574,975

14 Borrowings

Bank loans are repayable as follows:

	Group		Company	
	2004	2003	***2004***	2003
	£	£	**£**	£
Within one year	**–**	50,000	**–**	50,000
After one and within two years	**–**	50,000	**–**	50,000
After two and within five years	**–**	150,000	**–**	150,000
After five years	**–**	111,274	**–**	111,274
	–	361,274	**–**	361,274
Less included in creditors: amounts falling due within one year	**–**	(50,000)	**–**	(50,000)
	–	311,274	**–**	311,274

All bank borrowings are secured by way of an unlimited debenture. The bank loans were repaid during the year following the sale of the freehold property. Interest rates were charged at 2% above bank base rate.

15 Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

	Group		Company	
	2004	2003	***2004***	2003
	£	£	**£**	£
Amounts payable:				
within one year	**84,062**	134,477	**3,893**	9,000
within two to five years	**55,158**	138,960	**2,274**	–
	139,220	273,437	**6,167**	9,000
Less: finance charges allocated to future periods	**(25,314)**	(46,040)	**(889)**	(389)
	113,906	227,397	**5,278**	8,611

Finance leases are analysed as follows:

	Group		Company	
	2004	2003	***2004***	2003
	£	£	**£**	£
Current obligations	**69,248**	123,347	**3,333**	8,611
Non-current obligations	**44,658**	104,050	**1,945**	–
	113,906	227,397	**5,278**	8,611

Analysis of changes in finance leases and hire purchase contracts during the current and previous periods:

	Group		Company	
	2004	2003	***2004***	2003
	£	£	**£**	£
At 1 April 2003	**227,397**	338,533	**8,611**	2,820
Inception of new contracts	**15,660**	33,255	**–**	22,320
Capital element of rental payments	**(129,151)**	(144,391)	**(3,333)**	(16,529)
At 31 March 2004	**113,906**	227,397	**5,278**	8,611

Obligations under finance leases and hire purchase contracts are secured on the assets to which they relate.

Notes to the Financial Statements

continued

16 Provisions for liabilities and charges

Group	Deferred taxation 2004 £	2003 £
At 1 April 2003	**–**	56,700
Credit for year (note 5)	**–**	(56,700)
At 31 March 2004	**–**	–

The amounts of deferred taxation provided and unprovided in the financial statements are:

	Provided 2004 £	***Unprovided 2004 £***	Provided 2003 £	Unprovided 2003 £
Accelerated capital allowances	**9,951**	**–**	175,507	–
Other timing differences	**(9,951)**	**–**	(127,694)	–
	–	**–**	47,813	–
Less:				
Trading losses	**–**	**(236,216)**	(47,813)	(241,610)
	–	**(236,216)**	–	(241,610)

17 Share capital

	2004 £	2003 £
Authorised		
60,000,000 (2003: 60,000,000) ordinary shares of 10p each	**6,000,000**	6,000,000
Allotted, called up and fully paid		
31,000,000 (2003: 27,601,670) ordinary shares of 10p each	**3,100,000**	2,760,167

The Company issued 3,398,330 ordinary shares of 10p at a nominal value of £339,833 on 8 March 2004, each for a consideration of 10p per share to be utilised for working capital.

The Company has approved, but not yet implemented, a number of unapproved share options to the directors, details of which are provided in the Corporate Governance Statement.

An EMI share option scheme was implemented on 19 April 2002. Share options over 635,000 shares (remaining after lapses) have been issued under this scheme which may be exercised in three equal tranches after six months, eighteen months and twenty four months from the date of the grant. No performance conditions apply to the EMI options. No current directors have been issued with options under the EMI Share Options Scheme.

18 Reserves

Group	Share premium £	Merger reserve £	Profit and loss account £
At 1 April 2003	1,379,813	1,387,533	(3,952,767)
Share issue costs	(8,577)	–	–
Loss for the year	–	–	(87,533)
At 31 March 2004	**1,371,236**	**1,387,533**	**(4,040,300)**

Company			
At 1 April 2003	1,379,813	1,592,500	388,837
Share issue costs	(8,577)	–	–
Loss for the year	–	–	(2,024,220)
At 31 March 2004	**1,371,236**	**1,592,500**	**(1,635,383)**

The merger reserve arose on the acquisition of Integrated Statistical Solutions Limited, which now trades as Issquared Limited.

19 Reconciliation of movements in shareholders' funds

	2004 **£**	2003 £
Loss for the year	**(87,533)**	(1,498,853)
Issue of shares (net of issue costs)	**331,256**	640,077
Net increase/(reduction) in shareholders' funds	**243,723**	(858,776)
Shareholders' funds at 31 March 2003	**1,574,746**	2,433,522
Shareholders' funds at 31 March 2004	**1,818,469**	1,574,746

Notes to the Financial Statements

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20 Notes to the statement of Group cash flows

(a) Reconciliation of operating loss to net outflow from operating activities

	2004	2003
	£	£
Operating loss	**(48,386)**	(1,513,010)
Depreciation	**198,653**	232,458
Amortisation	**75,753**	44,560
Loss on sale of tangible fixed assets	**22,844**	9,114
(Increase)/decrease in stocks	**(49,611)**	265,670
(Increase)/decrease in debtors	**(118,182)**	121,620
(Decrease)/increase in creditors	**(335,895)**	47,671
Net cash outflow from operating activities	**(254,824)**	(791,917)

(b) Reconciliation of net cash flow to movement in net debt

	2004	2003
	£	£
Increase/(decrease) in cash	**571,210**	(911,512)
Cash used to repay capital element of finance lease and hire purchase payments	**129,151**	144,391
Cash outflow/(inflow) from movement in loans	**384,975**	(216,877)
	1,085,336	(983,998)
New finance leases and hire purchase contracts	**(15,660)**	(33,255)
Movement in net debt	**1,069,676**	(1,017,253)
Net debt at 1 April 2003	**(1,651,720)**	(634,467)
Net debt at 31 March 2004	**(582,044)**	(1,651,720)

(c) Analysis of changes in net debt

	At 31 March 2003	Cash flow	Non-cash movements	***At 31 March 2004***
	£	£	£	**£**
Cash at bank and in hand	90,104	386,725	–	**476,829**
Overdraft	(889,452)	184,485	–	**(704,967)**
	(799,348)	571,210	–	**(228,138)**
Debt	(624,975)	384,975	–	**(240,000)**
Finance leases and hire purchase contracts	(227,397)	129,151	(15,660)	**(113,906)**
	(1,651,720)	1,085,336	(15,660)	**(582,044)**

(d) Major non-cash transactions

During the year the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the lease of £15,660 (2003: £33,255).

21 Financial instruments

The Group uses financial instruments, comprising cash, short and long term borrowings, finance leases, hire purchase contracts, trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group financial instruments are interest rate risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years. The fair value of the Group's financial instruments are considered equal to the book value.

Short term debtors and creditors
Short term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosure.

Interest rate risk
The Group finances its operations through a mixture of bank loans and overdrafts and other loans. The Group principally uses variable rate finance facilities given the current low level of interest rates in the UK.

The interest rate exposure of the financial liabilities of the Group as at 31 March was:

	Variable	Fixed
	£	£
31 March 2004	**704,967**	**353,906**
31 March 2003	1,250,726	467,397

The weighted average fixed rates on the loans for the year amounted to 9.1%.

Liquidity risk
The Group seeks to manage financial risks, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Of the overdraft facility of £150,000, £145,000 has not been utilised at 31 March 2004. This is due for renewal by 30 June 2004. Of the invoice discounting facility of £1,050,000, £598,285 remained unutilised at 31 March 2004. There is no fixed expiry period, but this is kept under review by the provider.

As per note 27, the Group has an unsecured loan of £190,000 from Malvair Properties Limited.

Currency risk
The Group operates substantially within the United Kingdom and consequently is not significantly exposed to currency risk. The Group does not hedge any transactions, and foreign exchange differences on retranslation of foreign currency assets and liabilities are taken to the profit and loss account of the Group.

Notes to the Financial Statements

continued

22 Operating lease commitments

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

	Land and buildings		Other	
	2004	2003	***2004***	2003
Group	**£**	£	**£**	£
Operating leases which expire:				
In one year	**31,915**	67,883	**1,744**	1,920
In two to five years	**30,000**	5,500	**38,459**	16,494
After more than five years	**125,000**	–	**–**	–
	186,915	73,383	**40,203**	18,414

23 Pension commitments

The Group operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

24 Capital commitments

The Group had no capital commitments at 31 March 2004 or 31 March 2003.

25 Contingent liability

The Company has given an unlimited guarantee against the bank borrowings of its subsidiaries. The borrowings of these companies at 31 March 2004 are included in the consolidated borrowings detailed in notes 12 and 13.

26 Results of the parent company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the period amounted to £2,024,220 (2003: £342,760).

27 Related party transactions

The Group has a loan of £190,000 (2003: £200,000) from Malvair Properties Limited, a company which R Allsop controls. Interest of £16,597 (2003: £7,915) has been accrued during the year and at 31 March 2004 the outstanding balance amounted to £197,427 (2003: £207,915).

Shareholders' Notes

Shareholders' Notes

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